



“Greenlam Industries Limited Q4 FY-16 Earnings
Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Greenlam Industries Limited Q4 FY16 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations 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 participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' 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 and Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you sir.

Saurabh Mittal: Morning friends and very welcome to all of you. On the call, I am joined by Ashok Sharma, our CFO and SGA our Investor Relationship Advisors. The results and presentations are available on the Stock Exchange and our company website and I presume everyone had a chance to look at it. I will just take you through the broad business highlights of the last financial year. So I think we had a reasonably decent year, Last year in spite of the challenge in market environment and in the laminates business we expanded capacity by about 20% and we improved our realizations in the laminates business. In the Veneer business, we launched teak and engineered veneer variants which have given us a significant top line boost. We commercially launched engineered door and frame business under the brand Mikasa doors and frames, last financial year.

In the flooring business, product side and manufacturing had got stabilized and we are ramping up sales and distribution network.

On the geographical segments of the business, the domestic business grew by about 16.5% last financial year. The export business was flattish. Export growth even on a consolidated level was slightly under 5%, this was due to market challenges that we faced in APAC region and the South American region, by and large I think we have been able to stabilize the business, things are looking positive for the company although market environment challenges - remain. Touch. But we are working hard to build the business and tried every category of the business and going forward I think we will continue to keep improving the entire value chain of our company. We have worked upon improving debt, we worked upon improving working capital cycles.

We are already behind our major CAPEX cycles also. Now Ashok will take you through the details of the financial figures and then we are open to the question and answer sessions. I will hand over the mic to Ashok now.

Ashok Sharma: Good morning friends, I will take you through the financial performance of the company. First I will brief about the fourth quarter and then standalone and then to the consolidated

performance. For the fourth quarter ended March '16, revenue for the quarter grew by 7.6% on Y-o-Y basis to Rs. 249 crores led by good performance in the domestic market. Gross profit was at Rs. 115 crores with a margin of 46%, a margin expansion of nearly 630 points led by favorable raw material prices along with higher realization in laminate due to better product mix and high growth in decorative veneer. EBITDA for the quarter was at Rs. 35.9 crores and EBITDA margin was at 14.4%, a margin expansion of 450 points despite increase in operating overheads of our new products. PAT for the quarter was at Rs. 13.1 crores, a growth of 1.8x from the same quarter previous year.

Our domestic sales grew by around 19% to Rs. 163 crores in this quarter led by good performance from decorative veneer and sales pickup in new product. Exports saw a decline of 9% on year on year basis due to weak sentiments in global markets and devaluation of currency in some of our markets.

Now I will brief about the financial performance for the year: Standalone revenue grew by 11% to Rs. 937 crores from Rs. 845 crores in last year. EBITDA grew by 33% to Rs. 124 crores with a margin expansion of 220 points to 13.2%. PBT for the year was at Rs. 65 crores, a growth of 83% over last year. PAT for the year was at Rs. 40 crores, a growth of 52% over last year. Total borrowing as on March '16 was at Rs. 254 crores against Rs. 268 crores in last year. We were able to reduce the borrowing even though we invested in CAPEX. We are striving to improve our operating ratio, ROC of the business improved to 17% from 12.2% in last year. Return on equity improved to 16.4% from 12.4% in FY15. Networking cycle has increased by 3 days to 59 days. Inventory was at 81 days while debtors was reduced by 2 days to 49 days from 51 days. Creditors reduced to 71 days from 76 days.

Now I move on to consolidated results – revenue grew by 11% to Rs. 1030 crores from Rs. 926 crores last year. EBITDA grew by 38% to Rs. 129 crores from Rs. 94 crores as last year and margin expansion was 240 points to 12.6%. PBT for the year was at Rs. 62 crores from Rs. 28.5 crores last year, a growth of 119%. PAT for the year was at Rs. 37.7 crores from Rs. 19.3 crores last year, a growth of 95%. Total consolidated borrowing as on March '16 was Rs. 365 crores against Rs. 390 crores last year. Net working capital reduced by 4 days to 86 days from 90 days last year. Inventory reduced by 3 days to 88 days from 91 days, debtors reduced by 7 days from 72 to 65 days. Creditors were reduced by 6 days from 73 to 67 days.

