



“Greenlam Industries Limited
Q2 and H1 FY2019 Earnings Conference Call”

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MODERATOR: Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q2 and H1 FY2019 earnings conference call. This conference call may contain forward looking statements about the company, which are based on beliefs, 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 reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” 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: Good evening friends and a very welcome to all of you. On the call, I am joined by Mr Ashok Sharma, our CFO, Mr Samarth Agarwal, AVP, Finance and SGA, our investor relations advisor. The results and presentations are available on the stock exchanges and on our company website and I hope everyone has had a chance to look at it.

We believe the entire building material sector has been a bystander of multiple events during this quarter. The business in Kerala was impacted on account of the floods that too during the peak season of Onam. The overall domestic business remains challenging due to factors like rising crude prices, rise in monetary conditions and a weakening rupee. The transport strike in July 2018 also impacted the business to a certain extent.

On our performance, despite these headwinds, our team has delivered noteworthy performance especially in the export business. Our performance in the backdrop of these challenges were satisfactory and we grew overall by 9.6% in H1 FY2019. For the Q2 FY2019, domestic business grew by 10.7% whereas the international business reported a growth of 22.7%. For H1 FY2019, domestic business grew by 2.7% whereas the international business reported a growth of 20%.

On the business front, it is very difficult to predict the behavior in each market as every market is very different in terms of pricing, in terms of the preferences and, the per capita income. We have tried to penetrate in our existing markets and also reported healthy growth across each segment i.e. laminates, veneers, doors and floors. However, our margins are impacted due to increase in RM costs, which are linked to crude prices and are mostly being imported. Being an exporter, depreciating rupee has benefited us and has overlaid the increasing RM cost. Our prices for raw material basket are currently at the highest levels in the last six - seven quarters or last few years I would say. So prices of phenol, melamine,

methanol, Kraft paper, base plywood, all are at elevated levels, which has tightened up margins. We have continued to improve on our working capital cycle, which has further helped to enhance our efficiencies. Engineered flooring and door businesses have also grown and we expect this momentum to continue. However, the losses in this segment have widened versus last year same period. We continue to put our efforts to build a profitable business. We at Greenlam we are passionate to enrich lives of our customers. Our teams are on top of discovering refreshing ideas. We conduct regular training programs for our partners for better execution at the ground level. Today, Greenlam Industries is renowned in global market for its commitment, quality and design. We will continue this momentum and aim for better performance going forward embracing the headwinds. I would now like to hand over the line to our CFO, Mr Ashok to take you through the financials and operational highlights of the company.

Ashok Sharma:

Good evening friends. I will take you through the financial performance of the company. For the Q2 FY2019 on a consolidated basis, our revenue grew by 15.6% to Rs.318 Crores as compared to Rs.276 Crores in Q2 FY2018. Gross margins contracted by 270 basis points at 45.9%. EBITDA for the quarter was at Rs. 39.3 Crores with a growth of 3%. EBITDA margin stood at 12.4% as against 13.9% in Q2 FY2018. PAT for the quarter was at Rs.18.2 Crores a growth of 13.9% over last year. Our domestic sales increased by 10.7% to Rs.182 Crores and export grew by 22.7% to Rs.136 Crores.

Financial performance for the H1 FY2019 on a consolidated basis, revenue grew by 9.6% to Rs.606 Crores. EBITDA for the half year was at Rs.73 Crores as against Rs.71 Crores in the last year first half. EBITDA margin was at 12% in H1 FY2019 as against 12.8% last year. PAT grew by 14.1% to Rs.33.5 Crores. Our total debt is at Rs.264 Crores, which includes a short-term debt of Rs.165 Crores. Our debt to equity ratio stood at 0.68. On annualized basis, ROCE stood at 16.5% whereas ROE stood at 17.3%.

Now moving onto segmental performance, Laminate & Allied products constitute 86% of our Q2 and half-yearly sales. On a quarterly basis, laminates segment recorded a sale of Rs.272 Crores a growth of 13.4%. Sales volume for the quarter were at 3.35 million sheets a degrowth of 5.7%. Production volumes were at 3.31 million sheets with degrowth of 6.2% and utilization level of 94%. Our average realization for the quarter was at Rs.778 per sheet as against Rs.667 previous year. International business contributed Rs.132 Crores that is 48% of the segmental revenue. On a half-yearly basis, sales grew by 7.5% to Rs.520 Crores in value and sales volume of 6.51 million sheets a degrowth of 5%. EBITDA margin contracted by 10 BPS to 13.4%. Production decreased by 5.2% to 6.73 million sheets with a capacity utilization of 96%. Average realization was at Rs.763 per sheet as against Rs.689 per sheet last year.

