



“Greenlam Industries Limited Q1 FY22 Earnings Conference Call”

July 27, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Greenlam Industries Limited Q1 FY22 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Mittal, Managing Director and Chief Executive Officer of Greenlam Industries Limited. Thank you and over to you Mr. Mittal!

Saurabh Mittal: Thank you. Good afternoon everyone 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 Ashok our CFO, Samarth from the finance team, and SGA, our investor relations advisors. The results and presentation are available on the stock exchanges and our company’s website and I hope you have had a chance to look at them.

On this call, I will first focus on what has happened in the last quarter and then just general direction on how we see things in the market right now and how we see things in the business for the balance period of the year. In Q1FY22 as you probably have seen in our core category of laminates, we have been largely able to be at similar production levels of Q4FY21 so the factories have done 110% utilization. The drop on a sequential basis in quantity has been shy of 2%, which I think in this environment has been very satisfactory to us. While sales have been lower in laminates by about 15% odd and overall, our revenues are lower by about 19% odd on a sequential basis, the year-on-year numbers are far different and far better and Ashok will take you through those details.

On the production and sales we have not been able to convert approximately Rs.30 Crores worth of sales while we ended up producing those goods and the gap of production in sales is largely backed up with orders, which comprise of the international orders and domestic orders, which has been due to the non-availability of containers with the inventory at the ports increasing vis-à-vis what was at the end of March and in domestic too markets opened up a bit late so dispatches have happened for certain items and personal items dispatches have happened in July so that is where the gap is of production and revenue recognition.

On the raw material side, raw material cost continue to remain high and in Q2FY22 we will see raw material costs higher than in Q1FY22 and I think the inflationary trend on the raw

material is continuing. As we see things now overall RM costs are still going up. We have been able to largely take an entire increase in the domestic laminate market. In the international markets, there were some pending price increases, which was affected now so they will start showing partially in this month and partially in next month and over the next three to four months, we will be able to charge the customers for the entire RM cost in the international market too. Incremental sea freight was already passed on from the month of January.

On the wood business also, we have seen raw material cost increase in base ply, veneer, sea freights, etc., where all necessary price increases have been passed on to customers. As we talk right now, despite certain international price increases, which have also been done, which will show in our books from this month onwards more or less we have been able to pass on the entire RM cost to the market.

On the working capital side, the debtors have been decently well managed, so we have been by and large under control on the debtors despite the six to eight weeks of lockdown in India across various parts.

On the inventory side, the finished goods inventory like I explained earlier has gone up, which will get corrected within this month or rather at most within this quarter. On the raw materials inventory, there has been an increase in the raw material inventory too, which is a function of price increases in terms so the value has increased and the quantities have also increased because production for the wood veneer business and some parts of the laminate was also lower, which too we think that within this quarter we should be able to streamline so really not much stress on the working capital cycle.

So in this quarter by and large all expenses were there for the company besides certain fixed overheads like traveling, etc., which could not happen because markets were shut. We continued with our marketing programs in certain markets. We continued with the recruitment plans. We implemented the salary increases, which have partially been absorbed in Q1FY22 and the balance will be absorbed in Q2FY22. So that is on the business side.

On the demand side, on the domestic market, we think the domestic demand will improve as things move ahead. July looks to be okay month for us. I think things are kind of coming back to normalcy. On the international markets certain markets there are still under lockdowns or partial lockdowns in Southeast Asia. Some possible markets are showing extremely good demand like the European markets and US market so I think it is a mixed bag, certain markets look good, certain are still having their own challenges. We also see

that there will be a shift from unorganized to organized and we see the regional unorganized players under tremendous pressure because of cost increases, lockdowns, challenges of the supply chain, disruption on the demand side and we think this is an opportunity where we can take more market share and the industry will move towards or improved consolidation.

By and large, we think we are in decent grip and control on the business and the gaps of production and sales will be largely overcome in this quarter and we should kind of correct debt position also. Our net debt went by about Rs.90 odd Crores in Q1 because we had to put capital. Purchases kept happening. Production continued while we could not convert production into sales and the mix of domestic and international also got a bit altered. We think all of that by and large barring any unforeseen circumstances should get streamlined within this quarter.

So that is it from the side at the moment. I will hand over the call to Ashok. Ashok will take you through the financial performances post which we will be address queries. Ashok over to you!