Now I move on to segmental performance – Laminates and allied business forms 83% of our quarter 4 sales. In laminate, business recorded a growth of around 4% last quarter to Rs. 205 crores, average realization for the quarter was at Rs. 640 per sheet, an improvement of 10% on year on year basis. EBITDA margin improved by 725 points to 16.2% for the quarter with an absolute EBITDA growth of 88% in this quarter to Rs. 33 crores. We have achieved a production of 2.97 million sheets which is 99% on the enhanced capacity of 12.02 million sheets; we have done a capacity enhancement of 2 million sheets in September last year. Sales volume stood at 3.13 million sheets in this quarter. International business contributed to 47%

in terms of volume and 42% in terms of value of laminate business in this quarter. For the FY16 as a whole we have achieved a production of 11.79 million sheets, a growth of 3.2% over last year. Our sales volume grew by 2.5% to 11.8 million sheets in this year. Veneer and allied business now forms around 17% of our Q4 sales against 15% last year. Overall veneer and allied business sales grew by 29% in this quarter to Rs. 44 crores while segmental EBITDA declined to Rs. 2.6 crores against Rs. 5.1 crores last year. This is mainly due to operating losses from new businesses such as engineered flooring and engineered doors. Decorative veneer production grew by 36% to 0.46 million square meters with capacity utilization of 43% against 32% in the same quarter previous year. Average realization was lower by 7% to 819 per square meter as we have added new variant of teak and engineered wood veneer which is at competitive price point in comparison to natural veneer. For FY16 production increased by 52% to 1.61 million square meters while sales volume grew by 47% to 1.6 million square meters. Engineered wood flooring launched under the brand Mikasa is performing well; we have clocked a sale of around Rs. 16 crores in the last year with a capacity utilization of 7%. Engineered doors also under the brand name Mikasa was launched in the September only, so it will still take some more time, last year we have clocked a sale of Rs. 1.1 crore, we have also made first consignment of export of the doors. That is all from our side, now I would like to open the floor for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from line of Kashyap Jhaveri from Capital 72 Advisors, please go ahead.

Kashyap Jhaveri: I have 3 questions; first one in terms of gross margins which you have expanded in FY16 by about 500 basis points, how would you split that between change in the composition of the sales, veneer v/s laminates and how much could be because of the drop in raw material prices and let us say if there is an increase in the crude related raw material prices from here on, what would happen to the gross margins? Second is that as we keep increasing utilization in the veneer and allied products how would you look at growth in the fixed cost and some of the variable cost like employees as we go forward? And third is in terms of veneer realizations you made a comment that new products launched which were in competitive categories, so from here on how does the veneer realizations overall blended would move from here on?

Ashok Sharma: Now coming to the first question, that is in terms of how much of this margin expansion is on account of price reduction and how much is on account of value growth, around 35% to 40% will be on account of raw material because primarily in the raw material this is mainly only in laminate segment there was reduction in prices of chemicals, 2 of our major chemicals and rest will be coming from the overall expansion in volume mix in laminate and volume growth in veneer.

Saurabh Mittal: I will take your second and third question. On the growth of fixed cost for the Mikasa doors and floor, largely fixed cost have already been deployed in terms of the team size at the factory at the sales level, marketing cost, product range. So most of the fixed costs have largely

been deployed so if we increase revenues in the floor and door business, we will expect minimal increase in fixed cost of manpower or wages or other marketing costs. On the number two question, on the veneer regarding teak and engineered, so teak and engineered as a product category are priced at a lower price point than the natural veneer and obviously it has a mass market and it is more of a channel product so as we keep improving the sales in the teak and the engineered but I think even the natural veneer sales will improve so over a longer period we will even out. I do not think there will be a big impact on margins, negative or positive on that front.

Kashyap Jhaveri: And in terms of gross margins between natural, teak and engineered veneer, despite lower realizations would gross margins also defer?

Saurabh Mittal: The gross margins on engineered woods certainly will be lower, teak has many variants also but teak in number will also be lower. It will certainly be lower, gross margins of teak and engineered v/s natural veneer.

Kashyap Jhaveri: In one of the earlier conference call, you had highlighted that the RM to sales in laminates is about 55% and in veneer is about 50%, is that the correct number?

Saurabh Mittal: Yes it is correct but now in laminates also there is a slight 1% or 2% reduction in RM cost again because of raw material cost and due to the improved value mix and realization improvement.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital, please go ahead.

Baidik Sarkar: You mentioned in your opening remarks that Latin America and South East Asia where witnessing some kind of softness, what is the outlook for the year going forward, obviously economically nothing seems to change over there, I mean is there just risk a de-growth carrying into next FY?

Saurabh Mittal: No. So are you asking only for the export ...?

Baidik Sarkar: I will come to the domestic market later on, so you know first some color on the exports will be helpful.

Saurabh Mittal: On the exports front, the APAC region has been about 44% of our revenues and we did experience challenges there you saw that and even South America has been important market for us. So this year if I look at the international business at the consolidated level, I think we should be able to grow by about 8% to 10% kind of a figure because The US market is doing okay for us, The UK business is doing good for us, in the European market also we are experiencing growth, so I think in spite of challenges which will continue in The Asia Pacific

region and in South America we should be able to maintain a 8% to 10% top line growth on exports.