Moving on to Decorative Veneer & Allied segment, which forms around 14% of our quarter and half-yearly sales, which comprises veneer, engineered floors and engineered doors. In Q2 this year, revenue stood at Rs.45.9 Crores as against Rs.35.3 Crores previous year. EBITDA stood at Rs.2.3 Crores with a margin of 5.1%. For the half year, sales grew by 24% to Rs.87 Crores as against Rs.70 Crores in the last half year FY2018.

The capacity utilization in the veneer segment in this quarter stands at 40% while our volume sales were at 0.43 million square meters as against 0.41 million square meters in Q2 FY2018. Average realization increased by 3.2% to Rs.713 per square meter. On a half yearly basis, utilization stood at 39% while the sales volume was at 0.81 million square meters.

In engineered wood flooring, we have clocked a sale of Rs.21 Crores for this half year in comparison to Rs.11.6 Crores with a growth of around 80%. Engineered door segment has clocked a sale of Rs.7.03 Crores in this half year as against Rs.6.3 Crores of previous year a growth of 12%. This is all from our side. I would now like to open the floor for the question and answer.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you. Sir just can you remind why there is a volume degrowth for the first half in laminates this year?

Saurabh Mittal: It is largely because we have lost some sales in the commodity segment and the lower price product segment, which typically are the liners and the lower thickness products due to intense price competition from unorganized players and other players, which also has resulted in a buildup of some inventory of paper.

Dheeresh Pathak: What is our volume mix within laminates into exports and domestic?

Saurabh Mittal: Q2 is about is nearly 50% each.

Dheeresh Pathak: If you can give like in H1 what is the volume growth in laminates in domestic and how much is it in export?

Ashok Sharma: In H1, the domestic volume degrowth is around 11% and in laminate export there is volume growth of around 2%.

Dheeresh Pathak: In the laminate segment, what percentage of your cost for goods is sort of forex linked or Dollar linked?

Ashok Sharma: In overall, close to around 75% to 80% is linked to foreign currency, which is either directly imported by us or it is indirectly linked to foreign currency.

Dheeresh Pathak: Then when so much of the cost is linked and it is not a very high gross margin product, so what is driving the unorganized competition?

Ashok Sharma: That is for us. It is not necessarily for the industry because in our case we use quality raw material like our design paper are all imported, which necessarily not the case for the unorganized segment. Cheaper qualities are available in India, which we do not use. So it is for us not necessarily for everyone else in the industry.

Dheeresh Pathak: Within the cost of goods sold, the largest component is what form of material?

Ashok Sharma: Two third will be paper and one third will be chemicals. Paper, means design paper as well as kraft paper.

Dheeresh Pathak: Design as well as kraft both are imported right or only kraft is imported?

Ashok Sharma: Only design paper is imported. For kraft, we import only around 20% to 25% due to the size, which is not available in India.

Dheeresh Pathak: Alright Sir. Thank you.

Moderator: Thank you. The next question is from the line of Shriram RajaRam from Sundaram Mutual Fund. Please go ahead.

Shriram RajaRam: Thank you for the opportunity. Sir, we had a lower tax rate this quarter even in the last quarter. So is it fair to assume that a similar tax rate will continue and what is the reason for the same? My second question would be, we are seeing some pressure on gross margins for the last seven quarters, if I see probably this is the lowest one in terms of the consolidated numbers. But on the other hand, I am able to see that realizations are inching upwards, today we are at 778 on the overall level, so just want you to throw some perspective on its sensitivity in terms of the Dollar. Where we can see the realization in terms of the overall and if you could also give the breakup for the export and domestic realization it will be helpful Sir?

Ashok Sharma: For your question on tax, this year tax is lesser in comparison to the previous year and it will continue to remain so for this year. The main reason behind this is that one of our plant, which is in Nalagarh in Himachal Pradesh that has a 30% income tax waiver, and this is last year for that unit with the waiver. So we will be getting this benefit for this year only. Next year onwards, we will be at a normal rate of tax, but this year yes it will be in this range around 28% to 30% only and coming on to your question on.

Shiram RajaRam: Gross margins.

