

Greenlam/2023-24

February 10, 2024

The Manager

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Dear Sir/Madam,

Sub: Transcript of Earning Call

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of Earnings Call held on February 05, 2024 to discuss the operational and financial performance for Q3 & 9MFY24 with Investors & Analysts of the Company.

You are requested to take the above information on records.

Thanking you,
Yours faithfully,

For **GREENLAM INDUSTRIES LIMITED**

PRAKASH KUMAR BISWAL
COMPANY SECRETARY &
VICE PRESIDENT – LEGAL

Encl: A/a



**“Greenlam Industries Limited
Q3 and 9M FY '24 Earnings Conference Call”
February 05, 2024**

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 02nd February 2024 will prevail.



MANAGEMENT: **MR. SAURABH MITTAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – GREENLAM INDUSTRIES LIMITED**
MR. ASHOK SHARMA – CHIEF FINANCIAL OFFICER – GREENLAM INDUSTRIES LIMITED
MR. SAMARTH AGARWAL – FINANCE TEAM – GREENLAM INDUSTRIES LIMITED
SGA, INVESTOR RELATION ADVISOR –

Moderator: Ladies and gentlemen, good day, and welcome to the Greenlam Industries Limited Q3 and 9 Months FY '24 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.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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:

Thank you. Good afternoon, friends, and a very warm welcome to all of you. On the call, I'm joined by Ashok, our CFO; Samarth from the finance team; and SGA, our Investor Relationship Advisor. The results and presentations are available in stock exchanges and our company website, and I hope you've had a chance to look at it.

I'll give you a little brief about the building material industry and our industry and then just take you through the key highlights of Q3 and the other initiatives, which we've undertaken over the last quarter and the last 9 months.

So on the industry of building materials and in particular, the wood panel industry, I think the future of the industry looks promising and strong, and our long-term thinking points on market share gains from unorganized to organized, the market share gain from international players in the exports business, the expansion of furniture manufacturing in India with multiple new OEMs setting up larger furniture plants in the country, so overall consumption of wood panel industry in the country.

Massive real estate projects being announced, being constructed, being at various phases of construction at the moment across the country will come up for interior fit-outs maybe in the next couple of quarters and clearly, we'll see a great demand at that point. There's also been implementation of the BIS quality standards, which we think will benefit one part of our business, which is the particle board business.

So overall, our long-term thesis, our line of thinking, I think is playing out in the market. Although in the short term, there have been some concerns of slower growth in the domestic market. There have been some concerns due to logistical challenges in the international markets in one part of the world. But just generally long term, we think that all of the story just makes sense and it is going to play out and probably it's only playing out at the current moment too. We think we are taking more market share across categories from the unorganized companies and internationally from the international regional players.

On the quarter gone by, the revenues went up by 11.9%, the domestic business grew by 17.8%. This is including the new business of plywood. The international business grew by just 4.8%. And like we mentioned in our communication, this was impacted due to certain revenues, which could not be booked due to goods being in the water, goods being at the port, and there was a temporary availability of containers challenges for certain destinations. The gross margins were also improved at 54.8%.

The EBITDA margin was at 12.5%. This is despite the fact that we had EBITDA losses at the new laminate plant in Andhra Pradesh and EBITDA losses at the plywood plant in Tamil Nadu.

The Veneer & Allied category turned EBITDA positive. So clearly, I think some things have gone well and from the situation of the Red Sea impact, had it not been there, the performance in revenues and margins would have been superior.

We continue to take several initiatives across categories in terms of channel expansion, deeper penetrations in market, several on-ground activities are going on. Several product launches have been done in the quarter, lot of digital medial marketing, TVC marketing is going on. So clearly, I think on ground, our sales and marketing teams continue to work hard to build more market share and continuously expand the business.

On the key capex we've initiated this year, the Gujarat factory, which expanded -- where we expanded capacities or rather, we had the enhanced capacities in the month of May 2023 has reached nearly 100% utilization. The plywood factory is stabilizing. The product quality has been accepted in the market.

And we -- as we see things, we think as we keep moving ahead, revenues will keep going up and EBITDA losses will keep coming down. The Andhra Pradesh laminate factory had EBITDA losses in Q3. We think in this quarter, we should have significant improvements in both revenue and profitability there. And in a couple of quarters, we should be able to streamline the Naidupeta laminate plant, too. The particle board plant is coming up well. There has been some delays there due to certain unaffordable situations and now we think the -- in Q2 FY '25, we can start the factory. We also purchased some land in Uttar Pradesh in the district, Sitapur for the future greenfield projects, but this is really at the initial stages at the moment. We have lot of government approvals, which are subject to come back and we will be working towards getting that done.