Baidik Sarkar: That is on the revenue line and how much is UK, US and Europe now in percentage of exports?

Saurabh Mittal: In terms of percentage US, UK and Europe will roughly be about 30% odd,.

Baidik Sarkar: 15% volume growth in domestic segment is a good number, some color on what exactly you are driving this. Is it a combination of deepening distribution or is it just better off take at the ground level on the domestic front?

Saurabh Mittal: Domestic business I think it is still a small business out of Rs. 1030 crores; domestic business is about Rs. 570 crores, kind of a figure. So domestic growth has been fueled by the new products; flooring, doors has been literally no sale last year so there is no comparable base. On the veneer business because we launched the teak and the engineered, so we had some growth in that segment, again a new category, but we have not completed the network expansion of circling of the network. On the laminates front we had undertaken a strong program of improving our product offering to the market, adding new products to the product portfolio. So I think all of that has also taken shape especially the compact laminates, the façade laminates, the high definition gloss product. We had put up MFC line to target towards OEM, so I think all of that is gradually kind of settling in and that is why the growth is visible.

Baidik Sarkar: Would you have the very approximate number of how much of your growth was driven by new channels, by adding new distribution partners, will that be possible?

Saurabh Mittal: I will not be able to give you a number, at this moment we can come back to you on that later?

Baidik Sarkar: Sure. Going forward what is the base case scenario for domestic growth look like in FY17?

Saurabh Mittal: I think we should be able to do a 12% to 15% kind of a revenue growth of domestic which will come in as a combined across all the four categories, laminates, decorative veneer, flooring and doors.

Baidik Sarkar: In your laminates business you are already about 107% capacity utilization, I recollect seeing your older quarters I think you were just about a 110%, so where is the leverage for growth going to come from?

Saurabh Mittal: If you go category wise, in laminates like Ashok mentioned in his remarks earlier, in the fourth quarter we were about 99% utilization on the expanded capacity. At the peak we have gone up to 114%. 115% so I think we still have room to improve volume utilization by about 10%, 12% in laminates. That is number 1, veneers we have adequate capacity to service the market, flooring we are still at a very lower utilization as it had adequate potential there and same for

the door business and even in the melamine business. So across product categories we have possibilities of more growth without adding more capacities in these categories. So there is ability to do this growth without adding more equipment's.

Baidik Sarkar: I am sure Sharmaji can help me reconcile roughly; you said you had 107% capacity utilization but a 99% on your expanded capacity. So 107% what, is that 12 million or 10.02 million

Ashok Sharma: That is on an annualized basis since we have added new capacity in the last month of second quarter and this 99% which you are talking about is on enhanced capacity of 12.02 million in Q4FY16.

Baidik Sarkar: So looks like you guys will run out of capacity by FY17. So what does the new CAPEX cycle looks like?

Saurabh Mittal: We are not adding new production lines currently, this financial year we are not planning that but when we do that we can do that in the existing plants like we have done in the past also and we maintained that. So there will be no expansion CAPEX to be done this year, although we are expecting maintenance CAPEX, some carry forward CAPEX of previous year, adding some molds, you see some modernization which could be in the band of Rs. 25 crores to Rs. 30 crores this year.

Baidik Sarkar: No but I was actually looking for a kind of perspective given that we are likely to run out of capacity by March, April next year and typically how much of a lead time does it take for us to put up a new line?

Saurabh Mittal: So right now I am sure you are only talking about laminates because we have adequate capacity for the other 3 categories. So if you see what we did last year, the line came up in between 8 to 9 months. So depending on the size of the laminates line I think you could safely say 9 months.

Baidak Sarkir: So is it fair to assume say probably in the next 6 months you might start planning for the next line?

Saurabh Mittal: We will have to assess how the market situations are and whether we will be able to achieve a value mix or not, we will be doing it in the existing factory so we do not need to look at land or something for Brownfield expansion and like we have said earlier we have been able to optimize the design of the plant in a way, with a minimal CAPEX and in a short period we can add on new capacity. So, I think we still want to see how it goes on the next couple of quarters and then make a decision about it.

Ashok Sharma: And one more thing which I would like to add; as we have mentioned we still have 16%- 17% volume which we can do with the existing capacity and in this year our target is around 10%-

12% in terms of volume. So I think we may not need additional capacity in this year but anyhow if the volume growth is better than the expectation than always we can do that.

Baidik Sarkar: My last 2 questions; if there were to be a crude reversal, does the market give us enough depth to maintain our margins at these levels?

