"Greenlam Industries Limited
Q1 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q1 FY21 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saurabh Mittal, MD & CEO Greenlam Industries Limited. Thank you and over to you Mr. Mittal!

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

The April to June quarter was impacted due to COVID-19. Due to the lockdown, sales in April was negligible. Towards the end of April, both the factories started. 20th April was the date we started the Behror plant and 25th April was the date we started the Himachal plant and the Head office started from the first week of May. Subsequently various markets across the country started opening within the month of May.

The months of May and June did see recovery in sales. June month was nearly at 90% level of what we did in June 2019, May was still at a 45 to 50% kind of a level. Q1 assuming taking the entire quarter, the domestic business has operated at 30 to 35% revenue run rate versus Q1 of FY20. The international business is at 85 to 90% sales level of Q1 FY20. So overall in Q1 the business operated at a 55% level versus Q1 of FY20.

As we talk right now, exports have largely come back to normalcy and domestic business is still at 50 to 60% kind of a run rate. In certain markets in the country there are restrictions of timing where the dealer can operate, odd even schemes etc. In certain markets, certain states, there is a weekend shutdown and weekend is typically people go out and buy building material products from the showrooms of dealers etc. So there are still restrictions across most part of the country and the momentum for the domestic business has still not come.

On the international markets although most markets now are not under the lockdown but yes there were some restrictions in certain markets in April to June. Most markets have undergone some sort of lockdown ranging from 30 days to 60 days even 75 days. So it is quite varied actually.

Assessing the situation of COVID-19 on our business, we believe that it has created tremendous pressure on the unorganized and the regional companies. Companies like us are in a superior position to gain more market share and recover from the crisis at a faster pace than the unorganized companies. There are several unorganized companies in India which have not still been able to start the plants, some have started but with very minimal manpower, low capacities, issues of manpower, issues of finances, customers, etc. So we think we are in a very good position to expand market share both in domestic and international market.

Greenlam products have been certified for anti-bacterial properties for over last 10 years and this confirms to the international standards and the domestic standards. This year we started advertising anti-bacterial products during the COVID crisis. We thought it is a good opportunity to go out and communicate to the customers that the products are safe and very relevant in current environment.

We believe that with good product portfolio, strong balance sheet , strong distribution network, with good network in international markets too, we should be able to really come out of this crisis largely undisturbed and gradually winning more business post the lockdown and gain more market share during this current crisis. So this is what I would say right now and I have Ashok to take you through the financial performance data. Post which, we will be happy to answer to your queries.

Ashok Sharma: Good afternoon friends. I will take you through the financial performance.

For Q1 FY21 on a consolidated basis:

Net revenue de-grew by 44.6% to Rs. 160.4 Crores as compared to Rs. 289.5 Crores in Q1 FY20.

Gross margin improved by 20 basis points to 49.7% from 49.5% previous year. Gross margin in absolute term declined by 44% to Rs. 79.7 Crores as compared to Rs. 143.5 Crores previous year.

EBITDA margin de-grew by 540 basis points to 4.9% in this quarter from 10.3% in last year. EBITDA de-grew by 73.7% to Rs. 7.9 Crores as compared to Rs. 29.9 Crores in previous year.

This quarter saw a net loss of Rs. 7.7 Crores as against net profit of Rs. 8.4 Crores in corresponding quarter last year.

Moving on to segmental performance**,** laminate and allied products formed around 91% of our Q1 sales, this is higher than normal of around 85%.

For Q1 FY21 laminate revenue de-grew by 40.7% to Rs. 145.6 Crores in this quarter as compared to Rs. 245.6 Crores in last year same quarter.

Domestic laminate revenue de-grew by 65.7% in value terms and volumes de-grew by 54.5%. International laminate revenue de-grew by 12.9% and volumes de-grew by 21.1% for this quarter.

EBITDA margin for laminate stood at 8.5% as against 12.6% in the previous year. Production volumes were at 1.99 million sheets and capacity utilization stood at 51%. Sales volume for the quarter was at 1.73 million sheets and our average realization for the quarter was at Rs.810 per sheet as against Rs.818 per sheet in Q1FY20.