So that's briefly from my side in terms of where the business is. I'll hand over the call to Ashok. Ashok will take you through the financial numbers, and post which we'll be happy to respond to your queries and questions. Ashok, over to you.

Ashok Sharma:

Thank you, sir. Good afternoon, friends. I'll take you through the financial performance first for the quarter and then for 9 months.

Q3 FY '24 on a consolidated basis, revenue grew by 11.9% on a year-on-year basis, and degrew by 6.7% on a sequential basis to INR563.4 crores as compared to INR503.5 crores in Q3 FY '23. Gross margin grew by 650 basis points to 54.8% in Q3 FY '24 from 48.3% in Q3 last year. On a sequential basis, gross margin grew by 340 basis points.

Gross margin in absolute terms grew by 26.8% to INR308.6 crores as compared to INR243.3 crores in Q3 last year.

EBITDA margin was up by 170 basis points and stood at 12.6% as compared to 10.9% in Q3 last year. On a sequential basis, EBITDA margin grew by 10 basis points. EBITDA in absolute terms grew by 29.8% to INR71.1 crores in comparison to INR54.8 crores in Q3 last year.

Net profit for the quarter stood at INR25.3 crores as against INR28.6 crores in Q3 last year.

On 9-month basis, consolidated net revenue grew by 12.7% to INR1,682 crores in comparison to INR1,492 crores in last year.

Gross margin was up by 680 basis points to 52.8% from 46% in 9 months last year. Gross margin in absolute terms grew by 29.5% to INR888 crores in comparison to INR686 crores last year.

EBITDA margin was up by 200 basis points and stood at 12.6% from 10.6% in 9 months last year. EBITDA in absolute terms grew by 32.9% to INR211 crores in comparison to INR158 crores in 9 months last year.

Net profit grew by 17.8% to INR97.2 crores as against INR82.5 crores in 9 months last year.

Moving on to segmental performance. Laminate revenue grew by 8.8% on a year-on-year basis, and degrew by 5.9% sequentially to INR499.8 crores in Q3 this year from INR459 crores in Q3 last year.

Volume growth stood at 9.1% on a year-on-year basis.

Domestic laminate revenue grew by 12.8% on a year-on-year basis and grew by 4% sequentially in value term. Volume growth stood at 11.2% on year-on-year basis. International laminate revenue grew by 4.8% on year-on-year, and degrew by 14.9% sequentially value term on account of delay in shipping and getting containers. Volume grew by 6% on a year-on-year basis.

EBITDA was at 15.9%, a growth of 350 basis points on a year-on-year basis and degrowth of 50 basis points on a quarter-on-quarter basis. This is after accounting for the initial start-up cost of Naidupeta laminate plant, which was started on 29th September.

Production volume were at 5 million sheets and at a utilization level of 82% on enhanced capacity after adding the capacity of Naidupeta plant. Capacity utilization in Naidupeta plant was approximately 20% on an annualized basis.

Sales volume for the quarter stood at 4.65 million sheets, and the average realization for the quarter was at INR1,036 per sheet.

Moving on to the 9 months.

Laminate revenue grew by 10.5% to INR1,503 crores from INR1,360 crores last year. Volume grew by 11%. Domestic laminate revenue grew by 11% in value terms and volume growth stood at 17.9%. International laminate revenue grew by 9.8% in value terms and volume grew by 2.6%. EBITDA margin stood at 15.7%, a growth of 350 basis points on year-on-year. Production volumes were at 14.64 million sheets at a utilization level of 88%.

Sales volume for the 9 months stood at 13.75 million sheets and average realization for the 9 months was INR1,050 per sheet.

Moving on to Decorative Veneer & Allied segment, which consists of decorative veneer, engineered floors and engineered doors.

In Decorative Veneer segment, business grew by 11.7% on a year-on-year basis and degrew by 24% on a sequential basis to INR27.4 crores this quarter from INR24.5 crores in Q3 last year.

Volume grew by 31.5% on a year-on-year basis. Revenue of decorative veneer business grew by 11.6% on a year-on-year basis to the INR88.7 crores in 9-month FY '24 from INR79.4 crores in 9 months last year.