Saurabh Mittal: We are on the start of improving realizations so if you see last year despite the crude reduction we have not really reduced our price points and our realizations actually in laminates have gone up on an annualized basis by about 5%. So our focus of improving margins is just not the chemical cost and chemical cost of the total RM is about one third. The balance two third comes in from the paper cost so as we talk right now our focus is on improving value mix and we are working towards that so if cost do go up obviously not the entire benefit but I think largely we should be able to maintain margins of maybe at 1% or 2% lower than what we are doing now maybe at a 14% odd but we are on the path of improving the value mix and we are driving that in the domestic market and in the export market.

Baidik Sarkar: So our margin for Q4 over what working point for, you are saying worst come worst you will maintain 13.5% to 14% for the entire year?

Saurabh Mittal: Q4 margin on laminates was about 16% and the veneer business because it consolidates all the 3 categories, if you look at decorative veneer alone, I think we are about 16.5%, 17% in the veneer segment also. So overall if you take this year's view I think we should be in the band of 13.5% to 14% kind of operating margins figure unless drastically things change either ways.

Baidik Sarkar: And Sharmaji what would be your tax rate for the year?

Ashok Sharma: Tax rate this year should be normal rate but we will be at a full tax rate, so around 34% to 35%.

Baidik Sarkar: And accordingly for our deleveraging plans, where do you think debt would be at the end of March '17?

Ashok Sharma: Are you talking about a standalone or consolidated?

Baidik Sarkar: No consolidated, just given for the repayment schedule in the pipeline, just an approximate figure if...

Saurabh Mittal: Last year we were able to reduce by around Rs. 27 crores even though we had a CAPEX also, I think this year also we should be able to reduce by Rs. 30-40 crores, keeping in mind some CAPEX which we have planned and the free cash flow which we have planned.

Moderator: Thank you. We have the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

- Sagar Karkhanis:** Sir, I wanted to ask about laminates exports, I understand Asia Pacific is the largest, around 50% of our exports is from APAC, right?
- Saurabh Mittal:** Correct.
- Sagar Karkhanis:** So if you could throw some light on the demand-supply situation on that. Is it the Middle East or I don't know, what do you call as APAC?
- Saurabh Mittal:** No, so APAC mostly for us is Southeast Asia. So mostly of the APAC, Southeast Asia is the larger part. So we club in Southeast Asia, Northeast and little bit of Australia and New Zealand. So, there last year we were nearly flattish in terms on a consolidated the topline in the APAC region.
- Sagar Karkhanis:** And how do you see the outlook going forward?
- Ashok Sharma:** So I think this year also we've not projected any meaningful or significant growth there. I think we are focusing on improving value mix and improving the operating parameter in the market or in that business.
- Sagar Karkhanis:** The 4% growth that we saw in the 4th quarter in laminates business was largely driven by domestic growth. If you could throw some light on which regions we are seeing good demand?
- Saurabh Mittal:** In the domestic market?
- Sagar Karkhanis:** Yes Sir.
- Saurabh Mittal:** Well, I don't have the marketwise figures here. But I think in most of the markets we have been able to grow the business. So, the last quarter domestic business in laminates grew by about 18-19%, our exports saw a de-growth of about 8-9%. So I think, overall you know, it has been a growth for us in the domestic market.
- Sagar Karkhanis:** Sir, which states could be our largest volume sales in domestic market?
- Saurabh Mittal:** As a state or region.
- Sagar Karkhanis:** Yes, as a state.
- Saurabh Mittal:** I think Maharashtra as a state would be the single largest state.
- Moderator:** Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

- Pritesh Chheda:** Sir, what would be the gross margin in the allied products, the veneer and allied products and what will be the gross margin in Laminates?
- Ashok Sharma:** On an annualized basis the gross margin in laminates and allied products was 43% and Veneer I don't have for the individual, I'll work it and send it to you.
- Pritesh Chheda:** So, you said 43% is for Laminates and allied?
- Ashok Sharma:** Yes.
- Pritesh Chheda:** And we gave decorative Veneers and Allied. So, the engineered floor?
- Ashok Sharma:** It is slightly higher; I will send it to you.
- Pritesh Chheda:** The engineering floor and the door business and all forms a part of decorative veneer and allied?
- Saurabh Mittal:** That is right.
- Pritesh Chheda:** Okay, did you mention that 19% is the EBITDA margin for the Veneer?
- Saurabh Mittal:** No, I said 19% was the growth in the Q4 for domestic market. EBITDA margin in quarter 4 for only the decorative Veneer business was 16.2%
- Pritesh Chheda:** And this Rs. 140 crores of revenue that which we have is the decorative veneers?
- Saurabh Mittal:** Yes, of the 140 you minus out about 19 and a half so about Rs. 120-122 crores is from Veneer.
- Pritesh Chheda:** So that represents about 40% capacity utilization.
- Saurabh Mittal:** Yes
- Pritesh Chheda:** Sir, just wanted to understand a broad thing, first on a slightly steady state long term basis what is the price growth which is possible in laminates and my second question is in this decorative Veneer and allied product where we have a capital employed of about Rs. 180 crores, on the basis of capacity that we have, what is the peak sales possible in that business, what is the peak margin and when do you think you will achieve it?
- Saurabh Mittal:** For Laminates, price growth, you know, in the current scheme of things we are not increasing prices but focus is on improving the value mix which ends up improving per sheet realization. Are we taking a price increase, the answer is no but yes we are trying to work towards the strategy and we have introduced products and our marketing and sales programs are driven