Moving on to decorative veneers and allied segment, this has formed around 9% of our Q1 sales, since this segment is impacted more due to COVID as compared to laminate segment.

Total veneer and allied revenue stood at Rs. 14.7 Crores, a de-growth of 66.5% year-on-year.

In the deco veneer segment, revenue de-grew by 75% to Rs. 6.2 Crores. Capacity utilization was lower at 6% and sales volumes were at 0.08 million square meters for this quarter. Average realization stood at Rs.741 per square meter.

Moving on to the engineered wooden flooring, the revenue de-grew by around 71% and stood at Rs. 3.3 Crores. EBITDA loss for this quarter was Rs. 1.5 Crores and capacity utilization was 11%.

Moving on to engineered doors, business de-grew by 27% to Rs. 5.2 Crores. EBITDA loss for this quarter was Rs. 0.9 Crores and capacity utilization for this quarter stood at 24%.

On the balance sheet side, gross debt for the quarter stood at Rs. 332 Crores due to higher working capital level during the lockdown period/ Working capital cycle was distorted and stood at 218 days for the quarter. This was due to severe decline in sales and inventory build up, since most of our raw materials are imported, however as the business improves, we will be able to better our working capital and accordingly bring down the debt. In absolute terms, our inventory debtors and creditors has not gone up as what is visible in these days. So inventory was at Rs. 412 Crores, higher by Rs. 60 Crores. Our debtors/ receivables were Rs.122 Crores, down by around Rs. 14 Crores from March quarter and creditors/ payables were Rs. 151 Crores. This is all from our side. Now I would 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 Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Thanks for the opportunity. Sir one thing on the laminate side, can you throw some light on realization both on the domestic as well as on the export side because it seems that realization have come down quite dramatically.

Ashok Sharma: So the domestic realization has come down by around 19% and this is primarily due to the mix and export realization has gone up by 12.3% this is again the value mix as well as the depreciation in rupee. So overall the laminate realization is more or less same. It is down by around 1%.

Nehal Shah: Right but anything as to how our domestic realization will shape up going forward because this is a big quantum dip in realization per se.

Saurabh Mittal: We have not reduced pricing or anything of that sort. We introduced a commodity line in Q1 because we were not present at that price point in that market and seeing that local companies were not able to supply to that product category, we introduced that and we have got some traction on that sales. Obviously, the endeavor is to be completely focused on the 1 mm category and the premium category but I do think it will take at least for sure Q2 because most of the markets are not, markets which are largely 1 mm markets are still struggling like Mumbai, Thane, Delhi, Kolkata, Ahmedabad, Pune, Chennai was struggling, Bengaluru was under the shutdown so the urban centers, the metro market about 15 to 20 cities largely bring in 1 mm or the premium business and I think that will surely struggle in this quarter also and hopefully it will keep improving post that.

To bring in more focus on the product categories, we have come out with a television campaigning, some digital market campaigns on the antibacterial quality because all our inventory across the pipeline for so many years have all these antibacterial properties and this has just becomes more relevant at this time in the price and customers or channel partners who are really not paying too much attention to it. So there is a complete attention and focus to keep building the 1 mm category but yes in the short-term those numbers are under pressure.

Nehal Shah: Sir can you give more clarity on the commodity line which is introduced now what kind of business it is and what is the market size in the segment?

Saurabh Mittal: This is a 0.7 mm product and market size is quite large in terms of quantity. I cannot put an exact figure but at least pre-covid the number is 4 million sheets may be even more per month in the domestic market.

Nehal Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Kaustubh Bubna from Rare Enterprises. Please go ahead.

Kaustubh Bubna: Sir I have a question on the demand dynamics. Could you please help with some examples to give us an idea of what type of demand patterns you have witnessed since the onset of COVID. Let us assume that we would not have any more lockdowns and this quarter is good days to grow from sequentially just an assumption. From what type of customers your real estate segments or avenues will see incremental demand come from?