Volume grew by 6.2% on a year-on-year basis. Sales volume for the quarter stood at 0.31 million square meters and 0.98 million square meters for 9 months. Capacity utilization for this quarter stood at 31%, and for the 9 months output, it was 31%. Average realization for the quarter was INR868 per square meter. And for the 9 months, it stood at INR901.

Moving on to engineered wood flooring.

Revenue of engineered wood flooring business grew by 22.3% on a year-on-year basis and remained flat on a sequential basis to INR13.3 crores in quarter 3 this year as against INR10.9 crores in quarter 3 last year.

For the 9 months, revenue of engineered wood flooring business grew by 8% to INR36.9 crores, as against INR34.2 crores 9 months last year; however, capacity utilization stood at 12% for the quarter and for the 9 months.

We are happy to inform that this engineered wood flooring business is breakeven in this quarter. Engineered door business degrew by 22% on a year-on-year basis and degrew by 15% on a sequential basis to INR7 crores as against INR9 crores in Q3 last year.

For the 9 months, engineered door business grew by 23.8% to INR22.1 crores as against INR17.9 crores in 9 months last year. Capacity utilization for the quarter was at 18%, and for the 9 months, it stood at 15%.

Moving on to another -- moving on to Plywood segment.

Revenue of plywood business stands at INR16 crores in this quarter and INR31.7 crores in 9 months. Sales volume for the quarter stood at 0.73 million square meters and 1.39 million square meters for 9 months. Capacity utilization for the quarter and 9 months stood at 14%. Average realization of plywood for the quarter was INR218 per square meter and for 9 months, it is INR228 per square meter.

Our net working capital increased by 4 days to 72 days in comparison to same quarter last year. This is primarily on account of export material stuck at port and in the transit and the inventory buildup for our new plants -- our new laminate plants at Naidupeta and plywood plant. Our net debt as on 31st December stood at INR847 crores.

That's all from our side. I would now like to open the floor for Q&A. Thank You.

Moderator:

Thank you very much. The first question is from the line of Keshav Bijayratan Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti:

It's good to see veneer, engineered door segment performance improving. I just want to check on the plywood side, possibly not much ramp-up is seen on Q-on-Q basis. Earlier, you were sort of targeting 40%, 50% capacity utilization in Q4, so how is the progress? What sort of distribution network you are adding it over here?

Saurabh Mittal:

So plywood, I think Q-on-Q we keep seeing improvements. And so I think our plan of building the factory to 100% utilization should happen in FY '26. We are right now focused only in the South India markets and we might add Maharashtra also to the sales marketing program for starting next financial year and a number of dealers are getting added, secondary sales are being done.

And so we're seeing good progress on ground, maybe not so visible on the numbers. But clearly, I think the product quality, the stabilization, supply chain, acceptance from market, channel partners appointments, secondary activities. A lot of work is going on ground, and we're seeing good work on ground happening and we think we'll keep taking market share and growing the business on a sequential basis.

Keshav Lahoti:

Okay. Got it. Good to hear that. Sir, coming on the laminate side, there is 2 issues. One is the Israel war issue, which is impacting the demand. How is the progress going on that front? And secondly, the recent spike in the ocean freight rate. So are you able to sort of pass it on to the customer?

Saurabh Mittal:

So on the demand side if you see last quarter, yes, demand was also a little bit slow, but the last quarter was more of a challenge on the delays of the vessels because the haulage happened in the second, third week of December. As we speak right now, container availability is more or less streamlined, but the sailing time to Europe and America is taking 2 to 3 weeks longer than the previous time.

So on the demand side, I think, we should be okay because we've seen we generally end up taking more market share from the international players in a little bit difficult market situations. And also with Andhra Pradesh factory, we have a particular size, which we did not have earlier. I think that market is also opening up. So I think we should be okay on the demand side.

And what was the next question, please, Keshav? Ocean freight, yes. On the ocean freight, actually, we have a predetermined sea freight agreed with the customers. If it is beyond that particular freight, the customer absorbs the freight. So this we have done at the COVID time also when the freight rates really had shot up, so that is not a big challenge for us beyond a certain level of freight rate with delivery.

But yes, the sea freights have gone from what we were paying to a certain level, which obviously will increase certain freight costs. But we think, with improved product mix or increased capacity utilization, that will not be anything of much significance, we should be able to absorb to that extent.