Ashok Sharma: In terms of gross margin, yes, if you see overall in laminates, we have both import and export whereas for the other products, we primarily have import and no export. In the laminates, there is a benefit available for the export, which in terms of rupee depreciation will not have much impact. But the impact in the increase in raw material cost in foreign currency is always there., due to intense competition, which was not passed down entirely We did the price increase. We did one in Q4 of last year. We did a small increase in some of the categories in July, but it has a negative impact on the gross margin.

Saurabh Mittal: The other question also I think was on where you see the price realizations moving. we have achieved 778, I am not sure whether we will be able to increase too much beyond this. Although, we are doing the increase as Ashok, mentioned in the middle of October, which has already been done in the market while that would help us improve realization. But if we increase volumes, which should happen this quarter, which probably brings down the realization at similar levels. So really moving up realization not only a function of price points, but also a function of improving value mix over a period of time. So really, we cannot be very definitive on where this will end up too shortly. The effort is to also push the premium product sales both in the domestic and the export market. The next question was relatively on the exports and the domestic price realization. Of the 778, the domestic realization was about Rs.825 a sheet and for exports was Rs.724 for the Q2. For H1, it was Rs.823 for domestic and Rs.701 for exports.

Shriram RajaRam: We have seen a drop in volumes for the export business. Anything happening on that front, like what we are seeing in terms of the domestic competitiveness, are we facing similar competitive pressure in export market as well? Because we should be doing better in the export even on the volume front, are we looking to be more competitive?

Saurabh Mittal: Absolutely right. So, if you see the exports volume in Q2, we are down by some 4.3% while in H1, we are up by about 2% or say flattish. So we have seen some competition in white color line of products which is the commodity item. As a conscious call, we have decided not to reduce our price point and have lost some business. But I really think that is very

temporary in nature and the demand should come back. We do not see any significant concern on the ability to pull up volumes on the export market.

Shriram RajaRam: Fine Sir. I will join the queue Sir. Thank you.

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

Ashish Poddar: Sir my question is on the volumes. So I think the domestic market is clearly seeing signs of weakness, what is the outlook going forward to really see that the unorganized segments are still very aggressive, and this kind of trend will continue in the rest of FY2019?

Saurabh Mittal: On the unorganized manufacturers, we have heard there is some stress on the raw material cost, which we are seeing right now. So they are not only facing the cost but also the availability of certain raw materials. It is putting tremendous pressure on the local companies as they are not able to pass on the entire price increases. We have heard of some temporary disruption in their manufacturing and the supply. As far as the domestic market overall scenario, our volumes and outlook is concerned, I think we said in the beginning that we should be able to do a 10% to 12% revenue growth and I think we should be comfortable with that.

Ashish Poddar: The revenue growth is largely because of the currency benefits perhaps, which we are getting currently?

Saurabh Mittal: That is only in the export business. We are getting no currency benefits in the domestic business.

Ashish Poddar: That is true, but if that is not the case, if currency stays here then perhaps the kind of the benefit, which we are getting in the exports will not be there because even if we look at the first half the growth has largely been driven by the exports, so just wanted to understand your view?

Saurabh Mittal: If you look at the Q2 revenues, domestic business has grown by about 10.7% precisely, exports have grown by 22%, so like we said I think like 10% to 12% kind of a growth on our overall annualized basis we should be good with that.

Ashok Sharma: One more point in terms of the international business, revenue has grown in Dollar terms also. As on H1 basis, we have grown by 9.7% on Dollars. So, yes, there is a benefit in terms of rupee depreciation, but growth is also there in Dollar terms.

Ashish Poddar: Got it Sir. Now the second question is on the engineering doors and floor business. We saw a revenue growth in the door business, but losses extended further and in the flooring business, the business is not at all doing good. Earlier, we were expecting FY2018 to be breakeven year for these businesses, now even in FY2019 it looks difficult as of now, so what is your outlook?

Saurabh Mittal: If you look at the flooring business, the revenue growth has been reasonably decent. In Q2, we pulled up volumes and we got some business. We have said earlier that we are targeting not only the retail segment, but also driving volumes from the project business and also we started some exports. So certain orders in the project business and exports were given at a lower price point and the retail business did not pickup to the extent which we had expected. Although, overall volumes and revenue have gone up but gross margins have come down in form of percent. So it is really a function of time till we reach a certain point where volumes are larger than what they are right now. And the mix of orders between exports, projects and the retail business comes to a meaningful level which can overall give us a better blended margin. so that is the condition on the floor business. On the door business, last quarter was a disappointment and having said that we did receive fair share of good business towards the end of September. We think H2 will be far better than what we have done in H1 in the door business, so this is where we are on both the businesses.