Saurabh Mittal: I can give you a general update so there are places which are still under the lockdown in this quarter and before we got into call we were just informed that Bihar has extended lockdown till middle of August. So lockdowns are still happening and the markets which are not under the so call lockdowns also have restricted timings. So when we go down to a more granular level, you go down to districts and towns you can observe that the work is still has not begun, there are lockdowns rather. July is nearly over and there is disturbances still. So post COVID you have this pent-up demand people will go at incomplete projects they will want the materials. Certain OEM factories, wardrobe producers, kitchen producers, office worktop producers, and school projects and government projects that demand has been there. So I think projects which were partially completed will probably be completed, certain OEM segment have been reasonably okay because it is a factory production out of the city limits or municipal limits they were largely open and then we are seeing tier-2, tier-3 markets have done better than the urban markets, certain markets have nearly done their full projects for part of May and June, but now even those markets are coming under pressure with lockdowns across various districts and states.

Kaustubh Bubna: Thank you.

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

Sneha Talreja: Sir thanks a lot for giving the opportunity. Sir my question is pertaining to the category which you actually launched so what is the kind of growth that we have seen in that particular category and what would be the decline in let say 1 mm category on a y-o-y basis for us?

Saurabh Mittal: I think I will have to ask Ashok to give you the data.

Sneha Talreja: I just wanted to understand what is the mix as of now, 0.7 mm versus 1 mm for us?

Saurabh Mittal: Ashok will take your question offline.

Sneha Talreja: As you also mentioned in your press release that we were at 30% of the utilization, I mean 30% versus last year in the domestic market what could it be now and as you rightly said that there are lockdowns and everything going on in India and that is very difficult to quantify, but if at all you can quantify that where are we versus the month of June right now at least that would help.

Saurabh Mittal: July'20 versus July'19 it seems that we will be like 80% of what it was in July'19 for exports and for domestic we will be around 50 to 60% level.

Sneha Talreja: And the realization declined which we have seen in the domestic market is only pertaining to the mix change or is there any other factor contributing to such a sharp decline in terms of realization in your laminate division?

Saurabh Mittal: It is only the mix change like we responded because 1 mm space is low and 1 mm is city based product and most of the metro market was under shut down or partial operations, so the sales of 1 mm was low, there is no other reason for that.

Sneha Talreja: One last question Sir. As you also mentioned that you know realization for domestic market may continue to remain under pressure at least for one more quarter we have seen significant improvement in your exports realization is that more of sustainable level or you will see some of these things will be passed on the exports market and you can see some amount of realization falling back again?

Saurabh Mittal: Exports is not function of price increase it is a function of product mix improvement and rupee depreciation. So I am not sure whether volumes will go up because we have lost nearly 30 to 35 days of export sales so I am not sure whether this is sustainable, we will see how it goes actually. There is no price increase, it is a just product mix improvement that also not something which we have achieved in a short term. So basically these are the past result by its own and the rupee depreciation contributing to realization improvement.

Sneha Talreja: Got it Sir. Thanks a lot sir answering all the questions and all the very best.

Moderator: Thank you. The next question is from the line of Ashish Podar from Anand Rathi Share and Stock Broker. Please go ahead.

Ashish Podar: Sir you mentioned that April was almost nil for you. Was it true for exports also?

Saurabh Mittal: So we started the factory like I said, one plant started on 20th April and one started on 25th April so domestic was less than exports we had some carryover shipment which we dispatched in March but sales were not booked in March because BL were not available and we only book sales when goods reach the seaport and BL come in or they reach subsidiary company that is when they reach destination so there was a carryover dispatches and some finished goods inventory lying which got shifted, which came in as sales, so virtually negative, not nil, but negative.

Ashish Podar: I am asking despite one month of sales loss we are at just 13% y-o-y decline on a constant basis so does that mean that if the lockdown was not there we could see much higher number in exports or what is the compensated during the quarter itself?

