"Greenlam Industries Limited"

Q3 FY21 Earnings Conference Call

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Moderator: Ladies and Gentlemen, Good day and welcome to Greenlam Industries Limited Q3 FY21 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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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, Mr. Mittal.

Saurabh Mittal: Thank you. Good afternoon friends. A very warm welcome to all of you all, I hope you all are keeping safe and healthy. On the call, I am joined by Ashok – our CFO, Samarth from our finance team and SGA our investor relations advisor. Results and presentations are available on stock exchanges and on company website and I hope you have had a chance to look at them.

The year began with much awaited nationwide vaccination drive which everyone has been talking about for so long and I am sure this will act as a big growth booster for all the sectors including our business. The current quarter which is Quarter 3 saw sequential improvement. The economic activity in India and the economy in general opened up post the lockdown. However, in several international markets, the economy is still opening up and then lockdowns were reintroduced in countries like UK, Italy, Thailand, Indonesia, and some more markets.

As cases started rising there due to new strains of the virus, so we have some challenges in certain international markets although we do not think that this will impact our business in a negative way, but the markets were shut for some time and in certain countries the lockdown is still persisting. On the demand side, in the domestic market, which is India, the commercial real estate market has been a bit slow, but I think off late we are hearing that as industry started opening up, contractors have been invited for several bids and inquiries etc. I guess things will come back to normalcy on the commercial side also very soon.

On the residential side of the market, we hear good news in most of the markets across the country that the residential market is doing pretty well, much better than the commercial market and generally with the atmosphere of low interest rates, reduction in stamp duties etc. overall people have been potentially buying more homes. We also hear that consumers want to renovate homes, take larger spaces and upgrade their homes. So this whole residential market, home improvement markets in India we see good things happening and we are quite positive on the residential side of the markets and the commercial side too as I said we are looking forward for that market also open up in a meaningful way in the coming few months.

On the temporary challenges in that business, we had challenges on the supply chain on the inwards and outward from the factories and these challenges were largely due to significant delay in -material arrivals, significant delay or difficulty in obtaining containers for exports and also the farmer agitation impacted both our plant locations. So already if you look at the quarter, the team really worked hard to ensure the supply chain disruptions were minimized and we went on to have one of the highest production in the quarter. Although, we had a fair share of unbilled sales both for the domestic market and the international markets.

The international revenue of laminates was slightly higher than the Pre COVID levels in Q3 of FY20 and the domestic business was close to a 96% of Pre COVID in Q3 FY21. While the veneers and allied business we still saw little bit subpar numbers at a 65% of the numbers we achieved in Q3 FY20, but we are quite positive on this business also. We hope that in Quarter 4 the veneers and allied category should also kind of largely normalize compared to Pre COVID levels.

On the business updates you probably have seen the disclosures we have opened two subsidiaries one in Russia and one in Poland. These are largely to expand in Eastern Europe and Russian side countries.

We have also introduced new products in the Mikasa of flooring categories which is a Mikasa Staircase Solutions and on the engineered doors category we have got one of the most important CBRI certification of fire rating which is very difficult to obtain which requires very high & tight standards. On the South India plant we are working on getting all the approvals with the government so that plant construction can be started. But because of delays due to COVID and due to certain approvals, this has got postponed, we think as we see things now Q3 FY22 we should be able to commence building the plant and one can assume that this will probably take us about anything between 12 to 15 months from then to get into commercial production.

So, this is all broadly from my side and by and large we are very positive about how things are shaping up and I will have Ashok take you through the financial and the operational highlights post which we will be happy to address your questions, suggestions quite if any. Ashok over to you.

Ashok Sharma: Good evening friends. I will take you through the financial performance for the quarter. Please note that financial performance for the 9 months will not be comparable due to partial shutdown of the operations in Quarter 1.

For Quarter 3 FY21 on a consolidated basis net revenue stood at 335 crore a growth of 15.7% on QoQ basis and a de-growth of 6.5% on YoY basis. Gross profit stood at 174 crore a growth of 23% on QoQ basis and a de-growth of 3% on YoY basis. Gross margin stood at 52.1% and improvement of 320 basis point on QoQ and 180 basis point on YoY basis. EBITDA stood at 57.9 crore a growth of 43.1% on QoQ basis and 6% on YoY basis. The increase in EBITDA was on the back of higher operational efficiencies. EBITDA margin stood at 17.3% a growth of 330 basis point on QoQ and 200 basis point on YoY basis. Net profit stood at 32 crore a growth of 72.3% on quarterly basis and 10% on YoY basis. PAT margin stood at a growth of 9.6% and a growth of 320 basis point on QoQ basis and 150 basis point on YoY basis.

