



“Greenlam Industries Limited
Q3 FY22 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q3 FY22 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Mittal, Managing Director & Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you, Sir!

Saurabh Mittal: Thank you. Good afternoon, friends and a very well welcome to all of you all. I hope you all have been safe and healthy through the third wave. I am joined on the call by Mr. Ashok Sharma our CFO, Mr. Samarth Agarwal from the finance team and SGA our Investor Relation Advisors. The results and presentations are available on the stock exchanges and I hope you have had a chance to review the results.

As far as the business is concerned, I will just focus on what happened in the last quarter. The business grew in terms of revenues by about 34% YoY and they were nearly flattish sequentially versus Q2 of this financial year. We had a disruption at the Behror Factory at the Rajasthan where we were temporarily closed 100% for about six to seven days and then we had restricted working days as per the guideline of the CAQM. This resulted in sales production and sales loss of approximately Rs.40 Crores to Rs.50 Crores in Q3, which in turn obviously kept raw materials inventory at an elevated level because we could not convert them to sales and also it impacted profitability.

Most of our costs were by and large fixed while the factory was not operating in this period at the necessary capacity. The restriction continued in the month of January also. So in January we had about eight fewer working days as far as the Behror factory is concerned and with effect from February 4th, 2022 the restrictions have been removed and we have been allowed to run the plant seven days a week.

On the price hikes, because this has been an important discussion in the past also as we talk now, we have been able to pass on all the raw material costs increase to the customers in both domestic and export markets and in the wood veneer business.

The increase has been impacted through Q3 so most of the domestic increase became effective November 1, 2021 and export increases have happened through the quarter, but as we talk right now all raw material cost increases have been passed on. Currently raw material costs by and large remain in a certain range with few costs coming down and few still increasing, but by and large, it is moving within a range..

International logistics both inwards and outward continues to remain difficult. Availability of containers, sailing time, vessels availability, and costs on the sea freight still remain challenging and not much has improved on that front. The impact of omicron /the third wave has been marginal to the business. In the last quarter, we have announced our expansion capex plans and entry into adjacent spaces of plywood and particle boards and I hope you have had a chance to see the presentation on our website 'The Next Orbit'.

The new plants are moving more or less as per the schedule and work has commenced at the Andhra plant. Necessary approvals have come in and we are moving at a certain speed as far as Andhra Pradesh and Tamil Nadu plants are concerned.

So this is from my side and I will be happy to answer your questions post Ashok completes his presentation. Ashok over to you

Ashok Sharma:

Thank you Sir. Good evening friends. I will take you through the financial performance.

For the Q3 FY22 on a consol basis net revenue for the quarter grew by 34% on YoY basis. Revenue degrew by 1% on sequential basis and we stood at Rs.450 Crores in this quarter as compared to Rs.335 Crores in Q3 last year. Sequential degrowth in revenue is due to disruption at our Behror plant as explained by Mr. Mittal.

Gross margins were down by 780-basis point to 44.3% in Q3 FY22 from 52.1% in Q3 FY21 primarily due to rising raw material cost.

On a sequential basis gross margin was up by 80 basis points. Gross margin in absolute term grew by 14% to Rs.199 Crores as compared to Rs.174 Crores in Q3 last year.

EBITDA margin was down by 540 basis points and stood at 11.9% in Q3 this year as compared to 17.3% in Q3 last year. On a sequential basis, EBITDA margin was up by 180 basis points. EBITDA in absolute term degrew by around 8% to Rs.53.4 Crores in Q3 this year as compared to Rs.57.09 Crores in Q3 last year.

Net profit for the quarter stood at Rs.26.09 Crores in Q3 this year as compared to Rs.32 Crores in Q3 last year.

Moving on to nine months of performance,

Consolidated net revenue for the nine month period ending December 31, 2021 grew by 58% and stood at Rs.1240 Crores as compared to Rs.784 Crores in the nine month previous year.

Gross margin was down by 590 basis points to 44.5% this year from 50.4% last year primarily due to rising raw material cost. Gross margin in absolute term grew by 39% to Rs.551 Crores in this year as compared to Rs.395 Crores in nine months last year.

EBITDA margin was down by 240 basis points to 11.1% in this year from 13.5% last year. EBITDA in absolute term grew by 29% to Rs.137.5 Crores in nine months this year as compared to Rs.106 Crores in nine months last year.

Net profit grew by 51.7% to Rs.64.9 Crores in nine months this year as against Rs.42.8 Crores nine months last year.

Moving on to segmental performance, laminate business grew by 38% on YoY basis to Rs.408 Crores from Rs.295 Crores in Q3 last year and degrew by 1.6% sequentially. Volume growth stood at 1.7% on YoY basis.

Domestic laminate revenue grew by 52.5% on YoY basis and grew by 1.3% sequentially in value terms. Volume growth stood at 19.2% on YoY basis.

Moving on to international laminate revenue, which grew by 26% on YoY basis and degrew by 4% on sequential basis in value term. Our volume degrew by 13% on YoY basis.

EBITDA margin stood at 13.3%, a degrowth of 650 basis point on YoY basis and a growth of 180 basis point on Q-o-Q basis.. The production volume where at 3.88 million

sheets and utilization level of 99%, sales volume for the quarter stood at 3.98 million sheets; our average realization for the quarter was Rs.984 per sheet.