Saurabh Mittal: These are hypothetical questions I cannot just answer because it also means that some international markets were open while India was shut so we were still getting the orders and nearly 65% to 70% exports come with subsidiaries and our teams are still working in international the market so that is not based in India. So we were getting orders from many markets which we could not produce or ship them so we could say as deferment of sales so whether it could have been high enough, tough to answer that again.

Ashish Podar: Yes, got it. Thank you so much sir.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Thank you for taking my question. Sir just wanted to understand on the export side which are the regions that are leading the growth and do you think this should continue or you also seeing some problems because of pandemic in those markets?

Saurabh Mittal: Q1 did not grow. Q1 is a negative 13% over Q1 of FY20 and if you see there has been steep decline sequentially. So Q4 exports were around Rs. 163 Crores so a sequential decline of 38% in exports versus Q4.

Pranav Mehta: But compared to domestic markets, export market is I think growing because one of your competitors also posted a good set of numbers on the export side so basically just wanted understand on what are the regions which are driving demand for laminates and can this help in offsetting the domestic degrowth?

Saurabh Mittal: De-growth because domestic is a large chunk of market. We are seeing normalcy in exports and we should able to hopefully do okay next quarter also.

Pranav Mehta: Sir on the debt front so in this quarter the debt had gone up can you throw some light how things would be moving going forward so will this debt come down or for FY21 we should work with similar numbers.

Saurabh Mittal: Debt has gone up primarily in the April and May when virtually there was less collection and the major part of payments happens for imports, the payments were happening, but on the receivable side the collection was not happening but in this quarter we believe that is already getting reversed from June and July onwards and we have started getting revenues as well as collections, we believe most of this will get reversed within this quarter and the additional limits which were utilized in the working capital will also get reversed within this quarter..

Pranav Mehta: Sir on the allied products so how you are looking at things in these segments so will these continue to face pressure or are you seeing some traction from second half of FY21?

Saurabh Mittal: It will face pressure this quarter also.

Pranav Mehta: Entire FY21 they would remain under pressure right?

Saurabh Mittal: I cannot say entire FY21 very difficult for me to comment on that from what we see things now I think entire domestic market will continue to face pressure now.

Pranav Mehta: Okay. Thank you sir.

Moderator: Thank you. The next question is from the line of Vijay Danuka from Motilal Oswal Financial Services. Please go ahead.

Vijay Danuka: The question that I have is while of course first quarter has been significantly impacted by COVID across businesses what was your fixed cost structure in Q3, Q4 and what would be your fixed cost structure in Q1?

Ashok Sharma: If we talk about the Q3 and Q4, the fixed cost which includes the employee cost, finance, depreciation and other expenses all put together.

Vijay Danuka: Depreciation we can remove aside because depreciation will always be on actual but other than depreciation?

Ashok Sharma: Which means employee cost, other cost, and finance cost this will in the range of around Rs. 120 to Rs. 125 Crores in the Q3 and Q4. Q3 was around Rs. 130 Crores otherwise it has been in the range of Rs. 120 Crores. Wherein this quarter some of the expenses which are linked to sales did not happen and some expenses were not needed in the quarter.

Vijay Danuka: Sir I am only asking about fixed cost not cost related to sales, cost related to sales of course would not have happened and you can also remove interest cost and depreciation from that so other than cost related to sales, other than interest, and other than depreciation I am asking only about pure-play fixed cost.

Ashok Sharma: Probably we can do this offline and then probably we can discuss this figure.

Vijay Danuka: Okay. That was one question the other question that I have is your inventory levels have gone up significantly in this quarter I can understand that large part of your veneer business is imported business and where the inventory is very high but has the inventory increase happened across finished goods, raw materials everywhere or it is largely raw material itself gone up?

Saurabh Mittal: So inventory that has gone up is not only for veneer but for the entire business. 80% of our RMs are imported. So when lockdown was imposed, we already had orders pending with our suppliers for routine buying cycle and shipments were already underway. By the time lockdown happened we restricted further buying of raw materials. However, shipments made by vendors in January, February started reaching us in March, April and May. So inventory has gone up because of that and some carry forward inventory of March.