Ashish Poddar: Can we expect FY2019 year to reach the breakeven for these businesses Sir?

Saurabh Mittal: The way it looks like right now, on the revenue front, we have said that we can do about Rs.45 Crores to Rs.50 Crores in flooring and about Rs.25 Crores to Rs.30 Crores in the door business. So on the revenue front, I think we should be able to be in that range **in** H2 of the year. On the profitability front, I think we are running behind on what we have assumed. So, not sure whether it is going to happen this year.

Ashok Sharma: One more thing is that all the raw materials are imported and whereas all the sales are domestic. And we need to penetrate these newer products into the market irrespective of market situation. The pricing pressure or cost pressure is there in this, so it is difficult to comment as of now in terms of EBITDA breakeven, but on revenue we will be able to try.

Ashish Poddar: That is it from my side Sir.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity. Just a couple of things you mentioned about the increase in competitive intensity both for domestic and in certain products in exports also. So the competitive intensity is increasing because underlying demand growth is not happening because when input costs are increasing, realizations would move up even for the lower players. Is it some new capacity that has come in, just wanted to get some sense around that?

Saurabh Mittal: Surely in the laminates business, the capacity is higher than the market demand and have not utilize the capacities to the full extent. And yes, it has come in the market even by mid size players. So the competition intensity is due to larger capacities in the market and market not growing at a pace we would like it to grow.

Abhishek Ghosh: In this scenario, unless the demand increases at a very fast pace, it is unlikely to change right or otherwise the smaller players shut down their capacity, which looks unlikely, is it a right way to look at it?

Saurabh Mittal: In the laminates space, when you talk of the commodity products just like white colour , which can be sold in bulk in the domestic market and the export market. In that segment, prices do play a role for customers to shift between different brands and companies not that all the customers can move. In the decorative segment where there are more SKUs, it depends on specifications on OEM sales, on your distribution step. So there as you see in the lower segment, we have had a problem. But in the mid to higher segment, this does not impact.. Our sales continue to be pretty well despite the fact that RM costs are at the peak in the industry. Our gross margins contractions in the laminate space in Q2 has been like 180 bps approximately. So the premium segment or the top segment of the product is not so price sensitive, their distribution penetration, specification, brand presence, reach, etc., play a larger role. So in the commodity segment which is typically a white liner of product, if people do not increase prices then there will be pressure.

Abhishek Ghosh: Sir just one thing to understand, if we see quarter-on-quarter basis, your realization per unit has improved, as you mentioned you have taken some amount of price hikes, so it is largely reflective of the price hike or also the fact that we have consciously chosen not to sell the lower realization products or is it a mix of both?

Saurabh Mittal: We stated earlier that we have left certain businesses because we thought it is not worth it to play in that market currently. So, I think it is a mixture of some price and some decisions of not getting into that segment. But if you look at Q2 vs Q1, so we have had a volume growth also of about 5.5% and realization has also grown Q1 FY2019 and Q2 FY2019. So in export white liner is not a very difficult business to get back to. So it has been more of a

conscious call of running a disciplined pricing and a disciplined working capital business. Even on the working capital front, we have not compromised on outstanding which many players have done by giving out larger credits. So, we have been fairly disciplined on the pricing as well as the working capital management.

Abhishek Ghosh: Whatever the impact of crude and rupee that we would have seen on our imported raw material, has everything come into this quarter? or is it going to come in with a lag effect also say in 3Q FY2019 or second half of FY2019?

Saurabh Mittal: No, there will be some more increase in certain chemical products to be part of Q3. Currency wise, I think largely has come in. So some more minor increase in chemicals cost will happen in Q3 and maybe some little bit of paper costs will also come in.

Ashok Sharma: Again, it will depend upon the future movement of crude what is there as of now.

Abhishek Ghosh: Sure and we would be then taking a decision in terms of taking a price hike to kind of maintain our profitability?

Saurabh Mittal: We have already taken decision on the price hike and we have executed that. Although increase in RMs in Q3 my guesses will be comfortably offset with the price hike stuff.

Abhishek Ghosh: Sure. Thank you so much and all the best.

Moderator: We have the next question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Thanks for the opportunity. Sir a couple of things, one is the engineering flooring traction seems to be significantly better than the doors. So any reason as to where this traction is coming and whether this is likely to move forward as well?