For the nine months, laminate revenue grew by 61.8% on YoY basis to Rs.1132 Crores from Rs.700 Crores in nine month previous year. Volume growth stood at 41% on YoY basis. Domestic laminate revenue grew by 74.7% in value terms on YoY basis. Volume growth stood at 56.4% on YoY basis. International laminate revenue grew by 52.4% in value term on YoY basis. Volume growth stood at 30.4% on YoY basis.

EBITDA margin stood at 12.6% a degrowth of 350 basis points. Production volume was at 12.63 million sheets and utilization levels were at 108%. Sales volume for the nine months stood at 12.59 million sheets and average realization for nine-month period was Rs.862 per sheet.

Moving on to decorative, veneer and allied segment, which consists of decorative, wood convenient engineer floors and engineer doors. In the decorative veneer segment, revenue degrew by 5.3% on YoY basis to Rs.24.4 Crores from Rs.25.7 Crores in Q3 last year and degrew by 3.1% on sequential basis. Volume degrew by 17.2% on YoY basis. Revenue of decorative veneer business grew by 32% to Rs.61.7 Crores in nine months from Rs.46.7 Crores in nine months last year. Volume growth stood at 27.3% on YoY basis. Volume degrew by 17% in Q3 on Y-o-Y basis and volume grew by 27% in nine months. Sales volume for the Q3 stood at 0.3 million square meters however sales volume for the nine months was at 0.83 million square meter. Capacity utilization for the quarter were at 29% and for the nine months it is 26%. Average realization for this quarter was Rs.808 per square meter. For nine months, it stood at Rs.736 per square meter.

Moving on to engineer wood flooring, revenue grew by around 28% on YoY basis to Rs.10.8 Crores in this quarter as against Rs.8.4 Crores in Q3 and grew by 34% on a sequential basis FY21. Revenue for the engineered wood flooring business grew by 25% on YoY and stood at Rs.26 Crores in nine months as against Rs.21 Crores in nine months last year. Our capacity utilization was at 11% in this quarter and 10% for the nine months.

Moving on to engineer doors, revenue for the engineer doors business grew by 33% for this quarter on YoY basis and grew by 2.4% on sequential basis. Revenue for the engineer door business grew by 17% in this nine months and stood at Rs.19.8 Crores as against Rs.17 Crores in nine months last year. Capacity utilization for Q3 were at 19% and for the nine months stood at 20%.

Moving on to debt, net debt for the quarter ended December 31, 2021 stood at Rs.178.5 Crores as against Rs.179.5 Crores last year. Net working capital days for Q3 stood at 76 days as against 83 days in Q3 last year. That is all from my side. I would now like to open the floor for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Udit from Yes Securities. Please go ahead.

Udit: Thank you for taking up my question. the first question is, can you comment on the demand how is it panning out post-January because we have seen that the prices of laminates are almost at a record high so does it hamper the demand and what is the outlook going forward?

Saurabh Mittal: So demand side, by and large, is looking good and in the month of January we had more of a supply-side restriction so the demand side is fine and the record high laminate realization is a function of price hikes and our continued focus on preimmunizing the products and doing more value-added sales so you know it is a combination of both , which we think as we move ahead will still improve and what was your second question, please.

Udit: Sir the second question pertains to the international prices. Are we able to pass on the complete incremental cost related to freight as well?

Saurabh Mittal: Yes. So freight we passed on from January 2021 also with the increases we have done over Q3 in various markets which have happened in different months. By and large, we passed on all the RM cost increases and the incremental freight to the customers in the market.

Udit: Got it. Thank you Sir. I will come back in the line for any questions.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good evening. Thank you for the opportunity. My first question was with respect to realization? If I heard correctly the revenue for international laminates grew by 26% while volumes declined at 13% Y-o-Y that means the realizations have gone up fairly significantly. so is it possible to break this in terms of the freight and what is the change?

Saurabh Mittal: So, I will take part of your question. I will have Ashok take the other part. ,

So the volume reduction is a function of lower production at the factory and also we have shipments in transit, which because of the shipment delays, vessel delays and arrival delays at the seaport, the volume reduction is visible. As far as the price rise is concerned it is a function of value mix and price increase.

Ashok. You can take the second part of the question on the freight cost.

Ashok Sharma: Achal the freight part is not considered in this, any incremental freight that has been collected from the customer on their behalf that is not considered in sales.

Achal Lohade: So, you are saying that realization does not include? this is like FOB sales?

Ashok Sharma: No this is not FOB sales, as mentioned by Mr. Mittal from January 2021 whatever incremental freight that was recovered from the customer which keeps on varying depending upon what the freight for that shipment, has been recovered and has been adjusted with the additional freight paid by the company so that is not considered in the sales.

In normal trade it is a CIF in most of the cases, but additional freight is recovered from the customer and not considered in the sale. So the price realization you are seeing is not inclusive of the additional freight

Achal Lohade: So, is there a freight account or something where it gets adjusted so with the collection and the incremental freight? Would that have an impact on the margin because the recovery and the payment would be with a lag, right?

Saurabh Mittal: So that is already accounted in the P&L for expense, which you are seeing it is already sort of that is already accounted in the books.

Achal Lohade: I will probably take it offline. It is a little confusing so I will take it offline. The second question I had Saurabh if you could talk a little bit about from the exports perspective or international markets perspective what are the top three to four countries for us and where are we in, in those respective countries among the top three or four or top player and how do we plan to scale up there? If you could talk a little bit more on that would be of great help? Thank you.