Moving on to **segmental performance, laminates and allied product** formed around 88% of our Q3 sales, laminate revenue for the quarter stood at 296 crores a growth of 14% on QoQ and a marginal degrowth of 0.5% on YoY basis. Domestic laminate revenue grew by 14.7% on QoQ basis in value terms and a growth of 17% in volume terms. On YoY basis domestic laminates revenue degrew by 4% in value terms and grew by 12% in volume terms. International laminates revenue grew by 14% on QoQ basis in value terms and 24.6% in volume terms. On a YoY basis international laminate revenue grew by 3% in value terms and 9% in volume terms. EBITDA margins for the laminate stood at 19.8% a growth of 360 basis points on QoQ basis and 140 basis point on YoY basis. Production volume were highest for this quarter and stood at 3.98 million sheets at a utilization level of 102%. Sales volume for the quarter stood at 3.91 million sheets for the reasons as explained by sir. Our average realization for the quarter stood at Rs. 736 per sheet.

Moving on to **decorative veneer and allied product** which formed 12% of our Q3 sales. This includes decorative veneer, engineered floors, and engineered doors. Total revenue stood at 39 crores in this quarter a degrowth of 36% on YoY basis. Revenue for decorative veneer within Veneer & Allied segment stood at 25.7 crore, a growth of 74% on QoQ basis and a degrowth of 23% on YoY basis. On a sequential basis there is an improvement in the veneer business and the capacity utilization for the quarter stood at 32% as against 18% last quarter. Sales volumes were at 0.36 million square meter as against 0.21 million square meter last quarter. Average realization stood at Rs. 694 per square meter.

Moving on to **engineered room flooring,** revenue for this quarter stood at 8.4 crore, a degrowth of 7.5% on QoQ basis and the capacity utilization improved to 14% from 9% in previous quarter. Moving on to **engineered doors**, doors revenue for this quarter stood at 4.9 per crore a degrowth of 29.7% on QoQ basis. Capacity utilization for the quarter stood at 18%.

Moving on to performance of balance sheet items, net debt for the quarter stood at 180 crores as against 249 crores at the end of previous quarter, a reduction of 69 crore in this quarter and 83 crores on YTD basis.

Working capital also saw very good improvement and stood at Rs. 306 Crs as against Rs. 346 Crs at the end of last quarter. In terms of number of days also it has improved to 83 days from 109 days previous quarter that is all from our side.

I would now like to open the floor for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Since the business is back to normalcy I had a few longer term questions if you look at the domestic laminates sales growth the industry and for us it looks like it has been roughly mid-single digits on average over the last five years and we have been growing a bit slower than other peers who were bit smaller than us five years ago, so just wanted to understand why this growth rate was so low compared to other building materials ancillaries, is this because construction pace has been very low in terms of the number of houses built if you look at any other metrics etcetera?

Saurabh Mittal: If you look at the past five years, I think it has been a bit rough five years in terms of demonetization, GST, slowed down in real estate etc. and also in the last few years we did not have our commodity product line also. So many companies which probably had commodity lines they did grow top line better, but I think on an overall balance sheet perspective, on a margin perspective I do not think they have done better than us. I think each year if you see since we became an independent company numbers of performance ratios in terms of laminates business, we are talking about per sheet realization, payment terms, margins, ROC have largely all being improving. So, I think going ahead we should be able to hopefully get better growth and we have also raised some capacity in 2019. During the lockdown we also added a commodity liner which we did not had in the past so that is also going to help us build some more volumes and some numbers.

Nagraj Chandrasekar: When you mean commodity you mean the thinner laminates that have been growing faster than a thicker more premium laminates, we focus on which is what we should be looking to be more active one, how would have margins?

Saurabh Mittal: Thinner laminates which we did in Q2 of this financial year and obviously we are not going to drag too much numbers there, but we have launched a thinner laminates also which will help us probably getting more penetration to markets where we cannot meaningfully be present so this will help us get into some more counters, some town, markets of the country.