towards improving value mix which will show hopefully some price realization, but price increase as we talk right now, we are not doing any price increase.

Pritesh Chheda: I was actually referring to this value mix, what kind of growth is possible on a value mix on a sustainable long-term basis?

Saurabh Mittal: I would say it depends but I would safely say 3% to 4%, because when you increase volumes, value mix goes up in quantity but when you add more capacity you also have the lower grade or the mix price products going up in production value so your per sheet realization goes down, so I think it keeps fluctuating in various cycles, so if I add more capacity the volume as a percent will come down, although as share of the quantity it could go up. On your second question about the peak utilization of decorative veneer, flooring, doors, I think the numbers can be quite large but you could safely say veneers in the band of 175 to 200 crores, flooring at a million we are talking about 200 odd crores of that, door with this capacity talking about 70 to 80 crores, so at the peak would expecting close to 450 or 460 crores kind of topline figure.

Pritesh Chheda: What can be the corresponding margin figure there?

Saurabh Mittal: It really depends on at this volume at what price point we can operate the business but I think 16% to 18% could be achievable.

Pritesh Chheda: And out and out when can you achieve this?

Saurabh Mittal: Veneer if you see, we are at 120 to 122 crores, we grew about 25% to 30% last year, so I think we are talking of at least another 3 years to hit that 180 to 200 crore business, because it is a boutique business it is not right now going to wrap up. Flooring last year was a full first year although we wanted to do faster but I think you are talking of at least after this year another 3 year or 4 years, doors you could be bringing that number in the next 3 financial years may be, so I think 3 to 4 years would be a fair estimation.

Pritesh Chheda: How many years you have spent in veneers so far?

Saurabh Mittal: Veneer business, we have been in the veneer business since 2004, so I think 11 to 12 years.

Ashok Sharma: I am coming to your margin point, it is 53% on veneer and allied.

Pritesh Chheda: So, 43% on laminates and 53% on veneer and allied.

Saurabh Mittal: That is correct.

Moderator: The next question is from the line of Pratik Shah from Antique Finance, please go ahead.

- Pratik Shah:** I just want to understand by when would you see sizable traction in the engineer wood flooring business and is it possible for Sharma ji to give the EBITDA loss for FY16 and FY15?
- Saurabh Mittal:** We want the traction to happen quicker but we are talking about two to three years to see meaningful traction on the engineer flooring business.
- Ashok Sharma:** And in terms of EBITDA loss this year it is 7.6 crores and last year it was 3.1 crore.
- Pratik Shah:** And sir, going forward once the capacity utilization picks up, what kind of margins could we expect or you think is possible?
- Saurabh Mittal:** In which business.
- Pratik Shah:** Flooring business.
- Saurabh Mittal:** I think all of them will operate at a similar margin point which I think could be the band of 15% to 17%. Because if you look at the national the whole veneer business we are about 16.5% to 17% band for the last financial year. I think it will be in the similar range.
- Moderator:** The next question is from the line of Druv Bhatia from AUM Advisors, please go ahead.
- Druv Bhatia:** One question was in terms of you are reaching capacity full level decorative and veneers, any ability to eventually outsource some of its production especially now that you are getting into a lower pricing segments and all?
- Saurabh Mittal:** No actually, one - we have adequate capacity; number two - in the veneer business, the outsourcing does not work up because your ability to stock the product, display the product correctly manufacturing becomes a challenge and we have enough capacity currently so I think we rather run our own manufacturing plant, maintain our quality standards and service the customers better rather than outsource.
- Druv Bhatia:** As you go forward is that something you are looking to consider or this is just not the practice you think that works.
- Saurabh Mittal:** At the moment as we talk, I am not sure how this will pan out in the future but as we talk currently we are completely focused on getting this running and as you see the veneer business, we still had about 40% to 45% utilization, there is adequate opportunity to maximize our additional investments right now.
- Druv Bhatia:** And that is the same for your laminates as well right.
- Saurabh Mittal:** Even laminates because if we expand in our own plant, the incremental operating profits are far higher than if I have to go and outsource or run somebody else's plant, most of the deco

papers are imported, so handling logistics, quality standards and in laminates at the manufacturing level, we are far more efficient than the unorganized players is because they have unfair commercial practices that they become cheaper, so if unorganized of a smaller manufacturer has to produce laminates based on our specifications, it is more expensive than us.