Saurabh Mittal: So, the export business looks to be in decent shape and like I said earlier currently it is more of a supply-side challenge and the disruption of the factory that would have impacted export revenues as well as some part of domestic revenues and I said this earlier too, in most of the

export markets, we are not number one, number two in those local markets. We might be number one from India, but otherwise, you know depending on which region and which market we talk about we believe there is good headroom available for us to improve volume, improve value mix, and improve price realization in most of the export markets we are present in. Thailand, Egypt, UAE, UK, US, will be the top markets for us right now.

Achal Lohade: Understood and just last question if I may with respect to the margins if you could give some sense assuming a normalized scenario in terms of RM cost or freight what kind of margins we are looking at from the next two to three perspective given the product mix what we would have and the volume growth in a normal scenario or you can talk about in your normal scenario what usually is the volume growth in the domestic and the export market?

Saurabh Mittal: It is tough to give you a sense of next two to three years because next two to three years the new plants will also come into production Achal. What I can say is that if you see Q3 our volumes, our revenues and our margins could all have been better if the disruption was not there and price increases was implemented through the quarter so we did not have a full quarter with the price increase, which hopefully we will have in Q4, so as far as volumes are concerned. the plants are nearly running at full capacity other than the disruption we have had in December and partially in January.

Achal Lohade: Right, I was asking more from two to three-year perspective what kind of growth one would be okay to look at? Would that be high single digits and double-digit in terms of volume growth and the margins?

Saurabh Mittal: So that is what I am trying to say in FY2023, we will have the new capacity of laminates if things go well in the Q4 FY2023 . In FY2024, we will have the new capacity for the full year so this will depend on how the capacities come up and we believe when the new capacity comes up I think we are targeting about three odd years, we should come to near full capacity. I will have to run the math, but as we see things now we think the ability to grow the business and to sell is quite decent for us and we have seen it in many markets both domestically and internationally so this is what I can say right now Achal.

Achal Lohade: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Investments. Please go ahead.

Vijay Karpe: Thank you for giving this opportunity. So my first question is I just wanted to understand what is the managements view of the demand-supply dynamics in the medium term because there has been a lot of announcements on the expansion side across the board in plywood, MDF, particleboard, and laminates so there are a lot of capacities, which are coming up by the end of financial year FY2024 so what is your view on this?

Saurabh Mittal: We are adding capacities in laminates and currently Q3 was an aberration because of the disruption of the plant. We are already operating 115% utilisations so we really need more capacity and the capacities we are bringing, are in three different sizes, so we do not see much challenges there.

The next factory we are bringing is particleboards and not MDF. If you look at particleboards, there are two meaningful capacities coming up. One is ours and one is another competitor of ours who is coming up in the State of Gujarat so from a market size a possibility in terms of quantity size of the market, and imports not coming in, most of the other local players being subscale, and poor quality of boards, there is a significant supply-demand gap in particleboards and we think with our understanding of the business and its close correlation between laminates and compact laminate, we should be in good position with that, we will have The Next Orbit presentation where all of this is detailed out, but you can also get in touch with our team offline.

On the plywood, we said that the market size is somewhere in the band of Rs.30,000 Crores and with the capacity we are bringing in is again not so high and we have explained a rationale why we have chosen South India as the location. South India has the largest branded market for plywood and there is no meaningful branded capacity in South India so really from that point we do not see many challenges on that capacity. The significant capacity addition, which is happening, is actually in the MDF business and not the businesses we are in right now or we are intending to get into.

Vijay Karpe: So, will our particleboard also indirectly compete with the MDF?

Saurabh Mittal: Yes, between particleboard and MDF some products and some usages are replaceable so let us put it this way. We believe that because there are no quality particleboards available right now, customers have to buy MDF and the quantity of particleboard market or potential market at the moment is larger than the MDF and there is no quality producer of particleboard in the market. While in MDF you have four to five companies or three to four companies who are of a certain size and scale. Particleboard is largely sold as prelaminated boards and not as bare boards and it is very much aligned to the decorative laminate business we are in, as most OEM customers, most commercial market customers buy

laminates and particleboards. So yes, to answer your question they are replaceable for certain applications.

Vijay Karpe: Got it and can you state the plywood capacities, which is 18.9 million square meter, in terms of CBM how much would this capacity be?

Saurabh Mittal: I do not have the maths with me right now, Ashok would you have the math?

Ashok Sharma: You need to divide it by 250 so this is simple mathematics. This will be based on a 4 mm basis.

Vijay Karpe: Okay so divided by 250?

Saurabh Mittal: Yes.

Vijay Karpe: My next question is, will our plywood capacity compete with the organized players because ours is a premium plywood capacity that we will be putting and additionally will our particleboard plant also receive the lower tax benefits because in the budget and that now has been pushed up to the end of March 2024?

Ashok Sharma: Yes, on that also it will be available.

Saurabh Mittal: The tax benefit will be available on the particleboard project. Plywood competition will be more mid to premium. Will it compete with the branded players or not, we believe that there is a space for another branded player in the plywood segment because of the formalization happening in the category and all the plywood we produce will be calibrated plywood the most superior plywood, which today the branded players have an option of calibrated plywood. Our entire production will be calibrated and we believe the quality will be best in class and we will be able to hopefully set up our network and our distribution pretty well.

Saurabh Mittal: Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Motilal Oswal AMC. Please go ahead.

Aadesh Mehta: Thanks for the opportunity. Sir I wanted to understand that now we are getting into plyboard and we have other also similar named companies in the same segment how would

we be differentiating in terms of our branding and marketing? Any thoughts on that would be very useful?