Nagraj Chandrasekar: And how were the margins be different between thick and thin products?

Saurabh Mittal: So surely the margins will be different, but if you see on a holistic perspective because your working capital investments on the thin line is low, you do not have a very large range, marketing spent are substantially lower. So RM cost will be higher in a thinner line, but operating cost besides the RM will all be low and the distribution channel that dispatches are the same. So one need to see on an overall perspective. So if you see in Q3 we have improved our production levels and margins have actually gone up despite the fact that we did produce some thinner material also because with additional production you are able to absorb more overheads and cost also. So that kind of helps the overall profitability of the business.

Nagraj Chandrasekar: And on the export side you have done really well in the last two, three years added new markets and grown the space significantly and this quarter as well as on a tough base just where are we now after the rupee depreciation versus the European and the American laminates companies my guess is that these are the main markets where we sell into right now, so just where are we cost wise on a per sheet basis versus these companies and what should be rough mix of our export sales right now?

Saurabh Mittal: When we started the export business it was more of a cost run model while now also we are still competitive versus the European producers and the US producers. So you can safely assume will be at least 10% to 15% lower price than the European producers and the export market we think will continue to grow and we see quite encouraging situations in the international markets although the overall market will probably grow at a slower pace, but we will end up taking the market share from regional producers in various markets and whether it is European producers or whether it is US producers or even some South East Asian producers or some people in Middle East. So we will continue to take some market share from the regional and the local producers.

Nagraj Chandrasekar: And just regarding Mikasa which has been slower to recover we did a very good job in FY19 and 20 ramping up capacity utilization here, but are you now seeing what really is the reason we are seeing slower pick up here number one and number two are we seeing increase competition from European manufacturers who have a lower cost pace from China or from Eastern Europe on the high end side and from the Chinese exporters on the low end side where we sort of get squeezed in the middle with our products here?

Saurabh Mittal: So you are right on this observation and Pre COVID this was absolutely relevant. In the current situation what we have heard is that people have not imported much material as the cost of freight has gone up significantly and cost of doing business with the international suppliers for this domestic importers or big traders has gone up so that is one part. The good part of both the businesses i.e. flooring and door are largely residential products, and we think over the next few years the residential demand should go up and the flooring and the door model is a the larger player on the residential market than the commercial market and probably in the last few years we have suffered because of this mix. So, I think going ahead we see this business should recover and also we will probably end up taking share of imports in flooring and probably in doors also. I think we are positive about how this can shape up in the future Nagraj.

Nagraj Chandrasekar: Just to add on, has there been any tariff or non-tariff protection given to us over the last year or two that has helped sales growth in 19-20?

Saurabh Mittal: Nothing has come to us whether the government will do something I am not sure on it. So no tariff support to promote the floors and doors as yet.

Moderator: Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: I have three questions from my end firstly as you mentioned that doors and flooring ideally should have seen faster growth because we are actually facing issues with respect to inward logistics and all, so ideally our imports should have been impacted and your doors and flooring should have done better QoQ, what are the reasons why there is extensive losses or losses have widened compared to QoQ and both doors as well as flooring segments?

Saurabh Mittal: So the demand actually you will probably see like we were saying earlier we had supply chain disruptions despite of vessel and containers and for the entire wood veneers business whether it is a decorative veneers whether it is the door or the floor. Most raw materials are imported and we have had some challenges on that, that is one. We have had some export shipments which have happened, but lot of them have remained unbilled which will happen now and probably this whole builder market where we are focusing our door products on, we are seeing a lot of inquiries, but probably in the last quarter we have not seen much of closure of those orders or even pending orders of there the plant which we have not been able to execute. So yes, Q3 obviously the numbers are out there and visible, but I think we should get better and like I said earlier is a call in Q4 we think this whole segment should come to near normalcy which is veneers flooring and the door business.

Sneha Talreja: So that actually just brings me to the point, so you said that demand has been normalized, but you were unable to supply that because of raw material constraints that you are unable to import?

Saurabh Mittal: I said demand will get normalize in this quarter there is a lot of discussion between customers and all that, but it has not really translated to revenues.

Sneha Talreja: Sir, my second question is with regards to your margins we have seen substantial improvement in your margin this is despite your realizations coming down almost every quarter that we are seeing and of course since you have launched even commoditized products, how sustainable are these margins and where do you see long term margins heading towards in the laminates business?