Ashok Sharma:

Good evening friends. I will take you through the financial performance for the quarter. For the Q1 FY22 on a consolidated basis net revenue stood at Rs.336 Crores, a growth of 110% on a year-on-year basis, and a degrowth of around 19% on a sequential basis.

Gross profit stood at Rs.154 Crores a growth of 93% on a year-on-year basis and degrowth of 24% on a sequential basis. The gross margin stood at 45.9%, degrowth of 380 basis points on a year-on-year basis and degrowth of 280 basis points on a sequential basis.

EBITDA stood at Rs.38.2 Crores a growth of 386% on a year-on-year basis and degrowth of 43% on a quarter-on-quarter basis. EBITDA margin stood at 11.4%, growth of 650 basis points on a year-on-year basis and degrowth of 480 basis points on quarter on quarter basis.

Net profit stood at Rs.17.3 Crores as against a net loss of Rs.7.7 Crores in Q1 last year. PAT margins stood at 5.2%.

Moving onto segmental performance firstly the laminate and allied products, which form around 92% of our Q1FY22 sales. Laminate revenue stood at Rs.310 Crores in this quarter, growth of 113% on a year-on-year basis and degrowth of 15% on a sequential basis.

Domestic laminate revenue grew by 148% on a year-on-year basis in value terms and a growth of 135% in volume terms. On a sequential basis, domestic laminate revenue degrew by 36% in value terms and degrew by 35% in volume terms.

International laminate revenue grew by 97% on a year-on-year basis in value terms and growth of 112% in volumes terms. On a sequential basis also international laminate revenue grew by 3.6% in value terms and the same in volume terms.

EBITDA margins stood at 13.3%, a growth of 490 basis points on a year-on-year basis and a degrowth of 460 basis points on quarter on quarter basis.

Production volume is at 4.28 million sheets and at a utilization level of 110%. Sales volume for the quarter stood at 3.82 million sheets and our average realization for the quarter was Rs.782 per sheet.

Moving on to other segment viz. decorative veneer and allied segment, which constituted around 8% of this quarter sales and this segment includes decorative veneer, engineered floors, and engineered doors.

In the decorative veneer segment revenue for this quarter stood at Rs.12.2 Crores a growth of 95% on a year-on-year basis and a degrowth of 62% on a quarter-on-quarter basis. We are witnessing a sequential uptick in our veneer business, which was down in Q1. The capacity utilization for the quarter stood at 16%. Sales volume for the last quarter stood at 0.16 million square meters. The average realization stood at Rs.750 per square meter.

Moving onto another product, engineered veneer flooring, floors revenue for this quarter stood at Rs.7.4 Crores, a growth of 121% on a year-on-year basis. Our capacity utilization was at 11%.

In terms of engineered doors, revenue grew by 35% and stood at Rs.7 Crores. Capacity utilization for the quarter stood at 20%.

Net debt has gone up by around Rs.90 Crores and stood at Rs.213 Crores as against Rs.123 Crores at the end of March 2021. Networking capital for this quarter stood at 101 days as against 64 days at the end of Q4 FY2021.

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

Moderator:

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Thank you. The first question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Good evening Sir. Thanks a lot for this opportunity. Sir, a couple of questions from my end; firstly it is related to margins so we have seen a QoQ drop in margins, just wanted to understand the key reasons? It could be due to volume decline and how much was it due to raw materials and how much will be due to product mix change? Is there a big difference between exports margin and the domestic margin currently?

Ashok Sharma: Sneha on the margin one as you have seen there has been a volume decline. The value mix of the production and the sales have been lower or weaker in Q1FY22 versus what should have been. So realization in Q1FY22 per sheet has been as largely same as what we did in Q4 while we did take an increase in April which did not reflect on the margins. The conversion of production to sales also did not happen of that value so I think that is also showing up on the margins at the EBITDA level and certain RM costs in the export market could not be passed on to the customers or could not get affected, which will get affected from July onwards. So, to my mind I think it is a combination of all of these factors that had contributed to lower gross margin and because of overall revenue being lower, the veneer business also being lower and while most of these fixed expenses of the employees, administration, etc., has been affected to be lower EBITDA margin also. If you imagine only if Rs.30 Crores to Rs.35 Crores of produced inventory would have got sold and that would have added approximately Rs.12 Crores to Rs.15 Crores of EBITDA only of the items, which were produced. If the volume would have been better, we would have had a normalized or near normalized margin that is our view.