Keshav Lahoti:

Got it. And how is the progress on the AP new laminates plant? Any number to quantify the EBITDA loss for this quarter and when we expect it to breakeven and ramp-up plans?

- Ashok Sharma:** Yes, Keshav, this was first quarter, so EBITDA loss was in the range of around INR3 crores to INR4 crores and we are hopeful that within, let's say, this quarter, next quarter, we are ramping up the production and sales, and we are hopeful that within this quarter or next quarter, we will break even and it will start generating positive margin.
- Keshav Lahoti:** Okay. One last question from my side. I'll come back in queue later. What is the idea behind the UP land? You are planning expansion on which product portfolio?
- Saurabh Mittal:** So can't disclose much at the moment because greenfield projects in our industry takes time in terms of licensing, environment clearance, etcetera. And also -- so really, it's more from the long term -- from a future perspective in the past also when we buy large amounts of land, we've had issues or delays in approvals and environment clearance, etcetera. So it is more from a long-term perspective, not much which we can discuss right now.
- Moderator:** The next question is from the line of Sneha Talreja from Nuvama.
- Sneha Talreja:** Congrats on strong volumes despite uncertainty in the market. Just a couple of questions from my end. Your Decorative Veneer business has definitely seen sequential improvement, but if I look at margins, they are still impacted, when can we see it going back to pre-COVID levels? And Q-on-Q, there is a sequential decline in terms of the revenue, so what's happening here?
- Saurabh Mittal:** So the veneer and flooring business both have seen improvements in gross margins and EBITDA margins. As far as the veneer business coming back to a pre-COVID level, we think the business will keep improving as raw material costs have more or less kind of stabilized in the veneer business because most of the raw materials for the veneer business comes in from Southeast Asia and Asia, and we don't see much impact on freight and cost in those markets. So I think with a little bit more volume increase, we should keep seeing improvements in the veneer business.
- Sneha Talreja:** Understood. Secondly, it's more of a bookkeeping question. Why is the tax rate this particular quarter increased significantly to about 29-odd percent?
- Ashok Sharma:** Will you come again, Sneha?
- Sneha Talreja:** Sir, why is the tax rate increased during this quarter? Is there any provision something that you've made?
- Ashok Sharma:** No, not at all. Because the Naidupeta, which has started in this quarter and that's in the another company that's in the another subsidiary and that has losses in terms of that, because of that reason, it has gone up.
- Sneha Talreja:** Sir, I'm sorry, I did not get that. Your subsidiary is making losses, but because of which why has the tax rate gone up?
- Ashok Sharma:** So the Naidupeta unit, which is in the GSL, which is in the loss in this quarter. And on the consol, when we do, that's when the losses -- that time the tax rate increases.
- Sneha Talreja:** Okay. I'm still just trying to get the math...

Saurabh Mittal: Your voice is cracking, Sneha.

Sneha Talreja: Is it better now, sir?

Ashok Sharma: Yes, yes, it's better now.

Sneha Talreja: I said I'll actually follow up with you on a one-on-one basis after the call. And all the best.

Moderator: The next question is from the line of Bhavin Rupani from Investec.

Bhavin Rupani: My first question is related to plywood, sir. What is the breakeven level that we expect for plywood and when will it reach?

Saurabh Mittal: The plywood breakeven should be at a level of 50% to 60% utilization and we hope in the coming financial year, we should be somewhere in that range of breakeven in the plywood business.

Bhavin Rupani: You're saying that the 50%, 60%, we will reach in next year?

Saurabh Mittal: That's right.

Bhavin Rupani: Towards the end sir or in the first 2 quarters?

Saurabh Mittal: No, towards the end. If you know that's the quickest, but you can assume that on an annualized basis, we should be somewhere in that range. So maybe towards the end of that, let's say towards H2 of next FY.

Bhavin Rupani: All right. And sir, my next question is related to laminates. What is the proportion of total exports as compared to our total revenue? And what is the proportion, which is exported to America and Europe?

Ashok Sharma: Yes. Bhavin, in this quarter, the international business is around 47.5% of the total laminate revenue and in terms of U.S., the -- your question is about the U.S.?

Bhavin Rupani: U.S. and Europe both, sir.

Ashok Sharma: U.S. and Europe, that probably we will have this on one-on-one basis.

Bhavin Rupani: All right. And sir, do you see any impact on exports going ahead if the issue persist? And is it possible to quantify anything?