Druv Bhatia: Okay, the second question was in terms of your growth, how much would ascribe to increase in market share, is it just that kind of growing because the industry, you mentioned earlier that Maharashtra was your biggest state, any changes you are seeing, your competitive kind of power become better or worse in the last one year?

Saurabh Mittal: Largely we have heard from the market that most of the unorganized players have been de-grown or have been flatish last year because of the challenging real estate construction scenario in the country, where some tier 2 markets have grown. So tough to give you a number which will make sense that how much our market shares increased or declined, so I think it will just be a guess so rather not say that right now.

Moderator: We have the next question from the line of Achint Bhagat from Ambit Capital, please go ahead.

Achint Bhagat: Sir, I just want to know and understand what is the traction in the compact laminates business, which is the Sturdo business, so what is the sales there and have you been able to get any institutional arts contracts here.

Saurabh Mittal: See in compact business, we have been focused on improving our cubical which is the Sturdo and the Clad business, so last year if we see the entire compact business of domestic which will include façade laminates, a Sturdo business in a somewhat compact through OEMs and fabricators it has grown by about 20 to 22 crores in value nearly in percent the base is so small, has no meaning but is about 45% to 50% of topline growth.

Achint Bhagat: Okay and sir this also is a part of your laminate business, right?

Saurabh Mittal: It is part of the laminate business because it is the same factory and it is a laminate product.

Achint Bhagat: And the capacity is also fungible, so the plant which manufactures your normal laminate can manufacture this also is it?

Saurabh Mittal: The plant is designed in a way that it can produce 4x8 laminate 6 x 12 feet and we have a 4.25 x 10 feet product from which we do compacts and some section of the laminates for a specific application.

Achint Bhagat: Basically what I was trying to get at is that what is the full potential that this business can reach because if let's say you are able to get a few large institutional contracts then this I mean

from a contract basis can be a large business right, so what I am trying to get a sense of how large can this business be if you are able to crack a few institutional clients.

Saurabh Mittal: Well right now the compact business for us domestic exports put together is about 125 and 130 crores and how large can it get? The endeavor may get large so we have capacity in the compact business to service the compact market. We are not looking in adding compact capacity at least for the next year or year and a half.

Achint Bhagat: Okay and in terms of your dealer count sir for engineered flooring and engineered doors, what is the dealer count right now compared to what it was let say 6 months back?

Saurabh Mittal: Dealer count, I don't have the right now. I think the flooring direct dealers count would be in the band of 100 to 125. Far more retailers but for direct dealers I will have Ashok give you an updated data on that.

Achint Bhagat: Okay and the margin and credit terms in this business is similar to your laminate business?

Saurabh Mittal: So on the engineered flooring business, it is literally a no credit model. We are not throwing any credit in the market. Margins rise as we expand utilization, I think it will be similar to a veneer business and even in the door business because we are doing door sets, door sets create some more values. So I think all the decorative wood is the light category for us, decorative veneers, engineer wood floors, engineered doors and frames, I think they are all at a similar margin point as a fair level of utilization.

Achint Bhagat: No Sir, my question was on the dealer side, the margin that was given to the dealers.

Saurabh Mittal: Sorry, so direct dealers would be similar, it is about 10-12% direct dealers. But the laminate business is more of a distribution model. The distributors have about 10% odd gross margin. So here there are direct dealers and they would have about 10-12% gross margins.

Achint Bhagat: Okay and last question on this sir, what is the installation ecosystem in terms of who goes and install this? Is it the dealer's responsibility or you have your staff which will go and implement this in terms of installing the wooden flooring?

Saurabh Mittal: Yeah so we have trained installers in most of the cities and installation have been happening in the country for couple of years because imported products were already coming in to the country. But the responsibility is through the dealers. The dealers sell the product and they outsource installing through a third party but we supervise installation. We provide materials for the underlay and also matching accessories so that direct-product program the floor, the accessories which is the scudding profiles and underlay supplied by us, dealer outsources the installation but it is his responsibility and we supervise it.