Sneha Talreja: Secondly, the differential between the export margin and the domestic margins since you said, there were certain components, which were not passed on, so it is fair to assume that export margins will be slightly lower than the domestic markets?

Ashok Sharma: If you look at, again and again, we have said this in the past, it depends on the time and the mix, currency situation so clearly now in this quarter even the domestic mix got a bit worsened versus what was there in Q3 and Q4 because most of the urban markets were shut and they are largely 1 mm markets. Also on a consolidated basis, it could be possible that in Q1 export margins were slightly lower than domestic margins because entire increases could not get passed on so early.

Sneha Talreja: My second question is related to your export's growth momentum. Despite all these lockdowns, container availability issues, and shipment issues, we have seen growth in the export market? What is the normalized level of exports growth that you see over the years maybe you can give a growth rate for three to four years assuming that these issues are not continuing and I will just follow it up with the other question which is related to this?

- Saurabh Mittal:** Ashok Ji, can you give the last three years' export.
- Ashok Sharma:** I think going ahead export growth obviously will be higher because last year we lost one quarter so this year moving ahead, anything between 10% and 12% value growth you can expect.
- Sneha Talreja:** FY21 your international business was flat volume-wise?
- Ashok Sharma:** CAGR for 10 years of international business coming to 18.6% and five years is 6%. So going ahead you can take a 10% to 12% growth.
- Sneha Talreja:** Which will be higher than the domestic market is what we understand?
- Ashok Sharma:** Not necessarily because as I said we are also seeing this shift from unorganized to organized, so our guess is both the businesses will grow the domestic and international businesses, Sneha.
- Sneha Talreja:** Exactly got it. Sir one last question before I come for the follow-up question, Sir you mentioned that both the businesses assuming they will grow by 10% to 12%, however, your peers basically have been looking at various capacity expansion let us say Merino has announced a capacity expansion and related businesses, Stylam announced plyboard businesses and from you also we have heard that you would be looking at capacity expansion in other related categories, but you have not categorically come out with which category? Any call was taken on that and I am sure that the team would be working on it? By when can we get something and what kind of a category?
- Saurabh Mittal:** We are putting up this plant in Andhra Pradesh where we have announced capacity expansion of laminates of two lines so I cannot comment on the other questions you have at the moment because we would like to be much clearer and firm before we come to you, but yes, we will be looking at the opportunities in laminate itself and adjacent categories.
- Sneha Talreja:** Sure and where does the AP plant capacity expansion stands, when are we expecting the completion?
- Saurabh Mittal:** The land etc., registrations which did not happen earlier, has happened and now just last leg of few approvals are pending so we hope to start building the plant sometime in the third quarter of this financial year and I think from the construction date to commercial production should be about 12-odd months.
- Sneha Talreja:** Got that Sir that was helpful and all the very best.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.

Faisal Hawa: Sir my question is regarding the digital channel. Are we actively pursuing any kind of sales through digital channels and how do you feel that this sector would come up for you given the fact that many of the customers wanted to kinds of approach and second are we planning to export more countries and do we have anything in terms of research and development budget and if so how much are we spending in terms of percentage of revenue?

Saurabh Mittal: As far as the digital channel point, we are working with e-com companies who are doing designs services, design and bill services like doing kitchens, doing wardrobes and they are promoting the laminate as part of the collection where designers and customers can choose a laminate and they fabricate it with the OEMs and is sent to the customers so we are not directly selling laminate through a different channel but we have aligned with several of these e-com furniture companies, who are supplying as service to the customer with interiors of specific furniture objects so that is something which is being pursued. Second question, on exports to more countries, at the moment, we think we are already quite well spread, we are not necessarily focusing on adding more countries. The focus now is to really build more depth in these markets and there is an opportunity across most of the markets we are present in order to increase both volume and value mix sales. The next question was on the R&D part of it, so in the laminates business there are two kinds of R&D. One is the resin technology which is the chemistry, and the other is with design development part so design development which is working with designers, printers, plate producers, doing sampling of products showing out architects, IDs, both domestically and internationally so that is an ongoing process. We do not necessarily account for that as R&D so that is more like a marketing expense or a routine product development expense. On the resin part, we do some R&D but the chemistry of the formulation changes are not significant in our industry so we have come up with certain products in the past like antivirus, antibacterial, HD Gloss, High Scratch, but it does not require too much of capital on those R&Ds as far as chemistry part is concerned.