Saurabh Mittal: So, well our idea of a brand is we will be creating potentially a new brand for plywood, which will come from Greenlam Industries. We will not use the word green in the plywood brand and we are just kind of working on the final marketing strategy and the sales strategy and the number of dealers in the plywood market, the counters, and the spread is so high with just two national brands I do not think we will end up competing with the two national brands or with the company with a similar corporate brand name so we do not believe there will be an issue. Every town and every city has multiple counters and dealers and with just two national brands and few regional brands servicing them so we believe without head on competition we will be able to find a space. We already shipped directly and from distributors to most of the district level towns, taluka, tehsil towns our laminates products. Our reach through distributors is already there in the market so I think from that point we do not see a significant challenge in that front. Some cannibalization or challenges might come, but we think on the overall scheme of things it will not be a big problem.

Aadesh Mehta: Right Sir and if I may ask how many of our domestic distributors in terms of laminates, we can also cross sell ply board?

Saurabh Mittal: So laminate model is a company distributor dealer model because number of SKU's are very high. The need to carry inventory across the entire catalog, which is high so laminate follows more of a distribution-based model. There is a large distributor, number of smaller sub dealers or medium size dealers. The plywood model is more of a company to a direct dealer format so actually all of the sub-dealers of our laminate products, which are buying from distributors are potentially plywood dealers also or carry plywood already.

Aadesh Mehta: Got it, Sir. Wish you all the best.

Moderator: we will move on to the next question is from the line of Akshay Chheda from Canara Robeco. Please go ahead.

Akshay Chheda: Thank you for the opportunity. Sir two questions from my side. just wanted to understand what is the maximum capacity utilization that we can go from our existing capacity in laminates of around 15.62 million sheets? I mean the reason I am asking is that in spite of the challenges that we had in our Rajasthan factory still, we were operating at around 99% so what max we can go there that is my first question and secondly sir you did talk about that the new laminates factory so that you expect to ramp it up to full capacity in three years. if you can talk on the similar lines for the plywood also like since it will be starting

its production in FY2024 so by what time you look to ramp it up to the full capacity? These are the two questions? Thank you.

Saurabh Mittal: Ashok you will take it.

Ashok Sharma: So, for the laminate existing capacity previously also we have taken this up to 115% to 118% depending upon the product mix, we believe that very briefly it can go up to that level and in terms of new third laminate plant it is in the third year we are expecting 100% utilization and in terms of your next question on plywood. The expected commercial production for that is Q4 of FY2023 and not FY2024. Q4 of FY2024 is for the particleboard plant. For the plywood we are expecting 100% utilization in the third year of operation.

Akshay Chheda: Got it. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Rishab Bothra from Anand Rathi. Please go ahead.

Rishab Bothra: Sir what I was trying to ask is what plans do we have to enhance the utilization level in doors and flooring as well as the veneer segment or are we having the excess capacity ahead of time if you throw some light?

Saurabh Mittal: If you go one by one in the veneer segment, obviously 100% or that kind of utilization do not work and we have a bare minimum of a capacity you have to put in so we are not expecting anything beyond a like a 45% to 50% kind of utilization in that business model.

Flooring and doors again the ramp-up is happening and because of fluctuation of demand with disturbance it has not happened the way we would have loved it to happen, but from a utilization level clearly flooring door can go up and the plan there will be to consistently keep increasing the utilization, which can happen in that business model for flooring and door so yes that is my answer to it.

Rishab Bothra: So, continuing with the same question does this industry also work on the outsourcing model? Can we outsource the capacity to someone else to enhance the profitability?

Saurabh Mittal: Of flooring or are we talking about veneers.

Rishab Bothra: I mean anywhere if there is an outsourcing model which is underplay and if you can outsource the idle capacity to someone else and also in the sense the third party will outsource from us?

Saurabh Mittal: I think that outsourcing model in our company or even elsewhere in this business model is very difficult to create because 100% raw material in the wood veneer section, which is decorative veneer, flooring, doors gets imported right and there is a product range, which you have to create in terms of the sizes, dimensions, and stains kind of finishes and all that so if you end up, number one there is no such requirement of potential or customer or potential company, which can take that kind of capacity or even go and market it because and then to create a brand and set up a distribution it is quite a challenge so I do not see that we can let out our capacity to somebody else because of the complexity of range, raw material investment, marketing, product differentiation

Rishab Bothra: In terms of market is it most domestic or overseas.

Saurabh Mittal: Largely decorative veneer is 100% domestic by and large, flooring also eventually this is nearly like a 75% to 80% domestic market. Doors we do some export but again, 75% domestic, so the wood veneer business will largely be a domestic play because all the raw material is imported and when you ship the freight is significantly high and until now have not been able to create a brand in that category so by and large attention in terms of sales, marketing, effort will be in the domestic market for these categories.

Rishab Bothra: Is there a proposal to merge the subsidiary under which expansion program is going on or what was the need to do expansion in that particular subsidiary and who are the other owners of the entity?

Saurabh Mittal: There are two subsidiaries the HG Industries if you are talking, the company owns nearly 75% of the equity and rest is owned by the general public and this has been acquired since the land is there in that company so that is why it has been acquired, in terms of merging it with Greenlam or any other company as of now there is no such discussion or decision has been taken and subsidiary in terms of Greenlam South, (GSL) that has been taken because the new expansion is done in that and to take advantage of tax benefit which was announced by Government of India for newer company.

Rishab Bothra: Cost-wise merger would be a better rationale so both the companies operate under one umbrella and synergies could be availed.

Moderator: Thank you. We will move on to the next question that is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir good evening and thank you for taking my question. I just wanted to understand if you can share with us what is your market share currently in the domestic market in the laminate space?