Saurabh Mittal: So the laminates margin I am not sure whether this is sustainable or not and reason being in Quarter 3 we had certain old purchases, old raw material with the little bit lower cost. On the mix although the price per sheet realization has gone down, but because volume of production has gone up so the overhead absorption expanded. In the export business we have introduced several new products which is now gaining a lot of traction. So several commodity products in exports have move to value added categories and we have also done improvement of the plants in terms of utilization, in terms of waste heat reduction, in terms of certain other initiatives taken at the plant and this is also controlled / optimized cost. In the future what margins can be maintained in laminates because as we talk right now raw material cost have gone up in chemicals, in kraft paper there is inward freight increase, there is outward freight increases in export, we have implemented some price increase in Quarter 3 and we are implementing a certain price increases in Quarter 4. So I think like a 17%, 18% levels seems something which we hope that we can sustain unless something substantially goes right or goes wrong.

Sneha Talreja: And last question from my side would be, can you just specify some more details on this staircase solutions which you have launched, are you going to do some more CAPEX on this?

Saurabh Mittal: There is no CAPEX, it is more of a product development. So there is very marginal CAPEX on this new product and it is going to take time to really build business in the domestic market. It is more of communicating to you all that we are trying to look at more application areas with our product with just minor CAPEX we are trying to develop more products and expand our potential market share or the market opportunity rather.

Sneha Talreja: This is one of the products that you must be mentioning in the earlier calls that you would be launching certain products and may be this is just one of them which is in line?

Saurabh Mittal: Yes correct.

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

Achal Lohade: Sorry I am repeating probably the same question with respect to gross margins in the laminates business, so you mentioned that you had certain old raw material, but I would presume that cost would have been there even in the past quarter, so I am just curious to figure out is there any write back of provision or any specific things because gross margins have improved QoQ when the RM costs has gone up from 49.9% to 53.7% almost 400 basis point while the realization are actually in decline, so can you please help us understand?

Saurabh Mittal: Like I said there have been several initiatives at the plant level. We have had raw materials at slightly lower cost. The subsidiaries business has also added to additional gross margins which it did not add or it added lower gross margins in Quarter 2 and improvements have happened. We have taken certain initiatives in the product side which has also helped us get this. There has been no provision write back or any sort of creativity.

Achal Lohade: Can you help us understand what has been the extent of cost increase in case of the kraft and other paper and the chemical cost and probably in last three, four months what is the increase and what is the blended cost increase effectively for us for laminate business?

Saurabh Mittal: I will give you just broadly of the RM cost of laminates about two-third cost are for the paper and one-third is on the chemical approximately. The one-third part which is chemicals has probably gone up anything between 20% to 25% approximately. The cost on the paper side which is kraft and deco paper, some cost has gone up, some we have had intimations from suppliers of prices going up especially in deco paper and certain cost will go up because of increases in sheet rates. So, this is broadly approximate cost increases. Besides the cost increases what is also happening is that in certain raw materials, not for us but for most of the other industry players, there is an availability issue which probably holds us in a good position because we have always been quite rich on inventory as you see our inventory value and age, but that is probably helping us actually throughout more production and get more business in the market.

Achal Lohade: What is the increase in cost of paper at the aggregate level?

Saurabh Mittal: So in the paper certain increases happened. So kraft paper you can assume our cost have gone up anything between 6% to 8% and deco paper we have got communication from venders of price increases being implemented. We still have paper of the old cost so their increases will be in the brand of maybe probably 3% to 5%, but there will be additional increase in sheet freight cost because most of the deco papers are imported by us.

Achal Lohade: And what is the price increase have we taken in the third quarter you said we are also investing for 4 quarter?

Saurabh Mittal: Q3 we have taken about 2% to 3% increases in both domestic and international markets and about Q4 we will take a some in February, some in March and some will probably get spill over to April another about 2% to 3%.

Achal Lohade: Is the price increase similar for other players as well or the others are yet to follow the price increase what we are seeing?

Saurabh Mittal: No I think the price increase for others are probably equal or higher. Also, local companies have also increased prices. So I think either people have implemented price increase or they have announced increase, they have partially implemented, partially they will implement. So the entire industry has actually taken a price increase some have even taken twice actually.