Saurabh Mittal: I won't say much at the moment on that. Last month was okay for us, it was just fine. So I don't see much issues unless we're surprised by something else.

Bhavin Rupani: All right. Sir, third question is related to particle boards. Sir, we have delayed our commissioning by 1 or 2 quarters. So is it because of a delay in delivery of machines or is it due to elevated imports that we are seeing in India? Any sense on that?

Saurabh Mittal: So actually, most of the international imports or equipments have come to site. Besides, so as we talk right now, that's more or less under control. The commissioning work has also started at

the plant. We did have an impact of a few weeks in December due to the massive cyclone and rains happening in that part of the country, which kind of delayed certain civil works.

But there are -- as we talk right now, there are no challenges on equipment delivery or availability, et cetera. Things are being executed on the ground. So things would get pushed about 2 to 3 weeks because of the rains and cyclone in the site, it's hard to do civil work at that time. But otherwise, equipments as such are under control.

Bhavin Rupani: All right. And sir, my last question, if I may. It's related to veneers. Sir, can you tell us some of the steps that we are taking to increase utilization level over here?

Saurabh Mittal: So if you look at the veneer and allied category, I'm assuming you're talking about the entire category, which comprises of decorative veneers, flooring and doors. So steps are again in the form of channel expansion, secondary working, working with architects, designers, developers, builders, a lot of hospitality projects are coming up, which typically needs wooden flooring.

So real estate projects are -- we are hoping that with the amount of real estate being built in the country when they come for fit-outs, all these categories will grow. So I think it's numerous steps in terms of both sales and marketing and product development, which is being taken.

Moderator: The next question is from the line of Aditya Pal from Motilal Oswal Financial Services Limited.

Aditya Pal: Hello? Am I audible?

Saurabh Mittal: Yes, please.

Aditya Pal: Sir, just wanted to quickly understand on the demand environment in the exports market for Indian manufactured laminates, specifically in the developed regions like U.S., Europe, Mexico.

Saurabh Mittal: Please come again. Are you asking the demand environment?

Aditya Pal: Yes. Are we seeing any slowdown? Are we seeing any loss in market share for Indian manufacturers in these particularly 3 regions?

Saurabh Mittal: So I can talk about like for our company. So we are not seeing any market loss, business slowing down for us at least because anyway, we're not so large versus the local players there. So as we talk right now, we think it's an opportunity for us to take more market share, so we are not seeing any particular market loss or any slowdown -- significant slowdown for us for these regions and at the moment.

Aditya Pal: And for -- in Europe, where their manufacturers have -- on a cost basis compared to Indian manufacturers, are we seeing good strong market share gains for Greenlam?

Saurabh Mittal: Please come again. I think your voice is echoing a bit, please. So sorry about -- can you come again?

Aditya Pal: Is it better? Is it better now?

- Saurabh Mittal:** It's a bit muffled.
- Aditya Pal:** Better now? Hello?
- Saurabh Mittal:** Yes. It's clear a bit. It's better.
- Aditya Pal:** So just wanted to understand, so because there is a cost disadvantage for European manufacturers, are we seeing market share wins for Greenlam where it is moving away from a company like Formica...
- Saurabh Mittal:** Yes, yes. No, so clearly, I think we will have market share gains. And we've said this in the past before the Andhra Pradesh factory commenced, we were restricted on capacity, and you can see the data earlier, we were nearly at 100% utilization. So we couldn't take on more customers and more business, so we will see market share gains from the companies you mentioned.
- Now this depends on various geographies in certain countries or regions, some other brand is -- some other company is stronger, in some other region, someone else is stronger, so I think we'll see market share gains in Europe since you mentioned Europe from the companies you mentioned. I think they have a lot of challenges with people availability and costs, et cetera. So I think we will see gains.
- Aditya Pal:** Perfect. Sir, just last question if I move to the -- in the queue again. Do we see a lot of unorganized players in this segment of the market that is Europe, U.S., the developed kind of the market?
- Saurabh Mittal:** No, no. We don't see -- I'm assuming your question is, do we see unorganized manufacturers in India ship into these markets? Is that the question?
- Aditya Pal:** Correct.
- Saurabh Mittal:** No, so we don't see that, I think. Because these markets need a certain product, a certain standard and a certain dimension I think, so not every manufacturer in India ships to this region that they don't have the capability and the capacity to ship to this region. So it's very limited players operating industry.
- Aditya Pal:** Perfect. Perfect. Sir, just one more question. From a bookkeeping perspective, you highlighted the international business revenue share. Can you also give me the breakup of volumes?
- Ashok Sharma:** Volume of what? Volume of the international...
- Aditya Pal:** Volume of laminates.
- Ashok Sharma :** We can share that on one-on-one basis.
- Moderator:** The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Funds.
- Hrishikesh Bhagat:** Can you just highlight how will this BIS dynamics play out in particle board? If I'm -- correct me if I'm wrong, these imports are close to -- it's largely imported, a fair bit of particle board in

