



**“Greenlam Industries Ltd. Q2 FY-16 Earnings  
Conference Call”**

**November 5, 2015**

**MANAGEMENT: SAURABH MITTAL – MD & CEO  
ASHOK SHARMA – CFO**

**Moderator:**

Ladies and gentlemen good day and welcome to the Greenlam Industries Ltd. Q2 FY16 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on 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 remainder, 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 this 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 over the conference to Mr. Saurabh Mittal - Managing Director and Chief Executive Officer of Greenlam Industries Ltd. Thank you and over to you Mr. Mittal.

**Saurabh Mittal:**

Dear friends, a very warm welcome to you all for the Q2 Earnings Call. On the call, I am joined by Mr. Ashok Sharma who is the CFO of Greenlam industries and SGA, our investor relationship advisor. The results and presentation of the company has been uploaded on the website and I hope you had a chance to look at it. So, I will take this opportunity to give you a brief highlight of the quarter gone by.

So, in Q2, two main activities, one; we commissioned the commercial production of the engineered wood door plant, which becomes the first factory finished door plant in the country in that segment of the market. We have put up a capacity of 120,000 doors per annum and these products will be marketed under the brand Mikasa Doors and Frames. We have also commissioned the expanded capacity of laminates, where we added capacity of 20%, 2 million sheets per annum so this takes our total capacity to slightly over 12 million sheets per annum. The new capacity was added at the Himachal Plant in Nalagarh. On the business front; if you divide the discussion in 2 parts; in the domestic market the business grew at about 15% in quarter 2 over quarter 2 of previous financial year and within the domestic market growth, laminates business grew at about 11-12% and the Veneer allied business grew at about 33-34% in quarter 2. The growth in recent months has been good in the domestic market and this happened because of intensified activity on sales and marketing, new product launches, which we have done in the past and they are gaining some traction now, like the Exterior clad laminates, melamine faced chip boards; we launched a new range in the Greenlam flagship brand and in the Veneer segment, we had added teak Veneers in quarter 1 and we also added the engineered veneers in quarter 2. Mikasa flooring business although have not contributed much to the top line in quarter 2 but on ground we are gaining traction, we have several specifications which have been done by Architects and by designers for the brand, so this is broadly the performance on the domestic market front.

In the exports market, we actually de-grew in quarter 2, in dollar terms our de-growth has been about 10 odd% and in rupee term it is about 1.5% and this primarily happened due to the currency devaluation, which happened in several of our important markets like Malaysia, Thailand, Indonesia, Turkey, Mexico, Peru, Columbia and Russia, so several of our emerging countries has significant currency devaluation and customers and distributors postponed their buying and we had a significant dip in our sales in the month of August and that is why this

surprise on the de-growth in quarter 2. Things have kind of normalized now and October was a normal month for us and we do not expect significant challenge to happen from now onwards, so that is on the export front.

We were also awarded the Top Exporter award for FY14 and FY15 in the month of September by the PLEX council, so that is all the export part of the business. Overall we have been able to create the Mikasa brand in the flooring business, we have been able to improve revenues in the teak veneer segment, our marketing activities our work with trade partners, work with specifiers, work with OEM's, so I think on ground lot of work is happening in every segment of the business and we hope to see improved traction as we keep moving ahead.

So, that is broadly from my end and post these expansions which happened in quarter 2, we have now nearly completed with our original plan of Capital Expenditure, we do not see much CAPEX moving ahead and most of the product development or category creation has already been done, now the door products is out in the market, the flooring has been out in the market. The expansion in the Veneer segment with the new variants of teak and engineered veneers have also happened; the entire product portfolio in the laminates business is also in place, I think from the perspective of product development, product offerings, creating the capacities, creating the capabilities and the Capital Expenditure programs, we are towards the end of that cycle and we are on schedule with all of that and we hope to see improved traction moving ahead.

I will now hand over to Mr. Ashok to take you through the financial numbers and the data, post which we can answer your queries and feedbacks.

**Ashok Sharma:**

Welcome friends. Now I will take you through the financial performance of the company. Revenue for the quarter grew by 8% to Rs. 230.07 crores, led by good performance in the domestic market and veneer segment. Gross profit was at Rs. 102 crores, with a gross margin of 44.3%. The margin expansion of 620 basis points led by improved realization of laminate which grew by 5%, reduction in raw material prices and increase in volume of decorative veneer, which has lower raw material percentage in comparison to laminates. EBITDA for the quarter stood at Rs. 29.3 crores and margin at 12.8%. The margin expansion of 160 basis points, was despite additional overhead from the new businesses coming in this quarter. Higher interest charges this quarter at Rs. 7.5 crore was due to additional interests towards new facility. Depreciation grew by 7%, primarily on account of new facility which was added in this year. PAT for the quarter was at Rs. 9.2 crore against Rs. 10.2 crore in the same quarter previous year. Last year quarter had a lower tax charge, since we had capitalized our flooring plant in that quarter, so that had higher income tax depreciation and resulting the lower tax rate. Excluding the impact of depreciation, our cash accrual for the quarter was at Rs. 16.7 crore as against Rs. 17.24 crore in the previous year. Our domestic sales grew by nearly 15% to RS. 145 crore led by good performance of laminate and decorative veneer business.