Achal Lohade: In terms of the global trade I mean we have some sense in terms of the global size of laminate industry, but is it possible to see what is the actual traded volumes in terms of exports or imports whichever term globally and what is India's market share in that?

Saurabh Mittal: I cannot give you a Math.. I do not think we have so much of data with volume and freight, but you can connect with Ashok offline and we can see something can be done.

Achal Lohade: And in terms of the domestic situation how do you see in terms of the competitive intensity has this increased, remained stable or kind of decline what we have seen few of the other building material category?

Saurabh Mittal: I do not think intensity has increased like I was trying to say we think that several players have significant supply chain disruptions. So probably that is helping us sell enough or sell whatever we can produce. I would say by and large remains the same.

Achal Lohade: And just last question if I may ask sir, with respect to the imports what is the extent of imports we have of laminates in India in terms of the percentage of a volume or percentage of the market?

Saurabh Mittal: Laminates imports of what we know is very negligible and whatever was happening is extremely high end laminates products in specialty categories, but nothing of much consequence.

Moderator: Thank you. The next question is from the line of Kunal Shah from Yes Securities. Please go ahead.

Kunal Shah: Sir given the current laminate utilization level, the balance sheet positioning and the fact that one and half million-sheet capacity of Greenlam South Ltd. has primary focus towards export segment, are we not planning to put another line or maybe increase the CAPEX side given that obviously it is delayed than why not come up with a bigger capacity and provided that the current laminate utilization level has also picked out?

Saurabh Mittal: So the current utilization levels or we can go up to 110% to 115% utilization that is point number one by debottlenecking the plant by making it more productive which we are doing and we are hopeful to increase utilization from the current 100% to hopefully go up to 115% over the next few months and your point on the 1.5 million sheets also makes a lot of sense in the current environment so we are evaluating that whether we should add more capacity in the new location because we have bought 65 acres of land so there is enough space and we were designing the plant for more number of production lines. We initially announced only 2 lines at that point, but yes we are looking at that Kunal.

Kunal Shah: Sir the other question just to repeat on the door and floor business over last four, five years what you have seen now I just want to understand whether it is the product acceptability that is an issue or was it the Tier 1 market not doing well an issue, so just putting it inversely like let us say Tier 1 market obviously is picking up and you are seeing green shoots for the same, are we confident to profitably ramp up these two units and what would be the time frame that you would be looking at for the same given that the investment yields have been on the lower side over the last four, five years for these two segments?

Saurabh Mittal: Yes like FY19-20 the doors and floors revenue reached to near 100 crores. So we have moved up and then again there was a little bit of a downfall with this COVID thing. The confidence is obviously there to build up these businesses the fact is that we have not until now for whatever reasons we have not got there as yet. So I do not think acceptability is a problem because the products are quite well settled and operational problems do come in that which is a different matter that is with any product category. So there is no challenge from an acceptability perspective just we have to get there and get more markets and get more business and build this business actually.

In FY19-20 we were thinking at the year half of that we should come to at least breakeven perspective and then COVID happened and again things kind of slipped and we are again building it up and it should happen, when should it happen difficult to give you timeframe right now because in the past we have given couple of timelines and we have failed doing that so I want to just restrain myself giving some timeline, but we will build this up.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir my question is of the overall laminate market what percentage would be let us say 1 mm size, what percentage would be below 1 mm and what percentage would be above 1 mm?

Saurabh Mittal: Difficult to give you a number right now, but we have noted this question I am going to ask Ashok to connect with you offline and this will again be a very rough estimate of what the total capacity in India is and what is actual utilization of factories, what is the thinner or what is below 1 millimeter production percent, but surely below 1 millimeter is a far larger market than 1 millimeter.

Dhiral Shah: And sir secondly one of the unlisted players have also come out with 1.25 mm, so are we also looking at that segment?

Saurabh Mittal: So the 1.25 mm segment is not new in India many people have it, but we are not looking at that category because what happens if you have 1 millimeter and then you have 1.25 millimeter. So, typically the smaller companies they do not have inventory, they put the inventory to the distributors, the range is limited then if you use 1.25 mm than you cannot use 1 millimeter together with 1.25 mm because of the undulation on the surface with the horizontal or vertical. So we have examined this, but we just create another thickness and kind of create one more category, the working capital cycle of the volumes, the market challenges it is not worked out for us that we should enter that space at all because 1 mm is more than good enough. So really that additional 0.25 millimeter is not bringing any aesthetic value to the customer or enhancing any physical properties of the products. So we have decided to not be been that space because it is not needed to be in that space.