Saurabh Mittal: On the floor business of the Rs.12.63 Crores revenues we generated, we had exports coming in with about Rs.3.5 Crores and balance for the domestic space. ~~So~~ we have got growth in both the domestic market as well as we have started some export customers in Europe. So it is a combination of both these markets and this will continue in flooring and in door too. Like I said earlier, I think you will see a far better H2 performance on the door. Yes, we do agree that it is like on and off at times, we are not getting sustained traction if I may use the word, but I think this will continue.

Nehal Shah: It has been one or the other, so that is why we are not getting that kind of junction!

- Saurabh Mittal:** Both will happen.
- Nehal Shah:** Sir on the price hike, what kind of price hike have we recently announced and whether that is only on the laminate segment or is it also in the veneer segment as well?
- Saurabh Mittal:** We have done about 3% in the laminate space and we have also done a small increase in the veneer space because in veneer as you know 100% RM is imported and 100% sales in domestic, but veneer space is a very small hike of about slightly shy of 2%. So there too we have competition intensity in veneer. One of our competitors throwing out some crazy pricings so we have a challenge there too.
- Nehal Shah:** This was announced when?
- Saurabh Mittal:** This has been effective middle of October.
- Nehal Shah:** It has already been absorbed in the market?
- Saurabh Mittal:** So, we have still a few old orders to be shipped. You can say it is being absorbed yes. It will be for domestic market.
- Nehal Shah:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Sir could you please share the volume numbers for wood flooring and door for Q2 FY2019?
- Ashok Sharma:** For flooring, it is 60874 sq mtrs and for doors, it is 5,683 units.
- Achal Lohade:** Sir one more question. Veneer and allied products EBITDA margins are down from 10% into Q2 2018 to 5% in Q2 2019 as we see the revenue and realization have improved so what has been the major change on the cost front?
- Ashok Sharma:** This is primarily on account of higher losses in floors and doors, which is around Rs.3 Crores in this quarter in comparison to Rs.1.7 Crores previous years.
- Saurabh Mittal:** And also along with that, we have got slightly lower margin in the decorative veneer business where all the RMs imported while all sales of the domestic market. So there too we have got some reduction in the EBITDA margins.

- Achal Lohade:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.
- Nikhil Oswal:** Basically, my question was regarding your margins. Your margins are actually falling down like every year if you consider it and you are saying that there is a lot of competition coming from unorganized sector. So when do you see our sector reviving again, any hope coming from there?
- Saurabh Mittal:** Firstly, I do not see margins are falling every year.
- Ashok Sharma:** Last year if you see, the laminate volume has gone up by around 8%, both around 11% in domestic and 5% in exports. So probably in this year also if you see the overall in this year as on quarter basis yes volume is down primarily in domestic as was explained previously in the call and in export the volume is around 2% up, but we are hopeful of making it in the next H2.
- Nikhil Oswal:** Sir but my question is regard to margins and not the volume, I am asking about the margins?
- Saurabh Mittal:** Margins have not been falling every year. If you see the margins of FY2017, we had gross margins of 47.3 and EBITDA of 12.9. FY2018 gross margin was at 47.7 and EBITDA of 13.
- Nikhil Oswal:** This year the margin has taken a hit right?
- Saurabh Mittal:** No, in Q2 it has taken a hit, but you said it is falling every year.
- Nikhil Oswal:** I am saying on the quarter basis also, every year the quarterly margins are differing a lot?
- Saurabh Mittal:** Margins are not slipping every quarter. It slipped in this quarter, it was 12.4%. That is not true that margin are slipping every quarter. This quarter the EBITDA margin is at 12.4% while gross margin is 45.9%. So this quarter, yes, there has been a slippage, but it is not happening every quarter.
- Nikhil Oswal:** Also, another question is that you are talking about this competition coming from unorganized sectors, do you see some shift coming to organized like will it be better for the organized sector?