Export revenue was subdued at Rs. 85 crores, nearly 1.5% lesser than previous year due to volatile currency scenario and unstable economic conditions in several emerging markets.

Looking at first half financial year's performance, revenue grew by 12% to Rs. 447 crore, EBITDA grew by 15% to Rs. 54 crore, EBITDA margin improved by 30 basis points to 12.1%. PAT for the period was at Rs. 15.6 crore as against Rs. 17.2 crores in H1 last year. Excluding the impact of depreciation, our cash accrual for the period was Rs. 30.7 crore as against Rs. 31.3 crore. Net debt as on 30<sup>th</sup> September stands at Rs. 278 crores and our debt to equity ratio is at 1.15 times.

Now coming to segmental performance,

Laminates and allied products were 87% of our 2<sup>nd</sup> quarter sales. In terms of laminate, this business recorded a sale of 2.97 million sheets against 2.94 million sheets, a moderate growth of 1% in this quarter. Our average realization increased by 4.9% and reached to Rs. 638 as against Rs. 608 in previous year. We achieved a production of 2.81 million sheets with a capacity utilization of 112%. Capacity addition for the 5<sup>th</sup> press at Nalagarh has happened towards the end of the quarter, so this is not been taken into account. Our international business contributed to around 45% in volume and 37% in terms of value. Compact laminate and Melamine Faced Chip boards both have continued to gain traction in OEM space. For the first half, our capacity utilization for laminate was at 113% with 5.65 million sheets produced. Our sales grew by 6% to 5.8 million sheets led by good domestic performance. Veneer and Allied products were 13% of our Q2 sales. In Veneer, sales of this quarter grew by 42% to 0.37 million square meters, while production grew by 37% to 0.36 million square meters. Average realization was lower at Rs. 732 per sheet as we have added new variant of teak and engineered veneer in this year, which are at lower price point than the natural veneer. Our capacity utilization improved to 35% as against 25%. Engineered wood flooring under the brand Mikasa has been accepted well in the market and we are able to get several specifications; however, this is yet to be reflected in terms of sales. We have clocked the sales of Rs. 5.5 crores in H1 in flooring. The business is expected to breakeven in next year.

Our engineered doors and frame unit commenced operation on 10<sup>th</sup> September under the brand Mikasa and we are in the process of setting up sales and distribution network and getting the specification done for this business.

That is all from our side. I would now like to open the floor for the question and answers.

**Moderator:** Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Baidik Sarkar of Unifi Capital. Please go ahead.

**Baidik Sarkar:** Just wanted to spend a few minutes on the engineered door segment before we move onto the financials, could you help us understand that the constitution of the boards i.e. is it a mix of veneers or particle boards and MDF, what is it actually made of; just wanted to understand the product profile a bit better?

**Saurabh Mittal:** The doors we are doing in terms of raw materials has special grade of particle board, which is called tubular core and a solid core particle board. It has solid wood lipping's, it has veneers, it

could have laminates, it could have some solid wood and engineered wood for the frames and architraves and it could at times also have thin layers of MDF. So, it is a combination of particle boards, MDF, laminates, veneers and decorative solid wood and engineered wood. All of this would go into the door, based on the specification of the door.

**Baidik Sarkar:** So, basically it is through the entire value chain. What does the comparative scenario look like, I think you indicated this on the earlier call that your price points would be in the range of Rs. 10,000 per door; is this approximate pricing range we are looking at?

**Saurabh Mittal:** Well that is the pricing range we are looking at currently, keeping in the mix of, when you do door sets which is a combination of doors and frames and at times you will only be able to do door leaves, which are just veneers or laminates and most of the door without the frames, so that is the kind of matrix we have created which gives us output of Rs. 10,000 approximately per door which leads to about Rs. 100 crore; kind of a revenue annually.

**Baidik Sarkar:** Okay and what does the competitive scenario look like, I understand you may be the only person in the organized sector with manufacturing capability. With the different channel cycles, it looks like there is a lot of trading happening here, I think lot of imports from South East Asia, so just some color on how the competitive scenario looks like?

**Saurabh Mittal:** So the broad market obviously is far larger rather, if you would add all variants of doors been produced and sold in a market. The market we are trying to address is the finished door market where we finish the door with the specification of the customer at the factory and it is just fitted out on the site. So, currently in that segment, there is literally no producer, or rather I would say, no organized producer in that segment. Yes, you are absolutely right, there are some imports coming in from; parts of Europe and South East Asia. So currently we are still very new in the business, just been a month or half approximately, a month in the market but the initial feedback, response is quite positive but it is a slow work, you need to get specifications, site has to be ready for the installations, etc. So, on a macro sense, what we are trying to do is, not fully a new product, we are just improving the way the businesses is done because shortage of labor across the site of fitting out the doors, quality of the finish, on site v/s a factory finished doors, it is just a better way of doing the product and what we are saying is door instead of a utility becomes a furniture item. So from a comparative stand point, I think we are in a pretty good spot because in the same plant we do the Veneers, we do flooring, we do laminates, so the access to more number of SKUs, more number of opportunities or options the customer has; is quite high.