Dhiral Shah: And sir secondly whatever the price hike which we have taken will it be offset the cost inflation which we have seen later?

Saurabh Mittal: Yes by and large with both the increases of Q3 and Q4 which were in the process of implementing once both these increases are implemented, we should be able to offset the cost increase.

Dhiral Shah: And sir lastly regarding the export side we have seen the intermitted lockdown in regions like US and Europe, so does it have any impact on the export market?

Saurabh Mittal: So until now some markets we have had impact for some markets have done better. So if you go very market specific, yes those market at times they have impacted business, but when you take an overall international business because some other markets end up doing better it's kind of offsets those losses of some markets.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Just I missed out on laminates what you said that gross margins raw material prices were lower and there was inventory you benefitted, so has the margins normalize now back to 50%, 51% level in laminates?

Saurabh Mittal: Sometimes the gross margin is not just related to the RM cost and sales price directly because when you end up improving wastages, making improvements in demand that also impact the gross margin percent. So my guess is maybe in the next one or two months or maybe from February onwards we will probably see some sort of reduction in the gross margin. I think till January we should be able to maintain gross margin with the mix and with the wastage improvement and with the previous procurements and the inventory we were carrying, but having said that in the future also to offset the reduction in gross margin price increase implementation, continuous efforts on product development, value mixed improvement and ensuring that we do not lose volumes and also we have the lower end of the market which is the commodity liners is being done. So we are able to hopefully have slight reduction on the gross margin, but with improved output or improved production, at least maintain or slightly may be lose little bit on the EBITDA margin side.

Bhavin Chheda: Decorative veneers saw higher volume so that momentum would continue?

Saurabh Mittal: In Quarter 4 we expect decorative veneers business to come back to normalcy like in Q3 the domestic laminate business overall on the value term was nearly equal to Q3 of FY20. We think the veneers business could have done better in Q3 also, but we have some supply chain challenges that could not keep up with the demand which we had at the factory, but in Q4 we think we should be able to come back to normalcy and above it.

Bhavin Chheda: And what was the capital expenditure in first 9 months and FY21 what would be and what is the roadmap for FY22?

Ashok Sharma: This up to 9 months is around 25 crores as of now and overall will be in the range of around 35 to 40 crores during that period for this year. So next year we do not have any specific CAPEX plan, some CAPEX of this year will be spilled over because we have already ordered and the machines will be coming next year. We believe that around 25 - 30 crores in that range will be the CAPEX.

Bhavin Chheda: And next year we will also have some expansion CAPEX Greenlam South Limited is going ahead?

Ashok Sharma: Yes this 25 - 30 crore is more of a routine capex for the existing plant as sir has mentioned at the beginning of the call that we plan to start depending upon when we get the approval from the authority so we expect to start in the H2 so probably we will be able to update that how much expenditure we will be doing probably by end of this quarter.

Moderator: Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Sir on the realization side now we have seen realizations been muted both on the exports as well as on the domestic front when do you expect this to come back to normalcy considering the fact that we are now selling more volumes of the liners as well, so do you expect them to come to normalcy going forward probably at any time?

Saurabh Mittal: So Nehal like we said earlier, from this existing production which we have done in Quarter 3 we are talking laminates which is at a 100% utilization we can go up to a 110% to 115% utilization. So I think as we expand more production we will have revenues going up of the commodity and the value-added category. So I am not sure how much of this change will happen on the per sheet realization, but increased volume will help us maintain improve margins may be in some cases, help us improve our working capital cycle, our inventory will not increase rather it will decrease in the number of days, and debtor cycles will improve. So on the per sheet realization it may not improve much because you are also going to increase denominator of quantity production, but overall the ROCE, the margins the working capital cycles I think all of that should improve Nehal.

Nehal Shah: So earlier we were looking at almost like Rs. 800 a sheet kind of realization now probably it gets reset to 750, 760 kind of thing?

Saurabh Mittal: It seems because sometimes it is a complex business, some plus minus happens, but we should be in band of 730-750 some increase implementation is pending if I add that also to another 15-20 rupees will go up. So I think that seems more appropriate and more reasonable.