- Saurabh Mittal:** We cannot comment on that right now. We always spoke it will happen, but we do not see much impact.
- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss Group. Please go ahead.
- Sneha Talreja:** Thanks a lot for taking my question Sir. Sir can you please give the breakup of sales volume of how much is exports and how much is domestic for this quarter as well as the corresponding quarter last year?
- Ashok Sharma:** For the domestic, it is 1.641 million and for the export, it is 1.704 million for this quarter and for the previous year same quarter domestic was 1.768 million and for the export it was 1.780 million.
- Sneha Talreja:** Got that Sir. Sir any specific reasons for our exports volume is not picking up? Since, we are actually getting the benefit of currency also. Is it something related to a specific market or is it across geographies we are seeing this kind of a performance?
- Ashok Sharma:** The volume is down in this quarter. In Q1 we have grown in exports.
- Sneha Talreja:** I do understand Sir, any specific reasons for exports not growing in this particular quarter?
- Saurabh Mittal:** Like I said earlier, it was due to entry level commodity product category where we have had challenges in several markets due to pricing pressure from other companies. So nothing specific and because RM cost had gone up despite the fact that rupee depreciated in the commodity segment, the gross margins are far lower than what you have seen. So the 47% or 45% is not all across the board. So in the commodity segment, the RM costs are higher and gross margin is very low. So, the benefit of currency is available but to a very small extent. So it was a conscious call of not cutting down pricing and taking business at a loss, but like I said earlier, it is not a very big concern. The business will come back to us eventually.
- Sneha Talreja:** Sir given this kind of a volume growth in the current quarter and in H1 what is your expectation for complete year now?
- Saurabh Mittal:** We said that earlier now we should look at 10% to 12% kind of an overall growth. I can't give you a very specific quantity number right now.
- Sneha Talreja:** Sure Sir. Thanks.

- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Good evening. On the domestic revenue, you guided that you will be seeing around 8% to 10% revenue growth for this year is that reading right?
- Ashok Sharma:** We have given guidance for the entire company as a whole.
- Rajesh Ravi:** 10% to 12%?
- Saurabh Mittal:** Yes, 10% to 12% for the entire company. In terms of our domestic and export, there can be rate movement, but overall at 10% to 12%.
- Rajesh Ravi:** Like domestic what is the outlook Sir in terms of volume or in terms of revenue growth for this financial year?
- Saurabh Mittal:** Domestic we have done about 2.7% value growth I think we should be in band of about 8% odd in the year end.
- Rajesh Ravi:** For full year 8% value growth you are expecting in domestic market?
- Saurabh Mittal:** Yes.
- Rajesh Ravi:** Second half would be much better or it is like a base effect, which would play out Sir?
- Ashok Sharma:** I do not know. I think it will be better because last year Q4 was quite high.
- Rajesh Ravi:** Sir could you also throw some light on how are the GST or e-way bill impact panning out for organized players like you?
- Ashok Sharma:** If you see in terms of GST, the initial benefit of lowering of duty was there that is already kicked in. Apart from that, we are not seeing any major benefit out of that mainly because the compliance level is not up to the mark as of now. So it is really very difficult to see how much impact it will have going forward.
- Rajesh Ravi:** The benefit accruing to organized player that is not really happening so far?
- Ashok Sharma:** Initially, whatever benefits due to rate decrease was there, that has already came in. Beyond that, as of now, since the compliance level is very less, so we are not sure about how much that will have an impact.

- Rajesh Ravi:** Sir secondly in terms of like we are operating at very high utilization, what are the growth capex outlook in the core business?
- Ashok Sharma:** Actually, if you see in the past few quarters, it is lesser than in comparison to previous year or previous quarter because typically we work on 110%, 115%, and 116%. ~~kind of a range.~~ So we are slightly below 100% and can comfortably go upto 115%.
- Rajesh Ravi:** If at all if you want to expand in future, what would be the gestation period when you want to take?
- Ashok Sharma:** It depends upon if it is a Greenfield then probably it can take somewhere around six quarters.
- Rajesh Ravi:** And Brownfield would be?
- Saurabh Mittal:** Brownfield will be close to around three to four quarters. Within three quarter period we can say that.
- Rajesh Ravi:** Do you have any Brownfield expansion scope at current capacities?
- Ashok Sharma:** Well that will depend upon what type of capacity, which we want to put. So that will depend upon case to case basis as of now when we value it that at a later stage.
- Rajesh Ravi:** The price increases that you have discussed about like you have taken 3% price increase mid October would that be enough to pass on the cost inflation that you have seen because of the INR depreciation and because of the crude price rising.
- Ashok Sharma:** Till now whatever is there near to that we have taken increase. If there is any more increase in this quarter in raw material prices that hopefully need to look but as of now whatever is there mostly on the price increase this will be sufficient for that.
- Rajesh Ravi:** So these 12% to 12.5% minor changes can be sustained margin?
- Ashok Sharma:** We believe so that it is sustainable margin.
- Rajesh Ravi:** Lastly in terms of any hedging policies do you follow?
- Ashok Sharma:** We do follow, since we have export and import, so any net open outstanding will be hedged.