**Baidik Sarkar:** And you have to work around and build a brand new distribution channel for this or is it very similar to your existing channel?

**Saurabh Mittal:** No, so the channels typically which we are looking at in the door business are not mostly just the traders, so here the channel would be partly for our existing channel partners and the newer ones who would be great at savior, but the model is more of the supply; an installed model. So, we are going to ask our channel to also work on the installation part of it, so it is bit of a

slightly different from what we do currently but essential the number of people are same, the quality of people are same but the approach to the market is slightly different from our laminates and the veneer business which is just a supply model.

**Baidik Sarkar:** And what would the approximate margin profile of the segment be? I am just trying to understand, what your margin profile for this might look like.

**Saurabh Mittal:** Right now, it is quite early but I think it will be similar to what we are doing; something in the range of 13%, 15%. It depends; but if you sell more door sets, it will be higher but currently I think you look at a 13%, 15% kind of a profile.

**Baidik Sarkar:** And the working capital, kind of characteristics; would that be similar to existing business or slightly different?

**Saurabh Mittal:** Well, it could be better than what we are doing in currently because here you are making profit, you need to order and it is not made to stock and you will not be offering credit in the market you know, you need to customize doors, you take advance from customers before you start producing, then you take the balance money from goods arrivals, so after a certain point, I think it should be better than the existing business.

**Baidik Sarkar:** So, what would be the realistic ramp up for this new segment look like, for instance, in H2 how many units you can do realistically and be able to sell?

**Saurabh Mittal:** I do not think we will be able to do much in this second half of the year, I think right now with the samples with the product we are going to customers and Architects to get specifications. So I think we should see some decent volume coming in next financial year. So, this year, we do not think we will get a very big number, it could be in the range of Rs. 5 crores, of sale in H2 of this financial year.

**Baidik Sarkar:** Just question to Sharmaji, so what were the incremental depreciation and interest cost looks like, given the new capacities that have come into stream; both in the laminates as well as the wooden doors facilities?

**Ashok Sharma:** In this quarter, we have added only the Nalagarh capacity and the doors, so , this will be primarily coming from the next quarter.

**Baidik Sarkar:** Then how much is it sir, incrementally, just a sense, or probably, I can take that offline if you do not have the number?

**Ashok Sharma:** Yes.

**Baidik Sarkar:** Just moving on to the financial, phenomenal gross margin expansion, how much of it can be retained and how do you see the margins spanning out in the next couple of quarters?

**Saurabh Mittal:** I think on the margin front, we should be able to sustain this and the expansion like Ashok mentioned in his overview, so the price realization improved in the domestic laminates because of new product launches and improvement in the compact business, there has been reduction on raw material cost and the Veneer business has also done well, where RM as a percent is lower than the laminates business. And as we move ahead with the expanded capacity of the new plant with the 20% expansion, we should be able to retain this number.

**Baidik Sarkar:** So basically, your average is; I think you are at 43%, it is a gross margin for H1, and so it is realistic to maintain that for H2 as well?

**Saurabh Mittal:** I think we could say that, yes.

**Baidik Sarkar:** So what does the overall growth outlook look like, for H2 as well as FY 17, would you think as a base case, very conservative growth that you can aim to achieve?

**Saurabh Mittal:** So, if you would say, I think for the year we are looking at about let us say, 15% odd kind of a top line growth, H1 has done about 13%, 13.5% kind of a figure and the seeing new capacities additions which we did in September, it is laminates; the door will still take time to bring it on the income statement. But with the laminates expansion, new variants of the Veneer's launch in Quarter 1, Quarter 2 and some traction in the domestic laminates on couple of more products, so I think we should be in that range of 15% or slightly lower, I think should be at that figure. So FY 17, I think maybe we will look at another 15% kind of a growth.

**Moderator:** We have the next question from the line of Nehal Shah from Antique Stock Broking, please go ahead.

**Nehal Shah:** Couple of things; just on margins, like laminate margins have seen very strong expansion, what do you really attribute this to and what are the margins you are looking at over the next say couple of years, going forward?

**Saurabh Mittal:** Couple of years, if you see right now, we should be able to maintain the margins of laminates what we had in quarter 2 going ahead. And this is a combination of right value mix of sales, the compact business doing reasonably good with domestic market, the domestic business also improving, RM saving, better cost control and also we have been freed up of demerger activity, usually lot of good perfect time going to work, so I think we should be able to maintain this number, at least for the coming 2, 3 quarters. Several years, I cannot say much, but obviously our endeavor is to improve our business, improve the margins and improve cash flows and improve top line, so yes we are constantly added to improve the performance.