Achint Bhagat: Okay, why I was asking this is that if you have to scale this business up in the smaller cities, how easy or difficult will it be, so you will have to get your installation team, let us say in the smaller Tier-2 Tier-3 cities also, if you were to scale this business up at a later date.

Saurabh Mittal: Yes, we are not expecting much challenges on that front I think we will be have the bandwidth to train more people and also there are already trained people available in market because laminate flooring and engineered wood flooring and sun wood flooring have been getting installed in the country for the last 10-15 years.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings, please go ahead.

Bhavin Chheda: Few questions, one you guided laminates volume to be around 10%-odd growth for FY-17, so what could have been in FY-16 and the other thing what was the industry number and are you growing in line with industry taking away market share or how the data that happening?

Saurabh Mittal: So far FY-17 Bhavin we are saying we have been at a consol level we should be about 12-15% kind of a top line growth. We have about 12-15% more capacity to utilize, so I think quantity growth will be probably in the band of may be 6-7% kind of a figure this year. On whether we are growing more than industry or in line, we do not have quantitative industry data but I think in value terms we are probably growing on an average more than industry. Quantity, I think last year industry probably was slightly short overall probably de-grew. So I guess we are probably growing slightly more than industry but I do not have a correct data to tell you very confidently that this is what we are doing. On last year's growth I will have Ashok to give the number.

Ashok Sharma Yeah in terms of laminate the volume growth is around 5%.

Bhavin Chheda: Sir, so basically our growth in volume is mainly happening due to increase in product categories or SKUs or shifting to higher value segment that is how we have been able to get a volume growth and as well as value growth right?

Saurabh Mittal: I think combination of both Bhavin, so value growth yes because we have got some new products, we have got some premium products but at the same time we did an expansion in September-October we also meaningfully entered in the 0.8 laminates where also we are in the midst of expanding the distribution network PAN India. So I think it is a combination of mid-price as well as value growth. I think it is a combination of both and that is how it is going to move in the future. So when we add capacity we cannot miss out on the volume market which typically now the 0.8 mm category in the domestic market so I think it is going to be a combination of both. So we will be driving the value mix which is texture products, high gloss products, compact products, but we will also be expanding network to reach the 0.8 mm category. So I think it will be a combination of the value mix growth and the volume mix growth for the future.

- Bhavin Chheda:** And for FY-17 it would be just a maintenance CAPEX right?
- Saurabh Mittal:** It will be maintenance CAPEX, some optimization, some spillover CAPEX of last financial year so we are estimating CAPEX to be about 25-30 crores. There will be some stainless steel molds we need to introduce for the laminates business for all of that put together.
- Bhavin Chheda:** And the EBITDA loss you mentioned was just engineered flooring or engineered flooring and door, you said 7.3 crores in FY-16 versus 3.1.
- Saurabh Mittal:** Engineered floor and door put together the EBITDA loss was about 10.2 crores.
- Ashok Sharma:** So in the doors it was 2.6.
- Bhavin Chheda:** Versus last year?
- Ashok Sharma:** It was started in September only so last year door was nothing and the flooring it was 3.1.
- Saurabh Mittal:** So 10.2 versus 3.1 that is the comparison.
- Bhavin Chheda:** This year these both segments should be EBITDA, PBT positive right.
- Saurabh Mittal:** May be not so, I think the endeavor is to do it but I think we will probably reduce the EBITDA loss. FY-18 should be EBITDA positive.
- Moderator:** This is the follow up question from the line of Sagar Karkhanis from Nirmal Bang, please go ahead.
- Sagar Karkhanis:** Sir currently we are doing around 3 million sheets run rate in laminates for a quarter, so since we have already utilized this level, by how much time do you think we would be able to do it let say 5 to 6 million sheets quarterly run rate and what would be the CAPEX required for that?
- Saurabh Mittal:** Sir right now we are like Ashok mentioned about in quarter 4 we are at 99- 100% utilization and we have potential to expand utilization by about 14% to 15%, so I think first focus will be to get this going correctly before we add more capacity.
- Sagar Karkhanis:** But do you think it is possible in the near future let say in the next 2 to 3 or may be 3 to 4 years to do a 5 to 6 million sheets quarterly run rate?
- Saurabh Mittal:** Well I think it is an ambitious figure which you are talking about so I think we should be looking at 7% to 8% kind of quantity growth and 12% to 15% of a top-line growth so it is possible to do and manufacture but challenge is to sell it and maintain your cash flow and price points, so capacity creation, capacity utilization is not a problem, challenge is to build the front-end, so I think safely we should take 7% to 8% kind of a quantity growth year-on-year.