Vijay Danuka: I was coming to that would it be right to say that in the September quarter results inventory would come to normal state?

Saurabh Mittal: Laminates business we think largely inventories will get corrected within this quarter because the purchases have been largely reduced because of the mismatch of the one-and-a-half months or one month of low production and no production rather so largely we will get a control within this quarter.

Vijay Danuka: Thank you.

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

Achal Lohade: Thank you for the opportunity. My first question was with the respect to the gross margin so if I understand correctly we said that the domestic realization are down more than 20% because of the product mix, what I wanted to check was are the gross margins similar for even 0.7 mm and below product?

Saurabh Mittal: Surely not, margins are low in 0.7 mm.

Achal Lohade: Right would it be possible to share the mix because the realization decline appears to be extremely significant?

Saurabh Mittal: As we said earlier we cannot give the data on that at the moment. Like I said earlier there is no price reduction it is a mix of all points, it is also 0.8mm category, some commodity products, it is all of that. So it's not just 0.7mm. 0.7mm is something that we introduced new in Q1.

Achal Lohade: Got it. The second question I had was in terms of the seasonality is there any seasonality in the export business or you think what we had achieved last year in the quarter since you said we already kind of reached to 100% level we can what is that assumption?

Saurabh Mittal: I did not follow the second part of your second question. So one is on seasonality, there is no seasonality by and large the same, but nothing of much consequence and what was the second part of the question?

Achal Lohade: In terms of the growth for the full year would be straight or flattish volumes for exports or it could be a positive number?

Saurabh Mittal: We cannot say about it now. Very difficult to give you a prediction on that because we do not know how things are going to move in this COVID times so we want to refrain from commenting on that please.

Achal Lohade: Okay. The last question in terms of the long-term growth for laminate, what would be our expectation about from four to five year perspective what kind of growth one could look at in the domestic market and the export market and has that changed in the last two quarters that number have come off or that would remain broadly unchanged.

Saurabh Mittal: Next four to five years if you look this year separately I do not think much could change considering FY21 independently so I do not think much will change.

Achal Lohade: Right will you be able to put number what kind of growth one could look at from a longer term perspective for domestic as well as exports?

Saurabh Mittal: I think 10% volume growth year-on-year.

Achal Lohade: For both the segments you mean on aggregate level?

Saurabh Mittal: At aggregate level yes.

Achal Lohade: Would there be a sharp difference and also trying to figure that out in terms of the domestic as well as exports?

Saurabh Mittal: Post COVID where you see a lot of unorganized companies becoming weaker and we are getting more market share so I think it all depends on how this eventually pans out and what is the result to the unorganized industry post the crisis..

Achal Lohade: Understood and just a clarification on this unorganized part is there any particular pocket region where you see this particularly very evident for the unorganized presence getting reduced?

Saurabh Mittal: We do believe that in the last quarter despite our numbers being what they are we think we have gained market share in exports market and domestic market because we had hands on information from dealers and distributors across. We do know that several unorganized companies have a lot of supply disruptions, many have still not been able to start the plants and few have started operations at the end of June running just one shift. So we do know the ground information that there has been a lot of supply disruption, unavailability of raw material, unable to start manufacturing process due to challenges on the financial front, on manpower front. So we think we have gained market share but it is too early to kind of put that on data and show probably as the whole year goes by we will not be able to ascertain that data.

Achal Lohade: That is really helpful. My last question is with respect to the mix, if one were to look at just laminates as a percentage of overall industry, what is that mix or is that mix globally as well or you think we are significantly lower than the global average in terms of laminate mix as a percentage of total panel.

Saurabh Mittal: I cannot give you figure right away. So I will probably ask Ashok to make a note of this question and answer please.

Achal Lohade: Sure. Great. Thank you so much.

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

Saurabh Mittal: First of all I would like to thank all of you for your precious time and appreciate the queries and questions, the responses, we replied and answered to our best of ability. Thank you for your time once again. Please be safe, be healthy. Thank you.

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