**Nehal Shah:** And second thing is; what would be the distribution network for doors and for veneers and engineered flooring and where do you see it happening over the next say, 3, 4 quarters?

**Saurabh Mittal:** If you look at the engineered floor market, so we are not going Pan India to every other town to serve the network, we are focusing on creating the network, activating the network in let us say, the top 35, 40 town, cities currently. And we are working strongly on creating

specifications for the floor with the architects, designers, premium developers, builders, so this is the way forward in moving on the flooring business. We are not going to smaller towns and just creating the network for the sake of creating numbers, in terms of number of dealers. , we are focusing on the 35, 40 towns, cities, and we are focusing with the premium builders, developers and the architect specifiers. So that is the strategy on the flooring business and on the door business too, with the capacity we have created, we are not going Pan India, currently we are looking at going to cross the 12 to 15 top towns and cities to gain, you know, creating the network, the network would be a dealer who has stocked very few doors but work with us on the installations and on creating demand. And our team will also work with specifiers Architects, builders, developers and designers. So for both the categories, we are having a focused approach in terms of creating network, activating network, offering better installation services in the market and focusing in creating demand with influences through specifications. So this is the way forward for us in both the businesses.

**Moderator:** Thank you very much. We have the next question from the line of Anshuman Atri from Espirito Santo, please go ahead.

**Anshuman Atri:** My question is pertaining to the engineered doors; during my interaction I got to know that there is still lot of work needed to be done on acceptance in that B2B market for these doors. So can you throw some light and as to what is company doing for the acceptance?

**Saurabh Mittal:** Well number 1, we have just started as you know and we are not addressing Pan India for the door market, door market is relatively large; it is about Rs. 5000 crores odd Pan India and we are focusing like I just said to Nehal on the call earlier, that we are focusing on the top 12, 15, towns, cities and focusing on specifications and specific Architect, Designers and Builders, so I think what you said is like a dichotomy, so in one view you are right; the acceptance of the factory finished doors with the tubular core or with the solid core particle board is still low on the country. On the other side, there are imports coming into the country of the same specification, coming at far higher prices than what we are pitching for. So, I think we will take this as it comes through, we are not taking any one big bang and approach to educate the market on this product because we are not going Pan, we are not going to every carpenter, every dealer to sell this door right now. Our capacity is small and we are focusing on few markets and with the architects and builders in those markets. So this is our approach currently.

**Anshuman Atri:** And the second question is on the laminates, so as the domestic laminate is putting healthy growth whereas the plywood market is not able to post similar results, so is the laminate penetration increasing or how; I would like to understand why is there so much difference in terms of the growth of plywood v/s laminates?

**Saurabh Mittal:** We do not give you plywood number.

**Anshuman Atri:** I have looked at the results of your competitors, other companies like Greenply and Century.



**Saurabh Mittal:** Okay, so if you see laminates; our domestic business grew at 11%, couple of factors; one is obviously our increased focus on the laminates market in the domestic space. Number 2, as I said earlier, we have launched a couple of new products like the bathroom partition, the toilet cubicle system, we have launched exterior grade compact laminates couple of quarters ago and those segments are looking very promising. So, in laminates, 2 things happening; the growth is coming not only from the existing market, we are also creating new categories or new markets, where the categories are expanding, so like a façade laminate market, which never existed a couple of years ago, it is opening up to use Exterior grade compact laminates on the façade. The bathroom partition market is also very small market, just 2 players in the country. So I think that market is also expanding a bit and then we have launched a new range in a flagship brand, Greenlam; so that has also aided sales. I think it is a combination of new products, new deco papers launched and our intensified focus on the domestic market.

**Anshuman Atri:** So these are something like readymade lockers and other things; that falls under this?

**Saurabh Mittal:** Yes. So for laminates; the locker compact boards, the bathroom cubicle system, all come under the laminates and allied segment for us.

**Anshuman Atri:** So these innovations are driving growth much higher than what the plain Veneer or plywood market is?

**Saurabh Mittal:** Well I would say, yes. The piece is smaller, so that segment is also growing while this is also expanding.

**Moderator:** Thank you very much. The next question from the line of Pratik Shah from Antique Stock Broking, please go ahead.

**Pratik Shah:** I just wanted to get a sense of how you see the Engineered Wood Flooring market scaling up and is the product being accepted as you guys had expected it to be?

**Saurabh Mittal:** So, if you see the wood flooring market, you know the market is about million and a half to two million meter square and in the range of Rs. 500 crores to Rs. 600 crores of value, so on our numbers again, it is not reflected, so one could say, it is not picking up to the way we expected it to come but on the specification part, like without taking names, we have had some really good specifications and few have converted to business and we will hopefully see a better Quarter 3 on that part. So I think the market is there, there is a significant possibility of or opportunity of imports being replaced with us and that is happening also. So, I think, it is a slow ball, you need to create the specifications, the designs has to be in place, so when we enter the market, probably the Projects already had a specification of foreign brands like Pergo or those guys and now when we are going to Architects, they are willing to look at our products and they are willing to use us for next time when it comes across, so maybe it has not reflected on the income statement but I think it will improve. We are quite positive.