Ashok Sharma: These are around 12% to 13% as of now.

Alisha Mahawla: Okay and because of the capacity limitation that we have over the next few quarters and some competitors probably I am sure have surplus capacity is that fair that we may start losing market share going forward till new capacity comes on stream.

Saurabh Mittal: I believe the new capacity is already announced and it has got delayed because of the pandemic situation and we are hopeful that this capacity will be available by Q4 of FY2023 and as of now at near around 100%, around 8% to 10% capacity still can be used from the existing plant.

Alisha Mahawla: Okay sure and just one last question. The capex of about 950 odd Crores that we announced when you took the capex call, you said that it is still under discussion just wanted to clarify the debt and equity ratio if you can share.

Saurabh Mittal: 65% will be from debt and remaining from the internal accrual and equity. You are talking about this project or for the entire company as a whole?.

Alisha Mahawla: For the project. For the 950 Crores capex that we are talking about.

Saurabh Mittal: Yes 65% debt and 35% from the internal accrual and equity.

Alisha Mahawla: Sure, and just one last question. Our run rate in our non-laminate business has been flat, any steps that we are taking to improve the utilization or the run rate in this businesses.

Saurabh Mittal: Sure, steps in terms of focusing more on adding more channel partners, working with architects, it is more like a routine operation which we anyway do. What you need to appreciate is that these three categories or these three products are largely residential market driven and with the residential market turning around and we believe that demand for veneer, flooring and doors in the home market will improve and as we go ahead you will see better revenues and I must say this again I might be repetitive but in Q3 because of Behror Factory disruption the veneer business had an impact in terms of revenue not the flooring door. As we have surplus capacity there, so as we move ahead I think we will see improvements in terms of run rate of this category also.

- Alisha Mahawla:** Just one last question if I may while we understand that currently margins in the laminate business are impacted because of increase in raw material prices etc so by when can we revert back to the 15 odd percent of margins that we used to speak of in the segment?
- Saurabh Mittal:** In Q3 we were at 13.3% right and assuming we lost Rs.35 Crores to 40 Crores of sales of laminates in Q3 and if we run the math we will probably be very close to that number I think.
- Alisha Mahawla:** Hopefully from next quarter, the EBIDTA margins could be closer to that range or that number.
- Saurabh Mittal:** Well yes if you run the math of Q3 if you add Rs.40 Crores on topline and with hardly any incremental cost. It will be very similar to that number yes it could be.
- Alisha Mahawla:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral from PhillipCapital. Please go ahead.
- Dhiral:** Good afternoon, Sir and thanks for the opportunity. Sir since we are expanding into newer verticals like plywood and particle boards but Sir regarding our existing verticals, regarding veneer, floors and doors so where do you see this vertical remains three years down the line in terms of performance?
- Saurabh Mittal:** Three years down the line like you are talking the plywood business or the flooring and door business?
- Dhiral:** No, the existing vertical which is veneer and floors and doors?
- Saurabh Mittal:** Yes, so right now we have two verticals, the laminates and the decorative veneer allied. In decorative veneer allied we have three businesses, the veneer panel, the engineered wood flooring and the engineered door business, so three years down the line this business will keep going on right. The plywood business is not impacting the decorative veneer allied category or business in terms of resources or marketing or sales efforts, so this business this vertical does not need any more capital in terms of capex or working capital and we hope that we keep improving this business as we move ahead.
- Dhiral:** Any revenue, run rate in our mind to achieve in next maybe two to three years in these three segments.

Saurabh Mittal: I shall defer from giving a number but clearly what we are doing now we have adequate capacity across the three businesses, and these are largely residential oriented markets and with the residential market doing well we think we should be able to improve the numbers in all the three products and under the umbrella decorative veneer allied category.

Dhiral: Okay and Sir does our business has any lever for margin improvement after entering into this new vertical.

Saurabh Mittal: Well when you say lever, I think those businesses have their own margin profile and margin potential and it will depend on how we sell in the market and run the business properly and correctly and as the company gain size and scale we believe the fixed cost, fixed overheads will reduce and hopefully that should improve margin profile as we move ahead.

Dhiral: Okay so what kind of margins are we are looking in plywood and particleboards particularly.

Ashok Sharma: In plywood, we are expecting a margin in the range of around 12% to 13%, and in terms of particleboard it is in the range of around 25%.

Dhiral: Okay so what kind of ROE, ROC we are looking for in this new capex.

Ashok Sharma: I think it will all depend upon how soon we are able to ramp up the utilization level.

Saurabh Mittal: typically for plywood business if you look at our laminate business right now it probably has a ROC in the band of pre-tax 25% to 30% so plywood typically is in the band of 20% to 25% and particleboard is also probably in a similar 18% to 20% but obviously it depends on the ability to ramp up value mix operationally well-run plants, well-run sales marketing mix.

Dhiral: Okay and so lastly is there any further room for improvement in our net working capital days?. which is I believe is around 76 days.

Saurabh Mittal: Yes, for the current business there is a room because like I said earlier we lost sales and we could not convert raw material to sales which have led to elevated inventory levels and also due to the international supply chain logistics challenges both inward and outward that is also a little bit increasing our inventory levels both inward and outward so if that normalizes there is potential to further improve networking capital days.

Dhiral: Any ballpark figure that we are targeting maybe let us say next one to two years.