- Sagar Karkhanis:** And sir, if we want to add let say 1 million sheet a month capacity, what will be the CAPEX requirement, let say I am talking about doubling capacity from 12 to 24, so what would be your CAPEX requirement?
- Saurabh Mittal:** We are saying that currently from 12 million capacity we can have nearly 40% to 50% more capacity in our existing manufacturing plants. We have space and plan to do that, so there the CAPEX could be low but if you talk of doubling and probably we need to relook at the whole model may be a new plant.
- Sagar Karkhanis:** Right so let say like a Brownfield where we are adding 50% capacity, what would be the CAPEX for that?
- Saurabh Mittal:** Per 1 million line broadly plus-minus it should be about 20 to 25 crores of a figure.
- Sagar Karkhanis:** Okay, so if you want to do 6 million, it will be around 150 crores of CAPEX.
- Saurabh Mittal:** 6 x 20crores.
- Sagar Karkhanis:** Sure, and secondly sir in terms of generally for these tiles and ceramics player, Kerala is a very large state, so for us, how is Kerala just wanted to understand if there is a growth potential?
- Saurabh Mittal:** Kerala is an important market for us also, I think last year Kerala alone we must have done about I think 45 to 50 crores kind of a sales last year.
- Moderator:** The next question is from the line of Baidak Sarkar from Unifi Capital, please go ahead.
- Baidik Sarkar:** Sir just want to understand as far as your door segment is concerned, will growth there be a function of your marketing efforts or will it be a function of pure market pull and what you are seeing in the field today?
- Saurabh Mittal:** I think I have a combination of both because we are offering a finished product and it has to be installed on the side so I think it is going to be effort of marketing, trading demand. It is training the concept to the market and also it will be a pull because builders and developers want to finish their projects on time, it is a hassle for them to outsource every single element of door from different vendors, put it up on this side, so I think it will be a combination of both actually.
- Baidik Sarkar:** So, how many units did you sell this year about 1000 to 1500?
- Saurabh Mittal:** Last year we just did a 1.1 crore sale, so if you do 1.1 crore average value of depend on door sets. It 1150 units of door sets.

Baidik Sarkar: Okay 1150 units, sir how do you see this segment growing because I mean as an absolute number obviously we are in a very-very low base, so how does the segment look like growing in the coming year?

Saurabh Mittal: Sir on an absolute number there is no base. It is a very low base. We have put up a small sales team. We are not going pan India right now. We are going to about 12 to 15 cities only. We are talking to developers, builders, architects, contractors, we are not looking at the retail sale business, the decorative door kind of a business. We are looking into institution in the door business and some residential sales business also. So we have been giving out quotes to customers, there have been a lot of inquiries and also we are doing fire rated doors in doors and now for example in Bombay it has become compulsory to use fire-rating door of 60 minutes for most of the high rise buildings. So most of the current door suppliers in the country do not practice, do not follow the norms of fire rating or any other norms actually, so we are going with a fully compliant tested product certifying by BM Trada from the UK and we are explaining to architects, to builders, developers, it is all sounding positive but it is not yet visible in the order books and on to our income statement, so if you look at worldwide how doors are produced and sold, it is done with doors and frames together. So the model is not something new, and the model is very efficient because you are capturing all the labor work, all the polish tops, all the problems at the plant and you are just installing it on the site. So as a thought process in concept I think it looks very promising and positive but to really translate that on to our income statement, on to our order book it might take some time because people have already installed old frames and they have already specified some of the products in real estate in general it is going through a difficult phase so I think in long-term it will be quite bullish, quite positive, short-term there would be some challenges.

Baidik Sarkar: Sir, installed capacity be in the doors and expressed the number of units?

Saurabh Mittal: We have put up installed capacity to about 120,000 door sets or doors in the year which can generate about, depending on the value mix of the door anything between 70 to 80 crores, to may be 90 to 100 crores, depending on the bandwidth.

Baidik Sarkar: And what would be the equivalent number be for floors?

Saurabh Mittal: So floors the capacity is about a million metered square.

Baidak Sarkar: And in terms of revenue potential?

Saurabh Mittal: Revenue potential if you take a Rs. 200 crores to Rs. 225 crores approximately.

Moderator: Ladies and gentleman, I would now like to hand the floor over to Mr. Saurabh Mittal for closing comments. Thank you and over to you Mr. Mittal.



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Saurabh Mittal: Friends, thank you so much for your time and if you still have any more queries or questions, we will be happy to address them and answer them. Have a great day, thank you so much.

Moderator: Thank you very much. Ladies and gentleman, on behalf of Greenlam Industries Limited that concludes this conference, thank you for joining us and you may now disconnect your lines.