- Moderator:** Thank you very much. The next question from the line of Bhavin Chheda from Enam Holdings, please go ahead.
- Bhavin Chheda:** This quarter saw the exports declining 2% YoY to Rs. 85 crores; any specific reasons for exports not growing?
- Saurabh Mittal:** Yes, Bhavin, there is a specific reason; so like I said earlier on the call, several markets we are exporting to, their currencies de-valued against the dollar, like Malaysia, Thailand, Indonesia, Turkey you know, few South American markets like Columbia, Peru, Mexico; so these are markets where we have regular exports into and in the month of July and August, these markets had significant depreciation of the currencies against dollar and people postponed their buying of laminates till the situation kind of stabilize, I think we lost out on sales because of currency devaluation, otherwise there is no challenge in the business, business is going pretty okay, so that is the reason why it slipped, actually.
- Bhavin Chheda:** Other thing; during this quarter, how much new product sale was and how much was the operating and PBT loss on those products.
- Ashok Sharma:** Hi Bhavin. This quarter EBITDA loss was Rs. 141 lakhs from floors and doors and on PBT level, it was Rs. 516 crores.
- Bhavin Chheda:** And any top line, they contributed?
- Ashok Sharma:** Yes. Rs. 3.02 crores.
- Bhavin Chheda:** This is mainly floors, right?
- Ashok Sharma:** Yes, this is mainly floors because doors has started only towards the mid of the September; this is for the quarter.
- Bhavin Chheda:** And this, Melamine faced chipboards; this has already started, right?
- Ashok Sharma:** The business started last year itself but we are not taking this as a separate segment because this is mainly there to support the laminates' sales. So this is clubbed under laminates.
- Bhavin Chheda:** And when do you think; these floors and doors would breakeven, by what utilization levels or any guidance on..?
- Saurabh Mittal:** I think like Ashok already mentioned that in the speech. Flooring business we are expecting , hopefully to breakeven next financial year and at about 25% kind of a utilization, we would breakeven that business. And the door business, really small, I think, that could be the year after the next, so FY18 I think it should breakeven on the door business also.
- Bhavin Chheda:** Door will be FY 18?

- Saurabh Mittal:** Yes and flooring will be FY 17.
- Bhavin Chheda:** And since now, this CAPEX in all these 3 segments are almost like complete, so anything now would be a routine CAPEX or how the CAPEX run rate would be now?
- Saurabh Mittal:** So, some CAPEX is pending which are meant for this projects which will get capitalized, otherwise as you talk right now, if you take next 12 to 18 months view, it is only going to be routine CAPEX.
- Bhavin Chheda:** And what would be the laminates volume guidance, since you have increased your capacity by 2 million, how much the market is growing and what would be your expectation of growth in volumes?
- Saurabh Mittal:** Market growing; I cannot say much you know, but I think like you said, we expanded capacity by 20%, so we should look at our growth of; 7% to 8% kind of a growth in quantity terms, on the value terms could be slightly better because of possibility of new products improved sales.
- Moderator:** Thank you very much. The next question from the line of Bhavesh Jain from Envision Capital, please go ahead.
- Bhavesh Jain:** Can we get the EBITDA and PBT loss for H1 on the new products?
- Ashok Sharma:** Revenue was Rs. 5.3 crores, EBITDA loss was Rs. 2.3 crores and PBT loss was Rs. 9.7 crores.
- Bhavesh Jain:** And Sir, can we get the revenue from our Compact Laminates and MFU chipboards?
- Ashok Sharma:** I will get that and send it to you.
- Bhavesh Jain:** And Sir, what will be our addressable markets in engineered doors because in annual report, you have mentioned that the market size is Rs. 6,000 crores, but what will be our addressable market in that?
- Saurabh Mittal:** So there are imports coming into the country of the same product. Then there is a **plenty** of builder wanting that product, so I am not sure that we can put a figure to it right now, but the worldwide door is used the way we are trying to do it. So it is produce in a factory and just fit it on the site but in India the entire door in fabricated on the site, so I am not sure I can put figure to that addressable market but the markets is significant and we are not really trying to do something very new. Worldwide this is how the way door is produced and used.
- Bhavesh Jain:** And sir is there any export opportunity for our wood flooring, can we export it?
- Saurabh Mittal:** Well we had some small exports so, there is a possibility primarily into Middle East and even the door business probably we will look at a small export opportunity but nothing very significant and not be in a scale and size of the laminates business, but yes in few markets

where there level playing field where there are not enough manufacturers we have an opportunity, we will be looking at exports for flooring and doors.

**Bhavesh Jain:** And what will be the price difference between imported products and our product in wood flooring and engineered doors in India?

**Saurabh Mittal:** In India on the doors it is still a bit confusing so you will have people at prices higher than us by several times, I still cannot give you a very definitive feedback on that it is just up in the air. On the floor, the European producers would be similar priced to us while the South Asian players would be 15-20% lower than us.