- Saurabh Mittal:** ,Sorry, I cannot give you a figure on that.
- Dhiral:** Okay. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.
- Nikhil Agrawal:** Good evening, Sir. Thank you for the opportunity. Sir, you said that like in the new capacities that are coming off we will achieve full capacity utilization in the third year. So is the same for laminates and plywood is that the same for particleboard as well.
- Ashok Sharma:** In the particleboard, we are expecting this 100% utilization in the fourth year of operations.
- Nikhil Agrawal:** So like your major raw materials is phenol and melamine so could you just give some updates on the prices what was it, at the end of Q2, what was it at the end of Q3 and what is it the current trend now.
- Ashok Sharma:** I believe you are talking in terms of the raw material for laminate, so in the laminate we have paper and chemical booth. In the chemical what you said phenol and melamine are the prime raw material and as we said that the prices of these were on higher side in Q3 but towards the end of Q3 that started softening so if I talk only about the Q3 the price of melamine was around 30% to 35% higher in comparison to Q2 and for phenol it was higher by around 5% to 10%.
- Nikhil Agrawal:** You said that in Q3 your prices were higher by 35% compared to Q2 but at the end it started softening. And Sir I think I missed this out at the beginning could you just tell me what the export realization and revenue were for the quarter.
- Ashok Sharma:** Export realization for this quarter was 1028 and overall revenue for export for the company as a whole was Rs. 207 Crores.
- Nikhil Agrawal:** Okay but you just export your laminates, the decorative veneer segment that is for the domestic market.
- Ashok Sharma:** Yes, but floors and doors some amount of exports are happening from that but primarily the laminates are exported.
- Nikhil Agrawal:** Okay so basically 50% of your laminates revenue comes from exports.
- Ashok Sharma:** Absolutely.

Moderator: Thank you. We will move on to the next question that is from the line of Kartik Mediratta from Niveshaay. Please go ahead.

Kartik Mediratta: Congratulations on a great set of numbers. So, my first question was regarding your raw material cost. You had mentioned that they are softening from Q3 end so do you think these will be passed on to the customers and that would bring down a realization going forward.

Ashok Sharma: So, my answer was specific to the two raw materials which the previous analyst had mentioned. It was in terms of phenol and melamine so what has happened is some of the raw material cost has come down whereas some has increased. So let us say in case of paper, the design paper, and to some extent kraft paper. prices also have gone up, so we believe that there will not be much of a difference which need to be passed down to the market and situation is again volatile so we need to see the clear trend to emerge before taking any call in terms of passing on to the market.

Kartik Mediratta: Sir one more question in the last year's Q3 FY21 in laminates you had done an EBITDA margin of around 19.8% so are these margins achievable again in future.

Ashok Sharma: Difficult to say but that was a very sweet spot that time, wherein the raw material prices crashed and we had very favorable raw material prices in that quarter but difficult to comment whether that 19.8% is achievable in the current scenario even though it looks difficult in terms of achieving 20% margin.

Kartik Mediratta: Understood and Sir one last question, you had mentioned that one of the competitors is entering into particle board with the plant in Gujarat so any idea on the capacity and amount of capex of the competitor.

Saurabh Mittal: I think it will be very similar to what we are doing in terms of capacity and capex my guess is.

Kartik Mediratta: Thank you Sir and all the best for the future quarter.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good evening, Sir. Thank you for the opportunity. I had only one question with respect to demand outlook now most of the players in building material are going up by an expansion mode so what brings so much confidence to see almost about six to seven years of downright growth going ahead for the wood panel industry. Is it slew of launches over the

trailing one year in the residential segment? Is it demand-driven from the aftermarket or secondary markets or are there some kind of leading indicators in terms of segment, capacity expansion or which parameters or indicators you are looking at aggressively going ahead with the expansion plan.

Saurabh Mittal:

I think your question is more general and not particularly about a product I will like to answer this one by one. If you look at the core business which is laminates, we already have certain capacity utilization. We have two market segments the international market and the domestic market and like we said earlier in the international market right now we are facing supply side constraints, but we have opened several markets over the last 15 odd years and in most of the markets we are operating we are still not number one, number two and internationally capacities are not coming up. We have been able to create a good distribution set up in most markets with our own brand, with our own people with good demand creation obviously this WIP it never ends so we think we have decent space to expand our international business as far as laminates is concerned and with the capacity we are bringing on board it is not so much, it is actually three production lines and we have right now about 11 lines and then on the domestic side one is the demand generally going up in the residential side and commercial side then there is situation of unorganized segment moving to organized segment, the unorganized segment is only surviving as we all know due to inferior product quality, inferior commercial practices, and with regulatory tightening up, most of these factories, companies are becoming subscale and they are gradually getting marginalized so we think one is the demand situation in the domestic side, other is the movement from unorganized to organized even internationally it has happened 30 to 40 laminate factories have become two or three over a certain period of time so I think that opportunity is there. We have also added several new products which are category expanders so I think that is also gaining traction so that is on the laminate side right.

The wood veneer business, we are not putting new capacity. Now if I go one by one door is a new concept, production and factory installation on site. This really takes of lot of carpentry load, time saving, etc., Flooring again is potentially a large market but growing at a slow pace because the residential market did not grow well over the last few years so we think there is space there. Veneer we do not expect the veneer business to scale up too much beyond a point, but it will keep giving us some margins.

On the particle board, we said that in the orbit call when we announced the expansion. Right now there is no relevant producer or player. The market is about 5000 Crores in India. All smaller factories, poor product quality, the board quality is not good. The unavailability of particle board is leading to expansion of MDF market share. Companies like IKEA and so many other furniture producers still have 70% to 80% of their raw material as particle

boards so there I think unorganized to organized, work from home, carpentry happening off-site, assembly happening on-site, clearly the online players, the e-com players they mostly will use prelam particle boards as a product so there we have a good space to go and expand the market.