Nehal Shah: And margins you said 18% looks like sustainable number going forward?

Saurabh Mittal: 17-18% at the moment seems sustainable Nehal.

Nehal Shah: And sir my last thing is on the opening of our subsidiary in the Poland and Russian market, can you give some color on the demand as to how demand or the size of the market these markets are?

Saurabh Mittal: Nehal can I give you this offline it is a significant and a very large market because most of these Russian, European producers have their fabricating plants, the kitchen plants, the door plants in Eastern Europe in Poland, in Czechoslovakia, in Hungary, in Romania and Slovakia and because we are going to expand and setup a new capacity in Andhra Pradesh and they will be of various sizes and we will be getting into these categories rather the sizes and the categories we are already in, shipping to European markets, those capacities are running full and we want to expand that category and those are the lines which we will be expanding also in Andhra Pradesh. So exact size of the market infrastructure maybe I will have Ashok ji speak to you offline in that case.

Nehal Shah: Why particularly these two markets anything we are seeing positive as far as these two markets are concerned?

Saurabh Mittal: Why these two markets so really because we already have a UK subsidiary which is catering to the UK market. We have a subsidiary in Milan and Switzerland which is catering to the Italian, Switzerland, Australia, little bit of Germany in those markets. So we do not have a base in these two markets while we already have some direct exports happening. So now we are going to appoint one person each to start with in both these markets and really create customers which are OEMs and distributors across this market. So we do not have a presence of our team in those geographies currently and in the other European markets we already have created base there that is why next top is Poland and Russia.

Nehal Shah: So basically what kind of green shoots here as far as the export opportunity and does there is a warehousing model here?

Saurabh Mittal: No we are not starting with the warehousing Nehal it is just going to be marketing and building in distributors and OEMs will be a direct container shipment only. We are not going to create inventory there at least to start with. In future whether we need inventory in Poland or not is something we will run the business for some more time and then decide on that.

Nehal Shah: One more question if I may ask on the domestic side, have we started seeing pressure as far as the Morbi players are concerned or the other regional markets are we seeing the availability in the market reducing and does the market share gains for the branded players?

Saurabh Mittal: So Nehal like I was saying earlier what we have heard and through our partners and through our teams and also through the supplier which we know, the unorganized players are facing significant supply chain disruptions in terms of availability of certain chemicals, availability of decorative paper because they were largely all buying from China so shipment time schedules and they did not have adequate inventory. So few organized players also having challenges on supply chain side and I am sure that is helping us in improving our business Nehal.

Moderator: Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Just wanted to understand related to the previous participant's question, so when we say our realization would come down from what we had in the past, by may be around like 7%, 8% and margins would improve marginally may be around 1%, 2%, but effectively in absolute terms you are targeting a similar kind of EBITDA numbers per square feet, is that the target?

Saurabh Mittal: Maybe I could not explain to you nicely but with the increased production the incremental production utilization at the plants, the incremental EBITDA margins let us say on our x production we were doing 18% now if I end up producing more, on the incremental production margins could be 25%, 30% even if we produce lower value items. So EBITDA value and margin percent on those products are slightly lower since RM cost is slightly higher, but EBITDA value should increase.

Saurabh Patwa: So you are targeting absolute EBITDA growth versus the margins?

Saurabh Mittal: I am not sure what are we targeting, but we are targeting to run the business in a manner where we do not lose volume and we also keep focusing on building the value mix we should be doing for rather so many years and our realizations obviously are the highest in the industry, but the ability to build volumes in those high value or the value mix is a gradual process and because we are going to raise capacities in South and we will have more production and we are also improving our utilizations. We think by keeping a focus on both volume and improved value mix with more absorption of overheads and cost, overall margins, ROC, working capital cycle should all bring in improvements.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Asset Management. Please go ahead.

Hrishikesh Bhagat: Two questions from my end first is on the 1 mm has the volume share probably or volume run rate has it now reached to the Pre COVID level and do you think still the urban centers have not opened that much that this volumes is yet to reach the earlier Pre COVID levels that is the number one, the second question is on the issue of container availability now what is your sense in the sense relative to say last quarter has it eased out or secondly if it remains way it is, is it anyway impacting your competitive position or ability to service the export market relative to the European peers whom I believe might not be facing the same issues that is two questions from my end?