**Bhavesh Jain:** And sir what will be our tax rate guidance for the full year?

**Ashok Sharma:** We are at the normal tax rate only.

**Moderator:** Thank you very much. The next question is from the line of Chirag Setalvad from HDFC. Please go ahead.

**Chirag Setalvad:** Few questions, one was on the flooring business you mentioned that you expect there to be breaking even next year, so if you could just help us understand what kind of revenue and this is breakeven at PBT level or at EBITDA level?

**Saurabh Mittal:** If we look at FY17, I think we were talking about breakeven at the PBT level Chirag, so like I said at approximately 25% in a capacity utilization depending on the pricing and the mix of orders this could be 20-25% or slightly higher but say at about Rs. 50-60 odd crore kind of topline we should breakeven in the flooring business at the PBT level Chirag.

**Chirag Setalvad:** And what would be your expectation of doors for next year, I know it is still very early?

**Saurabh Mittal:** Realistically I think on the topline doors next year we could look at a Rs. 20-25 crores kind of a topline number.

**Chirag Setalvad:** And at that level what kind of profitability can one expect?

**Saurabh Mittal:** I think since the investments are small, the expense addition, the team size and sales is still very small, so I think probably still lose money at the PBT level. We might just be at the EBITDA breakeven or just minor loss at the EBITDA level Chirag. A right figure to give you will be Rs. 2 or 3 crore loss but I can come back to you on the estimated figure for that Chirag.

**Chirag Setalvad:** And sir in flooring business at 25% and Rs. 50 crore revenue, what kind of EBITDA would you expect, you mentioned that at PBT breakeven but on this Rs. 50 crores, what kind of EBITDA would you expect?

**Saurabh Mittal:** I think we should be at this level depending on again the order mix or price point we look at a 15-18% kind of operating profit.

- Moderator:** Thank you very much. The next question is from the line of Vijay Karpe from Zen Advisors. Please go ahead.
- Vijay Karpe:** I had visited the Acetech exhibition of Greenlam and the employees were also very nice, the juniors as well as the seniors. My first question is, you have mentioned earlier that for the future expansions you will be requiring less capital, right? Suppose you want to take capacity of your flooring business from 1 million meter square to suppose 1.5, what will be the amount of capital which will be required?
- Saurabh Mittal:** So, if you look at the flooring business right now we still take couple of years maybe like a 4-year horizon to achieve 1 million meter square, so if we at that point have to expand capacity from 1 to 1.5, so we would probably need to expand our production line and I will have some storage in place. It is going to be very small I do not know the right figure right now but it is going to be, it is not going to be 50% more CAPEX that we did, it probably will be a very small figure.
- Vijay Karpe:** Will it be less than Rs. 50 crores, for 100% it was 100, so should I assume this will be less?
- Saurabh Mittal:** Yes, for sure it will be less than Rs. 50 crores.
- Vijay Karpe:** Okay. The second question is the repayment for FY17 is I think 2x repayment which we will be making in FY16, which is Rs. 90-odd crores, so are you confident of making that payment?
- Saurabh Mittal:** I think you have some wrong numbers.
- Ashok Sharma:** What repayment you are talking about Vijay?
- Vijay Karpe:** The repayment schedule which has been mentioned in your annual report it says Rs. 91.59 crores for FY17.
- Ashok Sharma:** I think we need to check that, our repayment are in the range of Rs. 30-35 crores, probably you can check offline and then can discuss with you. Our repayments schedule Rs. 30 crores to Rs. 35 crores every year.
- Vijay Karpe:** I am not talking about FY16, I am talking about FY17.
- Ashok Sharma:** That is what I am telling; not even for FY17, for future year also, because that is how it has been planned. So it is in the range of Rs. 30 crores to Rs. 35 crores, I will discuss with you and then see that probably there can be some miscommunication.
- Vijay Karpe:** So you can refer to Page #151 for that repayment schedule of your annual report and my third question is; what will be your FY17 full year depreciation and finance cost?
- Ashok Sharma:** Depreciation will be in the range of around Rs. 35 crores.