Faisal Hawa: Thanks a lot, Sir.

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

Achal Lohade: Thank you for the opportunity. My first question is can you help us understand on a Y-o-Y basis, what is the cost inflation in each of the raw material components in terms of the design paper, craft paper, and chemical?

Ashok Sharma: Achal, if you see in terms of in the chemical, we have three types of chemical, as you know, phenol, melamine, and methanol. On a Y-o-Y basis, it will range from 30%-35% to some of the chemicals has gone up like 70%-80% all through and in base paper since the rate will keep varying depending upon the mix of what we do but in the base paper, what we can safely presume is that it has gone up by around 8%-10% and in one or few papers category it will be lower or higher. In the kraft paper again there is a range of kraft paper, we use, so a mix of that will keep changing. On a consolidated basis of all kraft paper put together, it has gone up by around 3.5% to 4% but in the individual segment, it can be somewhere around 8% to 10% again.

Achal Lohade: Would it possible to give a broad sense in terms of what is the mix typically in terms of how much would be kraft paper of the total raw material cost, how much would be base paper and chemicals?

Saurabh Mittal: Achal, certain kraft papers have also gone up over 30% to 40% so it depends on the category one is using it. On the mix, you can safely assume of RM cost one-third is kraft, one-third, décor paper, one-third chemicals or some changes might have happened now with chemical costs shooting up so let me see what the current math is there, is very similar. You can safely assume for ease of calculation one-third craft, one-third specialty paper one-third chemicals.

Achal Lohade: It basically means RM cost inflation up to say about 15% on a Y-o-Y basis so how much of that is already passed on and have been taken price increase I missed introductory remarks if you could comment how much price increase have we taken in the current quarter and cumulatively not price increase have we taken in the last one year?

Saurabh Mittal: RM cost which has gone up, but measures such as some value engineering, cost controls, yield improvement, value mix improvements are getting negated or will get negated. On the price increases into the domestic market, we have largely taken the entire RM cost increase, we have passed on the entire increase to the market.

In the international markets two things have happened the raw material cost increase, the sea freight has risen significantly. From one side there has been raw material cost increase, costs per shipping contracts or CIF or CNF, the sea freight increase has been substantial.

In the international markets what we have done, all incremental sea freights as on January, 2021, has been passed onto the customers so that has been done 100%.

On the sales prices, one round of increases were done by March 2021 and other approximately 2%-2.5% increase has also been communicated and that will start getting reflected starting July 2021 up to mid-September so we are hoping that with some value mix improvement, value engineering of the plant, sea freight increase already been passed to the customers and two round of increases, by and large, will be able to cover up, the RM cost increase, for certain commodity item of exports, we may not be able to cover up the entire RM cost increase.

Achal Lohade: Would it be fair that one of the reasons possibly for the first quarter margin contraction was to do with the sea freight given how much of total exports are CIF basis broadly?

Saurabh Mittal: By and large we can assume over 80% to 85% is CIF or CNF but this increase has already been implemented. Increase on sea freights has already been charged to the customers starting January 2021 so the margin drop is nothing to do with the sea freight, it is due to product mix, unabsorbed overheads, overproduction, little bit lower production in laminates and the veneer business so stating it is a mix of all of this, not really sea freight in terms of sheets per part of it.

Achal Lohade: Sure if I may follow up on that in terms of how we look at this margin given the price increase and the other cost optimization measures we would be taking, how do we look at the margins from the annual perspective for the laminates business and also other business?

Saurabh Mittal: It is very hard to say because as we talk right now raw material costs are on the upward trend still and not all the raw materials, some specific chemicals are still inching upwards so very difficult to say that very clearly so our strategy will be to maximize volumes, keep the focus on the volume mix, pass on the increase, which we have already done, get that impacted at the earliest possible. We have visibility of raw material costs at least for the next three to four months and they do not seem to be softening or even stabilizing for that matter, so, in Q2 of this quarter, RM costs are going to be higher than Q1, but we have adequate opportunities for improving value mix in both exports and domestic market and that is why we are going to be focused on, so improving value mix, driving volumes and price increases we have already impacted in the market that is the way we are going to move ahead, Achal.