- Rajesh Ravi:** So everything is in Dollar denominated only Sir all your expenses?
- Saurabh Mittal:** No, it is Dollar and Euro both.
- Rajesh Ravi:** There you have a good amount of natural hedge is what you imply?
- Ashok Sharma:** Yes.
- Rajesh Ravi:** Great Sir. That is all from my side. Thank you and all the very best.
- Moderator:** Thank you. The next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.
- Ronil Dalal:** Good evening. My question is that so what do you seeing as a net impact of the rupee depreciation if you can quantify that because we are benefitting on the X spots, but raw materials we obviously lose, so on net impact of say a Rs.1 depreciation how would that flow to profitability if you have any sense?
- Ashok Sharma:** Well, that will depend upon what are the import and export for that month. But on an overall basis every rupee, if the Dollar depreciates that is positive for us. If it is Euro depreciation, then that will have an additional cost for us. But on an overall basis, any depreciation in rupee will be beneficial for us.
- Ronil Dalal:** In dollars?
- Saurabh Mittal:** Yes, in dollars.
- Ronil Dalal:** Like just average say Rs.1 depreciation versus a Dollar supposing would you have some sort?
- Ashok Sharma:** It will be difficult to give the exact numbers because as I said it will depend upon that month's composition or that quarter's composition, how much Dollar export and import and how much Euro import and export. So it will be difficult to give an exact number.
- Ronil Dalal:** No, I am not looking for exact, even like a rough kind of a number would also be or you saying that it is so different from quarter-to-quarter that it is hard to say?
- Ashok Sharma:** It is hard to say that, but definitely it will be positive. But how much positive, that will be difficult to give.

- Ronil Dalal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Poddar from Narnolia Financial. Please go ahead.
- Pratik Poddar:** Actually, I have a question in regard to in the last meet you mentioned that you will not compromise on your realizations or the margins for higher volumes. So, we see the realizations growing QoQ basis, but still there is a hit on our margins so is it because of higher raw material cost than expected while selling?
- Saurabh Mittal:** Well I can only say that the hit is far, far lower than probably what could have happened.
- Pratik Poddar:** Sorry Sir I did not get you what?
- Saurabh Mittal:** I am saying the hit is far, far lower than what could have happened. And if you look at gross margins, yes, there is a reduction of 1.9% in laminates. If you look at EBITDA margins, Q1 of laminates versus Q2 of laminates, so Q1 FY2019 was 13.1% EBITDA and this quarter it is 13.6%, so rather it has inched up a bit.
- Pratik Poddar:** The next question was on that. Since there is big hit on the gross margins QoQ and on the YoY basis still we had a comparatively lower hit on the EBITDA margins, so where did we save the cost on the EBITDA front?
- Ashok Sharma:** If you see the overall volume has also gone up. If you compare it with the last year's Q2 then it is from Rs.240 Crores it has moved to Q1 Rs 247 Cr. So even in comparison of Q1 Rs.247 Crores, sales has moved to Rs.272 Crores.
- Saurabh Mittal:** Gross margin value has increased. So although margin is down by whatever percent, the value of gross margins has increased because the turnover has increased. That is effective in high EBITDA.
- Pratik Poddar:** Got it Sir. Sir another question that can you just help us on understanding how this COGS inflation is going on right now? Since there is a hit on the gross margins so just to understand it better that how we can see the COGS inflation going ahead?
- Ashok Sharma:** As we said earlier also that any cost increase will have a lag effect. So, we do increase the prices to that extent possible. We do increase the prices to protect our margin or to pass on the raw material cost. But first it will have a lag effect and second is that at that time because of the competitive pressure, it may not be possible to pass on entire raw material

increase in all the categories where we operate. So that probably had an impact on the gross margin.

Pratik Poddar: Sir any percentage sort of terms that you can give for the inflation on year-on-year basis to just take a better understanding of how it will take place?

Ashok Sharma: I think whenever there is an increase in the raw material prices whenever we go and pass on to the market, we do not follow a specific percentage kind of a thing. Whenever there is an increase in raw materials cost, we go and increase to that extent possible.

Pratik Poddar: Got it and Sir last question in the last meet you mentioned that you do not see a visible impact from unorganized to organized post the GST, So you continue to maintain that?

Ashok Sharma: Yes. In this scenario as I said that due to benefit of rates, which was like 26% - 28% to 18% that has already kicked in. Beyond that, as of now, we do not see much change because the compliance level has still not gone up.