- Vijay Karpe:** And finance cost?
- Ashok Sharma:** Finance cost will be around Rs. 32 crores to Rs. 33 crores.
- Vijay Karpe:** And this is for FY17, right?
- Ashok Sharma:** Yes.
- Vijay Karpe:** And my next question is for Mr. Saurabh; Sir as I asked you earlier, in the analyst meet as well, you had told me that your marketing is more focused on the Architects and the Dealers, right? So for the benefit of the company, do you not think that we should be doing at least a few TV advertisements?
- Saurabh Mittal:** No, actually we do not think we should be doing TV ad because we have to, you know, the budgets we have for the size of business and the kind of products we are into, so right now we are focused on the BTL level in terms of displays and working with the great partners and working with OEMs, which are furniture fabricators, Architect, and Designers. We are going to rightly use our advertisement promotional strength, that focus in the direct customers' influences currently, so right now we are not going to do any TV ad, etc.
- Vijay Karpe:** In FY17?
- Saurabh Mittal:** Well I cannot say for FY17 right now, but at this moment if I take a 6 months' visibility, we are not looking at TV ad, I am not sure on that, I have to talk to the marketing guys and come back to you on that
- Vijay Karpe:** Because that is why I got scared, when lots of advertisements on Century Ply on TV and as well as....
- Saurabh Mittal:** Laminates they are not advertising. It is more Plywood.
- Vijay Karpe:** In the laminates as well.
- Saurabh Mittal:** It is a very small burst, so we have also been doing that so it is fine. We don't see it a lot of but it is a very small burst.
- Vijay Karpe:** And the fifth question is; that I had visited your Actech Exhibition; over there I got some inputs, like your engineered doors are sold on order basis, right?
- Saurabh Mittal:** Yes, against orders.
- Vijay Karpe:** Would you not like to go through the dealer route over there selling your doors?
- Saurabh Mittal:** No, so when you say against orders like all the door business in the country there is no Pan India dimension of doors. There in every market, every development, every building has a

separate door size. So we will be going through the channel only. The channel may not stock standard doors, they might stock a bit, in the initial phase they cannot stock. It could just be customized orders that we produce and ship it but dealers would still be involved and he will be focused on installation and doing the post-sales services also. And since we are doing both the laminates and the veneers, so it is even more customized than the traditional door where you just had a bare door and people use our laminates and veneers on the site.

**Moderator:** Thank you very much. The next question is from the line of Kaushik Krishnan from Emkay Global. Please go ahead.

**Kaushik Krishnan:** My question pertains to the domestic market; now that your business has grown by 11% in this laminates business, specific to the laminates, I want to understand; what is the opportunity like in your domestic market in the decorative segment?

**Saurabh Mittal:** Are we talking of laminates?

**Kaushik Krishnan:** Yes.

**Saurabh Mittal:** There is opportunity. The opportunity is on doing more laminates sheets and there are also possibilities of expanding the category in the compact laminate segment which comprises of façade laminates which you call the “Clads” and the bathroom and the locker partition segment. So in both the segments there is opportunity to grow up the business. Though it is not really growing at a fast pace, but there is a significant unorganized segment in the domestic laminate space which we can take on and with increased focus on new products and with Architectures’ specifications we are looking at a lot of demand pull being created for our products.

**Kaushik Krishnan:** If you can give me the breakup for revenue pie, like what percentage comes from the decorative segment and now that you have launched heavily into the compact segment and what percentage comes from it?

**Saurabh Mittal:** We do not give the breakup right now, we just classify all the products in laminates and allied. I do not know what will be in the decorative, so all laminates are decorative by nature. So when you say laminates so laminates and compact Melamine faced chipboards; all these categories will park under laminates and the allied category.

**Kaushik Krishnan:** Because some of the other companies, they do report a decorative segment and compact segment and the metallic segment, so that is what I was coming from to understand?

**Saurabh Mittal:** We do report, if you see the way we report we have laminates as one and in Veneers, we can classify decorative veneers and doors and floor separate segment, so if the data is meaningful we do report but metallic and all is a very small part so you can end up reporting lot. It may not be consequential to you guys as such.

- Kaushik Krishnan:** Also I want to understand your export mechanism; where you get orders. What is the process of winning orders in the export market? How does it happen if you can just throw some light on that?
- Saurabh Mittal:** We work with International distributors and we have a sales team based out of India office and we have a couple of subsidiaries and they market and distribute the products, so you get orders, you produce, you ship them, and you bill them.
- Ashok Sharma:** To put in this way it works in the similar manner like it works in India, there also we work with the distribution network and with the specification only. It is almost with similar, how we do in India.
- Moderator:** Thank you very much. The next question is from the line of Sameer Tulshan from JM Financial. Please go ahead.
- Sameer Tulshan:** Just 2 small questions; one if you see the raw material cost, this quarter as a percentage of sales, it seems to have fallen by 300-400 bps, so what is the reason like? Is it a benefit of commodity prices or it is more due to product mix changes?
- Ashok Sharma:** So Sameer, since you are calculating or comparing with the previous year, yes obviously that is one of the reasons but if you compare with the quarter 1 with quarter 2 then it is a difference from 58.3 to 55.7, so as we mentioned in this, the reasons are one is the commodity prices, the chemical prices have come down and other is that with the increase in the veneer, where the raw material percentage is lesser in comparison to laminate and another is laminate price because of value addition also has grown so the combination of all.
- Sameer Tulshan:** Are we trying to take any price hikes in coming quarter in any of the segments?
- Saurabh Mittal:** No, not fairly actually. Nothing of any significance..
- Sameer Tulshan:** Or any price pressures in the market with the related slowdown, so competitive pressures might be there to bring the prices down?
- Saurabh Mittal:** Again I would say not that consequential.
- Moderator:** Thank you very much. At this moment we have a follow up question form line of Baidik Sarkar. Please go ahead.
- Baidik Sarkar:** Just wanted to understand the constituents of the wooden flooring as well, are there primarily veneers or is there an element of particle boards or any other material in that?
- Saurabh Mittal:** So, in the wood flooring segment we have 3 product categories; one is the main product which is the 15 mm thick product. Then there is a 13 mm and then there is a 10 mm. The top layer is solid wood, decorative wood, which is a 3 mm decorative wood or a 2 mm or a 0.6 veneer. The center layer is a form of wood which is in a horizontal format, typically would be a pine wood.