Saurabh Mittal: So on the 1 mm you are right, the urban centers at least under Q3 have not normalized which is Bombay, Thane, Delhi, Bangalore, Calcutta, but we see in January there has been an improvement in all these urban markets and we hope that in this quarter we will probably see the urban markets come back to normalcy which really means which you rightly pointed out so the 1 millimeter numbers which are largely more specification market driven, urban market driven were lower in Q3 because these urban markets were not performing to that extent, but we think that will normalize in Q4.

On the container availability yes container availability is a challenge, and we are managing the challenge because we ship nearly 40% of our laminates in exports market. So it is the availability of containers and in between we had a farmer strike agitation, the rail was blocked from the Himachal plant we could not do ICD shipment so we had to truck the goods and then besides availability of container this is also significant vessel delays. So that is potentially elongating our working capital cycle while you might have seen the working capital cycle that we have reduced the debtors usually means that we can even do better than what we are doing if these issues were not there. This is reducing our intensity versus European companies may be not because we already have inventory on ground in those markets. So it is not impacting the business from that perspective, but our flows could have been better had this not been there, but it's not something which is so out of control that we cannot manage.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Can you just give us an idea of how was the December exit growth rates for you because I understand it would not be blind path towards higher capacity utilization, so if you could just comment about in the domestic side as well as on the international, how were the exit rates for the month of December and how are you seeing January on the laminates side?

Saurabh Mittal: So when you say exit rates you want to know the numbers of December only?

Prateek Poddar: No, I do not want to know the number I was just trying to understand say the full quarter you were at 10% growth, would December be much higher than that and if you can give us the number what was December like I am sure October, November, December the utilization would have increased on a sliding glide path on the upward trend so just trying to understand?

Saurabh Mittal: Actually through October, November, December utilizations were pretty okay December obviously because the number of days were higher so we are producing better and January also we have been able to maintain by and large the December numbers so there is no reduction in Jan numbers. So I think we have been going pretty okay starting October so run rate of Jan is nearly similar to December numbers.

Prateek Poddar: And would be too of the industry also?

Saurabh Mittal: I cannot say that.

Prateek Poddar: And when you say your capacity was there a variance in domestic international or it was same as in the growth rates were equally distributed?

Saurabh Mittal: So if you see Q3 laminates the domestic volume went up by 12% while value was down by 4% and exports volume went up by 9% in sales while value was up by 3.1%. Quantity and value both would have been slightly better have this logistics issue not been there or was normalized and that would hold true for both domestic and exports and more for exports and less for domestic, but the volume and value would have been better for both the categories as we had unbilled sales. We had dispatches done from the factory but where lot of goods were in transit, dispatced from the factory but could not reach the customer or could not be loaded on to the vessel at the port.

Moderator: Thank you. We take the last question from the line of Abhishek Vora from Ambit Capital. Please go ahead.

Abhishek Vora: Just one basic question on the opening commentary that Mr. Ashok gave there was some breakup on volume and value basis of domestic and exports, just to clarify domestic volumes grew by 12% and export volume grew by 9% am I correct?

Saurabh Mittal: Correct.

Abhishek Vora: And can you just brief about the on-value basis domestic and exports?

Saurabh Mittal: So domestic value was minus 4% and exports value was up by 3.1%

Abhishek Vora: Domestic value was down by minus 5% right?

Saurabh Mittal: Yes down by 4%.

Abhishek Vora: And this is in terms of only laminates because there is visible in the presentation where you mentioned that the domestic growth has been 14.7% whereas exports growth has been 14.1%, so what is the difference exactly/

Saurabh Mittal: Growth is sequential basis versus Q2 of this financial year. Other math I think we made it comparing into the Q3 of FY20, so we have made two comparisons versus Q2 21 and versus Q3 20.

Abhishek Vora: Because there is some other comparison as well where the domestic demand is 96% of the Pre COVID levels and export demand is 103%?

Saurabh Mittal: That is the revenue figure.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Saurabh Mittal for closing comments.

Saurabh Mittal: Thank you friends. Thank you for all your intelligent questions and thank you for your time and thank you for joining us and Ashok will connect with you independently for two or three of those queries we could not answer on the spot. I really appreciate your time and thank you so much. Have a great evening ahead.

Moderator: Thank you. On behalf of Greenlam Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.