Pratik Poddar: Sure. That helps Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil V from VD Investment. Please go ahead.

Nikhil V: Thanks for the opportunity. My first question is related to our average realization in veneer segment is decreasing quarter-on-quarter like from 804 it has gone to 713, so can you give some clarity on this like why it is decreasing?

Ashok Sharma: There is always in terms of our endeavour to increase in terms of product mix in this and which result in as you see, since all the raw materials are imported in this. So, slightly slowly and gradually, there is some increase and this also happens to pass on the cost and because of the volume mix. So it is a mix of both.

Saurabh Mittal: It is nothing very specific actually. It is a continued effort towards improving the value mix and trying to do more premium sale.

Nikhil V: Can we see same increase in another quarter-on-quarter?

Saurabh Mittal: I cannot comment on that. I am saying I wish it happens, but I cannot make a comment on that.

- Nikhil V:** No problem. My second question is in year-on-year, our revenue has increased, but when we see our segment margin both businesses laminate and veneer has dropped year-on-year. So can you give some details why it has decreased like?
- Ashok Sharma:** Can you be specific for which year you are talking about because last year we have seen our margin has increased.
- Nikhil V:** I am talking about segment margin like in Q2 FY2018 it was overall 15.81% and in this quarter it is 14.35%. So segment margin has decreased?
- Ashok Sharma:** If we see in terms of this year, yes. In H1 or in the quarter, yes, as you can see that ~~this year~~ the overall margin has come down in comparison to last year. And in this also if you see the laminate and veneer segment, their margins are nearly in the same range, due to the losses in floors and doors has increased in this year in comparison to previous year margins have dipped. So probably that may have an impact on the overall margin.
- Nikhil V:** But last quarter also, there was some margin decrease in veneer segment?
- Saurabh Mittal:** In Veneer segment, we said that earlier because of RM being imported and now sales being domestic. On the RM cost, the entire impact of currency being effective in the business. So veneer margins have slipped.
- Nikhil V:** Can you please update on antidumping duty on our product, is there any?
- Saurabh Mittal:** There is no antidumping duty on any of our products. There is antidumping duty on certain raw materials. So, this antidumping was on raw materials and not on the products.
- Nikhil V:** Like in last call there was mention about antidumping duty that were implemented in some products and we were about to make a fresh appeal so what is the status on that?
- Saurabh Mittal:** The implementation of antidumping whichever happened was on a very small part of the business and that could not get through for certain reasons. So, as we talk right now, there is nothing of any consequence in antidumping duty.
- Nikhil V:** And is there any seasonality in our business like in overall business?
- Ashok Sharma:** Pardon.
- Nikhil V:** Is there any seasonality in our business?

- Saurabh Mittal:** There is no seasonality in the business.
- Nikhil V:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Thank you. Sir like our utilization is running close to 100% for laminates, what would be the industry capacity utilization level?
- Saurabh Mittal:** I do not have a true data to backup on what I am going to say, so I refrain from saying that.
- Dheeresh Pathak:** I am asking in the context and you said there is a lot of competition in your environment of high cost pressure, is there a lot of spare capacity?
- Saurabh Mittal:** Yes, we said that earlier. How much it is and how do you substantiate? I cannot give you answers on that. Yes, but there is spare capacity.
- Dheeresh Pathak:** On the engineered door side, I do not have a good understanding of how it is made I thought it is particle board door. So why is entire raw material imported? can you just give some understanding?
- Ashok Sharma:** It is because of particle boards what you put in is a special grade particle board, which is fire rated particle board. So, it is not the local particle board and if fire rated particle boards are not produced in the country that is why you end up importing them and then you also have for a certain kind of fire rated wood and decorative wood and veneers, which are all imported.
- Dheeresh Pathak:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shriram RajaRam from Sundaram Mutual Fund. Please go ahead.
- Shriram RajaRam:** Thank you Sir. Sir just one question from my end. During 2013 and 2014, what were your gross margins for the laminate business since we do not have the numbers separately?
- Saurabh Mittal:** I will check and come back to you Shriram separately.
- Shriram RajaRam:** Sure Sir. No problems. Thank you.



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Moderator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments.

Saurabh Mittal: I would like to thank all of you for joining onto our call and I hope we have been able to answer most of your queries to the satisfaction. For any further queries you can get in touch with Ashok or with SGA, our investor relations advisor. Thank you once again and a very happy Diwali to all of you.

Moderator: Thank you. On behalf of Greenlam Industries Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.