Plywood also we have told 30,000 Crores market approximately. Just two national players and few regional players, most regional players either not focused or are very weak so there is a space for a third national player eventually to come in, although we are starting a factory in south India and unorganized to organized story is also planning out there.

Even the kitchen producers require good quality plywood and good quality plywood is not available because even the larger players resort to a lot of outsourcing which mostly restrains them from offering good quality product. Good kitchen producers have to import plywood because calibrated plywood is not available so across our segments demand situation, unorganized to organized, newer categories, replacement of imports in laminates in international market possibility so really with all these factors available we think we should be able to kind of continuously grow the business.

Ronald Siyoni:

Sir one last question was with respect to international. As you said there is space and room how do we in laminate are placed in terms of cost. Are we cost-effective compared to other south Asian countries and Chinese? How are we placed in that?

Saurabh Mittal:

Our export model is not based on cost reduction, although we are cost effective and the model has been built or is being built on marketing, distribution, specification, brand recall, developing products for OEMs, value-added products. so our model of business is being built and has been built in that direction so obviously while we were building this the model, it is slow, painful, high initial expenditures. So this is the model we have built and we are building on the international front, but to answer your question on cost reduction, we are cost-effective with other manufacturers or south Asian players but again there is a difference if you play in the commodity space, sometimes the raw metal specifications are not the same, so the kind of product a local factory in India will produce or some other place might produce in China or somewhere. The specifications could be different then the comparison of cost may not be relevant but with the same specification, we clearly are cost-efficient also.

Ronald Siyoni:

Thank you very much Sir. Best of luck.

Moderator:

Thank you. The next question is from the line of Rishabh Bothra from Anand Rathi. Please go ahead.

Rishabh Bothra: Just wanted to understand the demand side outlook coming from OEMs like real estate players or how is it shaping up with respect to dealers and how is it shaping up with respect to the new age players say Urban Ladder or Pepper Fry or IKEA stores. So where is the mix exactly, huge demand growth coming from or is it from all sectors.

Saurabh Mittal: So very difficult to exactly tell you where the mix is coming from, but we think the demand is coming and will come from all the segments you mentioned about. The trade residential, the essential OEMS, and the new age interior design or home fit out companies.

Rishabh Bothra: Do we have a ballpark figure for each of the verticals, let us say one million square feet of real estate is being developed be it residential or commercial, what kind of product requirement would be for laminates or veneers or plywood, MDF anything of that sort.

Saurabh Mittal: I do not have that right now.

Rishabh Bothra: Okay and lastly Sir there is something to do with demerger processes. I guess Greenply was a single company that housed all the products segment and in 2015 Greenlam was created. In 2019 GreenPanel was created with different key business verticals, plywood board was left with Greenply and laminate came into Greenlam and MDF into Green Panel but at this stage 2022 I think everyone is moving in all businesses rather to say and will be competing with each other so how things work at your end? Also cross holding at promoter level is there in all the companies. So, if you could throw some light or can there be a merger going forward in two three years down the line to have a larger synergies at play.

Saurabh Mittal: Firstly, there is no cross-holding of promoters as far as Greenlam is concerned. I am not too clear about GreenPly and GreenPanel. It is clear there is no clear cross-holding with family members of Greenply and GreenPanel. The chairman holds around 2% in Greenlam otherwise there is no cross holding. It is all clean there, Greenlam moved in the decorative market which is the laminates space and the decorative veneer allied space and now obviously after seven years we think with the surfacing materials we also need to get into the substrate products because dealers, customers, distributors, architects, want more products. so if you look at our space I can only talk of Greenlam right now. Our expansion from competition or competitive product is only plywood at the moment, particle boards, greenply or green panel both do not do, so really the discussion is more of plywood which is obviously a smaller investment.

We have a decorative veneer business which is aligned with the plywood dealers and those customers who buy our decorative veneers also need base ply or plywood to paste the

decorative veneer and that is the reason in a way, we understand that business and customers channel is quite common.

We are already into the decorative veneer business and we are getting to the plywood business also and clearly from a competition point, we said that earlier the market is so large you just have two organized players in plywood and few regional players, like four or five regional players with a band of 200 to 250 Crores so there clearly is an opportunity for one or two more players to enter the space and gradually build the business.

I do not think that we will end up taking share from anybody else from the organized players. We will end up creating our own market share and probably take share from the unorganized players or take the growth of the market.

Rishabh Bothra: Great Sir. Good to hear.

Moderator: Thank you. We will move on to the next question that is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Just one question from me. What was the quantum of price hike you have taken in and Q3&Q if any.

Ashok Sharma: Yes, we have taken around 5% to 7% in the domestic market and 5% to 6% in the export market, international market. In terms Q4 there is no price hike as of now is planned since as you have mentioned at the beginning of the call that with this we could able to recover our raw material price hike, cost for the raw material price hike was recovered so as of now there is no hike is planned for the Q4.

Nikhil Agrawal: Okay that is it.

Moderator: Thank you. We will move on to the next question from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: On the plywood side, are we only looking to manufacture the premium end of the plywood and go for outsourcing for the other two models, or we are looking to manufacture all three under our factory?

Saurabh Mittal: So, at the moment, because we are just setting up one plant and we are looking at not going out for outsourcing and we are looking at self-manufactured plywood which will we be in

the mid to premium more. Let us say mid-premium to premium in that space so we are not looking at an outsourcing model currently Karan.