India. So how much is that BIS compliant according to your -- probably what could be the challenges for the importers post these norms?

Saurabh Mittal:

So my limited understanding now is that this will have a challenge for imports coming in the country. And as you probably know, in the domestic market, besides 1 to 2 players, you have largely unorganized producers producing and shipping particle boards, which mostly is of very inferior quality. So I think this will have a challenge for both imports and local unorganized producers of particle board. So I think -- and if they have to follow the BIS norms, clearly, their cost will increase, and there'll be more level playing field in the market.

Hrishikesh Bhagat:

So today, there's not much in the sense, import is largely non-BIS compliant, fair to believe that or different?

Saurabh Mittal:

Yes, imports -- yes, I mean -- well, some maybe BIS compliant, some may not be, but they have to still go through the process of getting the compliance done. But I think the larger impact will be from the domestic local producers because the local production of chipboard or particle board from the unorganized producers is far higher than the imports coming into the country. And for all practical reasons, besides 2, 3 companies, everybody else as we talk right now, which could be another 30, 40 midsized, smaller size factories producing nonstandardized products.

Hrishikesh Bhagat:

Okay. And just the fair bit of demand in the domestic market, it's largely met through imports currently in absence of domestic capacity?

Saurabh Mittal:

So the way to look at it is in the OEM segment, our understanding is that OEMs, 80% of the raw materials in the wood panel industry constitutes of pre-laminated particle board. In absence of good quality particle boards and consistent supply chain, a lot of this market we believe, has moved to prelaminated MDF also. So that demand is being serviced by imports by prelaminated MDF also, right? So clearly, when a good supplier comes in with the right product quality, with the right supply chain, consistency of supply, right formats, which helps them improve the yield and reduce the wastage, will gain more market share.

So our equipment and our plant -- the equipments we are getting in our factory because we are investing now with the latest equipments, which is available anywhere in the world, so the quality of the board, the quality of cutting, the finishing of the product, the surface finish will be far superior to any other company, most of the companies in the country.

And the prices of pre-laminated particle board is anything between 20% to 25% lower than prelaminated MDF. So we think a lot of the OEM demand of boards will move to prelaminated particle boards, which is happening everywhere in the world, so nothing new we are talking. It's happening everywhere in the world.

Hrishikesh Bhagat:

Okay. And just from the larger particle board capacity, say, over the next 1 year, if I have to look, it's largely you guys, Century and recently commissioned Merino, is that a fair understanding? Or is there anything else also on annual?

Saurabh Mittal:

So my understanding is that our and Merino's capacities will be quite comparable and we both possess similar strengths because of laminates and combination of laminates, boards, etcetera.

And then in fact you mentioned, I believe Century is also looking at expanding capacity or adding a new plant in Tamil Nadu, that's right. Beyond that we are not aware.

Hrishikesh Bhagat:

But apart from you guys...

Saurabh Mittal:

I have not heard of anything.

Moderator:

The next question is from the line of Nikhil Agrawal from VT Capital.

Nikhil Agrawal:

Sir, I wanted to understand what was the raw material spend in quarter 3, has it been falling down, has it been constant, what has it been?

Saurabh Mittal:

So if you go segment-wise, in the laminate segment, mostly we procured paper and chemicals, largely being stable. We have seen some temporary increase in kraft paper costs the last quarter came down. We've seen some increase a little bit this quarter as we talk right now. The wood veneer segment mostly has been stable. And in the plywood business in last quarter has been stable because Q2, the costs had gone up. So broadly, a little bit, give or take, more or less stable in the last quarter.

Nikhil Agrawal:

Sir, I believe we mostly import a lot of our raw material like I think in the paper segment, so any impact because of the Red Sea crisis? Or any issues in the supply chain because of that?