In the 10 mm product, it is a HDF and then you have a balancing there. So, the engineered wood flooring there is a 3-layered product, top layer is decorative wood or decorative veneer the center layer is pine wood or high-density fiber wood and lower layer is balancing veneer

**Baidik Sarkar:** So, basically the 15 mm would include combination of balancing veneers, top layer decorative wood, and pine wood. And at the bottom category which is a 10 mm would just include the center wood and?

**Saurabh Mittal:** 0.6 veneer on the top and a balancing veneer. All the 3 products are of 3 layered products.

**Baidik Sarkar:** Just coming to your financials, your employee costs in H1, they have registered sharp upticks, wanted to understand is that because new recruitment of sales force or any one-off there, just wanted some clarity on that?

**Ashok Sharma:** This is since we are comparing from the previous year it is mainly because the flooring was started mainly from quarter 3 of last year onwards, so one of the reasons is that. And then in this year we have segregated laminate and veneer vertical. Earlier it was one only, now we have segregated into two verticals. So, due to that reason there is slight increase but going forward this all has been sorted out, so this will normalize.

**Baidik Sarkar:** So, going forward the run rate we are seeing in H1 will more or less continue?

**Saurabh Mittal:** Yes, so the initial costs have been built in when our sales teams are in place for floorings, for doors and veneers. And since we started the two factories, so we have manpower coming for the floor and for the doors.

**Baidik Sarkar:** Sir you mentioned in reply to earlier participant that our tax rate for the entire year will be normal rate of 33%-34%, I think the provisions we made for Q2, I think is in the range of 38%, Q1 was 36%?

**Ashok Sharma:** Yes, it is mainly due to deferred taxes because since we have capitalized lot of items, so due to that only, so if you analyze that maybe our actual tax is low and deferred tax is more.

**Baidik Sarkar:** And sorry Sir, I missed this on the earlier con call, what is the normalized run rate for your CAPEX?

**Saurabh Mittal:** Normalized mostly will be applicable for next year, we talk about Rs. 8 crores to Rs. 10 crores, kind of a figure.

**Baidik Sarkar:** As far as the debt is concerned, is it fair to assume that we are at peak debt levels, given that we are behind all CAPEX programs.

**Saurabh Mittal:** Yes, you could assume that.

- Baidik Sarkar:** So going forward, given the Rs. 30 crores to Rs. 35 crores repayment tenure, the deleverage process will only get strengthened right, in the coming year?
- Saurabh Mittal:** That is our endeavor.
- Moderator:** Thank you very much. We have a follow up question from line of Bhavesh Jain from Envision Capital. Please go ahead.
- Bhavesh Jain:** Can you tell us the competitive intensity for all the laminates and decorative veneer currently?
- Saurabh Mittal:** The competition is quite intense. If I do category wise in laminates our closest competitor is also a good competitor that they are present Pan India similar product range and across every vertical. In veneers, Pan India there are one or two players who compete with us. The flooring is mostly with imports. Doors in that particular segment there is no one or two players, by and large, everything else is a competition. So, the competition is intense in our segment. There is lot of unorganized players, there is lot of unfair level playing field. So while I say that, in the organized segment, there are few odd players in the market, so it is kind of both sides. I don't know how to measure it and tell you but competition is obviously there.
- Bhavesh Jain:** What led to such good growth in this veneer segment, so how our teak veneer has performed?
- Saurabh Mittal:** In H1, we have just started teak veneer in quarter 1, so we are still in the process of building up the network. We still have not opened up the market across the country. It is happening in stages because it is a natural veneer product so sourcing the product, producing, shipping all takes time so the veneer business should do reasonably well. I think, we could maintain the growth rate we have had in H1 throughout the year. So, yes, you know but it has still not reached Pan India, it could take some time but this could grow by there.
- Bhavesh Jain:** So we are on track to achieve our guidance of doubling the revenue in next 3 years for veneer?
- Saurabh Mittal:** Yes, 3 years.
- Moderator:** Thank you very much. Sir at this moment, we have no further questions in the question queue. I can now hand the floor back to you for closing comments.
- Saurabh Mittal:** Thank you so much for attending the call and putting up the intelligent questions and feel free to get in touch with us offline, with myself and with Ashok and if any more queries, feedback, we will be happy to address them and thank you once again. Have a great evening.
- Moderator:** On behalf of Greenlam Industries Limited, that concludes this call, thank you for joining us and you may now disconnect your lines.