Karan Bhatelia: Okay that was helpful and on the particle board business, peak revenues of Rs.600 Crores and what kind of working capital requirement can we see because this business is more to do with the B2B side if my understanding is correct on this sector.

Ashok Sharma: Yes, Karan not much of working capital in this will be expected because first the number of SKUs will not be that much high, another will be the import component will not be of that much high as which is required in the existing set of businesses, so we believe that it will be significantly lower than our existing working capital requirement.

Saurabh Mittal: In the particle board business it is a factory-to-customer model. Like in laminates we have to have these eight, nine, ten warehouses in India and abroad where we have to do redistribution so that inventory which we are carrying in the company's distribution centers because of the high number of SKUs so in particle board model from the factory you should drive to the customers so there is no transit inventory or storage space in between needed for redistribution.

Karan Bhatelia: So as per that much lower working capital is needed compared to the existing business.

Saurabh Mittal: We believe both the new businesses plywood and particleboards should have lower working capital requirements versus existing business. Having said that existing businesses also we believe will improve working capital days as volumes and numbers go up.

Karan Bhatelia: Got it. That was very helpful so thank you. That is it from my end.

Moderator: Thank you. The next question is from the line of Kushal Kasliwal from Ideation Capital. Please go ahead.

Kushal Kasliwal: Thank you for taking my question. Saurabh Sir this is a question to you. I just wanted to understand what is our vision for the plywood segment since we are doing this in a separate listed company HG Industries, what do you think like three to five years down the line, how do we want to do this because it is pretty known that what happened with Greenply and Greenpanel so are we thinking to kind of do this entirely, all the plywood expansion in this segment? This is my first question.

Saurabh Mittal: Is your question that will house a plywood business in HGIL or not is that the question Kushal.

Kushal Kasliwal: The question is basically around the plywood segment which we are doing with HG. We have a capex of around Rs.125 Crores. What do we think I mean after we are done with this Capex, do we want to do the entire plywood in HG, or how does it work going forward?

Saurabh Mittal: So that is still open and in fact today in the call somebody has also recommended that we should merge that with Greenlam Industries at some point so that is something which we will think through more clearly right, so I do not have a very definitive response to you on that but clearly we are starting with south India and we want to go one step at a time and then we see how the business spans out then we take necessary decisions.

Kushal Kasliwal: Follow up on this I mean, do we expect this kind of tax in the South Indian market. I understand it is a big market, what is our expectation total EBITDA market in the South Indian market. Do we think we can capture this meaningfully and maybe a Brownfield going forward in the Tamil Nadu plant?

Saurabh Mittal: You talked about the brownfield expansion in Tamil Nadu is that what you said and what was your first question please Kushal.

Kushal Kasliwal: The first thing was just will we be able to catapult time in the plywood industry in South India through this plant?

Saurabh Mittal: As you probably do understand as I can see the plywood model is by and large a regional model and logistics cost are important in the plywood business so derisking and diversifying your raw material base right, so one plant in one part of the country eventually cannot service through the country. You will need reasonable size plants at a few locations in India eventually. So the current plan is to start with south India as you see and the rationale for that is south India is the largest market for branded plywood in the country and minimum capacity of branded plywood's at least for the moment is in South India right so if you look at what the capacity we are planning and kind of revenues and the market opportunity so I think south does represent and thus offer that opportunity from a south India plant. Whether we will end up selling the entire production in south or some more markets that is something which I cannot say much at the moment and beyond this, second part was can we do a brownfield plant, we cannot do brownfield in this plant. I think we have planned the capacities in a manner that beyond the capacity we are putting in, we will not be able to add much more capacity in this location and rather we do not want to.

Kushal Kasliwal: Just one last question, I was just asking about the kind of debt we will take for this 125 Crores capex in HG since we have mentioned 65:35 for debt equity. How will this debt be served? I mean will this directly go from Greenlam? Will this be going through HG or are

we taking a moratorium because HG will take around one, one and a half cash flows to repay the debt right?

Ashok Sharma: In terms of this debt will be taken directly in the HG and we will have the moratorium for the initial period from the bank. So, we believe that HG will be able to service the debt. However, should the need arise at that moment of time then Greenlam will support.

Kushal Kasliwal: By Greenlam support do you mean you will be infusing more equity in the company or would this be kind of an unsecured loan, how does it work?

Ashok Sharma: That will depend upon that time the scenario whether it is needed for the short-term period or whether it is needed for the longer term so then probably that time the call can be taken in terms of this, but infusing equity will not be a possibility since it is a listed company and we are already holding 75% of the equity.

Kushal Kasliwal: Just wanted to understand the rationale because we own only 75% of the company. Could not we have done this entirely in Greenlam or were there any legal hurdles?

Ashok Sharma: Because land is there in this company. It is because of the land this company was acquired and the project is being put up at that location.

Kushal Kasliwal: I presume land could also have been acquired in slump sale kind of scenario, but I presume to a timeline constraint we would have done this as I right.

Ashok Sharma: Yes.

Kushal Kasliwal: Okay great thank you so much for answering my question Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for the closing comments.

Saurabh Mittal: Thank you, everyone. Thank you for your time and your questions and if some of your queries have not been responded or have not been responded completely or you could not get a chance to ask us, you can please reach out to us offline, and we will try and address them to the best of our ability. Thank you so much. Have a great evening ahead. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Greenlam Industries Limited that concludes this conference call. We thank you for joining us. You may now disconnect your lines. Thank you.