Saurabh Mittal:

So imports from Asia is not being impacted. Imports from Europe will get impacted due to certain supply chain issues with deliveries coming in maybe delayed by 2 to 3 weeks as we talked, but we believe that production turnaround time of our suppliers have reduced because of their own local demand issues. So yes, there could be some minor impact. But as we see things now, we don't see this to be very consequential.

Ashok Sharma:

Nikhil, of our raw material, only the base paper and some portion of veneer is being imported from Europe side, rest -- and that too also some percentage of that is being imported, Rest all are coming from other places and domestically procured also, so we'll not have -- overall percentage will not have that much impact.

Nikhil Agrawal:

Okay. Okay. Got it. And so what exposure -- normally, if you could quantify on a quarterly basis, how much volumes do we sell to Israel or the Middle East countries that are impacted? I believe that's some significant percentage.

Saurabh Mittal:

So it's not so significant, but I must say our sales in Middle East and Israel haven't come down, so it's been maintained for. It's not impacting the business, it's not impacting negatively to the business.

Moderator:

The next question is from the line of Mr. Achal Lohade from JM Financial.

Achal Lohade:

Just 2 questions, sir. First, with respect to the pre-laminated particle board, which you said is kind of being substituted as of now by the prelaminated MDF. Would you be able to give a broad sense in terms of CBM, how much would that be?

Saurabh Mittal:

I don't have that math ready, so I will not be able to comment on that right now, Achal.

Achal Lohade: Okay. No problem. The second question I had, if you look at the EBITDA, the EBITDA per sheet, I don't know if that is the right metric to look at. We see that prior to 2015, it used to be between INR50 to INR70. And from 2016 to say 2020, it was about INR100. '21 to '23 is about INR140 -- INR130, INR140. And last 3 quarters, if I look at, it's about INR170 last 5 quarters, 6 quarters, between INR160 to INR170. So would you be able to guide us as to what is driving this? Is it product mix alone?

Is it the cost optimization? Because on one hand, you said there is additional cost, which is incurred in the new facility, which has kind of impacted the margins. But at the same time, if I look at the per sheet, it's actually fabulous at INR170. So if you could elaborate a bit as to what has driven this improvement in terms of the pricing margin, product mix, anything on that, sir?

Saurabh Mittal: So I can't exactly go rupee wise, what we said for Q3 was that the EBITDA of the existing business of laminates was far higher, which is not visible because of the EBITDA losses in the new plant because we just started to plant on 29th September, and just takes time to put the thing in process, get that operating parameters correct and all that, which has more or less been done. So I would say multiple things have done it and not one particular piece.

So right from higher production, improved value mix, pricing discipline, cost optimization. In the initial days, we've had a lot of higher cost situation where we have large export teams, international teams where we invested ahead of the curve. Even now we think we still have not seen the entire return of the investments we have done or we are doing in market building, in market expansions in both domestic and international markets. I would say multiple factors have gone into improving the profitability in percent and value per sheet.

Achal Lohade: So what I'm trying to figure out is that the kind of ROCs what we have on the existing, does it make more attractive for the newbies to jump into the segment and kind of pull down to the average or median, I'm just coming on that...

Saurabh Mittal: The laminate business, unlike some of the commodity businesses are not easy to build and you probably see companies who've been in the business for 30, 40 years or 50 years. It just takes time to build the distribution network, build international network, get the specification. So I don't see new companies or new people coming in and disturbing the equation -- return on capital or the entire business proposition. I think it's just a very hard business to build not the manufacturing side, but the sales, marketing and distribution side.

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

Ronald Siyoni: Sir, on your guidance front, would you going to like revise the guidance in terms of laminate value growth above 15% and overall 20% to 25% for FY '24? So do you expect Q4 to be on a softer side considering the demand environment?

Ashok Sharma: So I think we said FY '24 to be like a 18%, 20% looking more like a 15-odd percent because we've done about overall 12% -- slightly over than 12% growth. So I think we should be in a vicinity of 15% for this financial year. And for next financial year, I think overall, it should be more like, I think, in the vicinity of 20% both, top line.

- Ronald Siyoni:** Okay. Great. And on the second question on the debt front, like INR847 crores or INR850-odd crores net debt stays for FY '24? Or there should be a marginal increase in net debt? Or this should be the peak debt that the company should have?
- Ashok Sharma:** We are expecting in this quarter, it may slightly go up and it will be in the range of around INR850 crores to INR900 crores. And that will be the peak debt, and it should start coming down from next year onwards.
- Moderator:** The next question is from the line of Abhishek from DSP.
- Abhishek:** Sir, just in terms of the plywood segment, how are you seeing the competitive landscape there, given that timber prices have been on an increase. And any view that how should one look at the timber price movement?
- Saurabh Mittal:** So we've said this in the past that our model right now is more regional in nature. So yes, there has been an increase in timber price in South India. From the time we conceived the project, from the time we started production to now. So as we see things now, there could -- there is a minor increase in terms of prices, but we believe that prices should now kind of somewhat peak out as far as the timber prices are concerned. As far as we are concerned, we have facilities to in-house peel most of the raw material with 2 strategic located factories of peeling, which is in Tamil Nadu partially and partially in Andhra Pradesh.
- So once our production of particle boards, laminates and plywood all stabilize, we believe our costs will be one of the lowest in the industry because whatever waste gets generated becomes part of our raw materials or part of the plant or part of a fuel for the laminate plant and part of the fuel of the plywood plant. So I think we're just right now setting these things up, so I think as we progress, we believe the strategy we've done in terms of sourcing timber from 2 different -- from 3 different states in 2 different locations, and the waste being used in our manufacturing process, we should be okay with it. So that's how we see timber prices. This is what we can see right now. If something else happens, can't say much about it, Abhishek.
- Moderator:** The line for the current participant has been dropped from the queue. So we'll move on to the next question. The next question is from the line of Keshav Bijayratan Lahoti from HDFC Securities.
- Keshav Lahoti:** Sir, will it be a perfect analysis like Merino plant is coming in Gujarat for the particle board and possibly you have a plant in South. So normally, the timber prices is far lower in South versus the West. So any day you will have an upper hand over Merino and you should make a better margin?
- Saurabh Mittal:** I can't say much on that, but whatever we understand I believe, availability of raw materials and costs are superior in South for raw material versus Western India. And the market size of particleboard also, we believe, is larger in South India. But if things change -- this is what we can see, but I don't know whether that lead to higher margin, depends on who does what pricing strategy. So can't comment too much on that.

- Keshav Lahoti:** Got it. Our analysis was there was a war situation in Israel and your commentary is you haven't seen any impact for Israel like in quarter 3, Q-on-Q, your revenue is flattish for Israel, more...
- Saurabh Mittal:** Yes. Correct. That's correct. So our sales in Israel haven't dipped, although it's not very large, but whatever it is, it's being maintained. Actually, it's gone up a bit. I don't know why that is so, but it's going okay.
- Keshav Lahoti:** Will it be due to market share gain because market might have shrink due to war?
- Saurabh Mittal:** Could be. And because so I've not seen the international data, but my CFO tells me that exports from India has come down in Q3. And while we've gone up a bit, so maybe there's a market share gain. Also, like we said in the past, we've done market development activities for many years in terms of specifications, in terms of newer capacities and a lot of marketing activities have happened. And international players were shipping into Israel, maybe their share has partially come to us. Or maybe people are stocking up right now. So I'm not sure what the reason could be, which could be multiple reasons.
- Keshav Lahoti:** Got it. Is it possible to quantify how big is Israel in your export mix?
- Saurabh Mittal:** We can, but we don't want to disclose that number.
- Keshav Lahoti:** Okay. Not an issue. Last question from my side, what is the capex revised guidance for FY '24 and '25 because particleboard is a bit delayed?
- Ashok Sharma:** So pending this project, which has been announced, so there is not much of a capex in terms of the routine capex, which is there as of now. We will complete this. First, we want to complete this project and then probably we'll see if there is any of capex, which is needed in the existing business. But as of now, there is not much of a routine capex.
- Keshav Lahoti:** No, got it. My question is more towards like particleboard, how should we build the capex for FY '24 and '25? The split.
- Ashok Sharma:** That probably where is -- most of the equipment has come in this quarter, so there won't be much capex in the next year, but we will discuss it offline.
- Moderator:** Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.
- Saurabh Mittal:** Thank you, everyone. Thank you for attending the call and thank you for your queries and questions. Ashok and Samarth will take a few of your questions, I believe, offline one-on-one. Thank you once again for your patience and contributions. Thank you.
- Ashok Sharma:** Thank you everyone.
- Samarth Agarwal:** Thank you, everyone.
- Moderator:** Thank you. On behalf of Greenlam Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.