Achal Lohade: Thank you so much. I will come back in the queue for more questions.

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

Hrishikesh Bhagat: Thank you for the opportunity. My question is what are the sales volume on your flooring and door business in the current quarter in Q1 and what was it say in Q4 sales volume compared to this year?

Ashok Sharma: This engineer floor was 44,800 square meters for the Q4FY21 and this quarter it was 23,400 square meters and for the doors, this quarter was 5300 and for the Q4FY21 it was around 8000.

Hrishikesh Bhagat: Another question is related to this container freight issues and logistic challenges, I understand it has been for a fairly long time and it is a global issue but PAT margin compared to say last year have you seen those challenges easing out or those continues to remain at the same level on the container freight availability?

Saurabh Mittal: Container freight, is not necessarily worsening as we see now but they still continue to remain high. Container availability I have feedback from my team that the response booking is okay, but I still think for certain destinations especially for Latin America and North America, the challenges continue.

Hrishikesh Bhagat: Just on to an earlier participant regarding this value mix in the sense in domestic market now as we have seen markets opening up, quite a few states, in few states, is our mix between 0.7 mm and 1 mm back to what it used to be in earlier times or do you think it is still that 0.7 mm still remains fairly heavy in more or value mix?

Saurabh Mittal: No 0.7 mm was never heavy in our setup.

Hrishikesh Bhagat: I understand, but I think you had launched a folder in 0.7mm last year.

Saurabh Mittal: We did. I am just saying, the mix 0.7mm was not that heavy, it is a very small part of our mix so has it gone back to normalcy? As we talk right now, we could presume it is very close to normalcy. I will not say if you assume if Q4 was normal and Q3 was normal so we are around the corner, we are very close to it and the way things are, certainly we will get there very soon.

Hrishikesh Bhagat: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from Bowhead Investments. Please go ahead.

Gaurav Agarwal: Thank you so much for the opportunity. Sir a couple of questions so if I understand in this quarter, you have done 110% of capacity utilization and what is in work-in-progress in terms of Greenfield expansion that is around 10% of our overall capacity so beyond this how do you intend to grow yourself maybe not in FY23 or FY22 but let us say in FY24?

Saurabh Mittal: I am so sorry, is your question about utilization and new capacities being added on?

Gaurav Agarwal: Sir what I am asking is you are adding 10% of capacity on your current base and we are already running at 110% capacity utilization so this 10% I think it will come by end of this year which will take care of the growth in FY23 but when you look, FY24 or FY25, how do you plan to grow yourself in those years?

Saurabh Mittal: Currently like in Q4 our capacity utilization was about 112% and with our experience of the past we can go up to like, 115%-odd utilization. We bought 65 acres of land in Andhra Pradesh where we have announced the expansion of two lines so that is something which will help us support the growth in the market and we are actively considering to review that expansion plan and whether we should add more capacity and since the land is quite large we can continue doing brownfield expansion like we have done in the past, to start with 2 or 3 lines and every year the incremental Capex is very small and your incremental margins and incremental revenues is significant so with that location we can expand capacities over a period of time and we have left so much provision while designing the plant in terms of eco-friendly status.

Gaurav Agarwal: Greenfield expansion is Rs.175 Crores for 1.5 million capacity, so let us say in terms of Brownfield we want to put a similar capacity of 1.5 million so how much incremental capacity should we need to incur though?

Saurabh Mittal: Typically, in the past, it has been around Rs.25 Crores to Rs.30 odd Crores, now with increased steel, cement, capex prices that might go up a bit more, but normally one production line, Brownfield consideration should be in the band of at this moment I think it should be Rs.30 Crores, Rs.35 Crores for each line.

Ashok Sharma: Sir there is a small difference between what we have done in the past as a Brownfield and what we are doing as a Greenfield. So, in the past, the dimensions of these sheets which were different, so these are two press lines, and what Sir has said one press line normally will depend upon what dimension you are putting. One press line normally gives 2 million capacity, which we have done in the past 2 to 3 times and right now the cost will be around Rs.30 to Rs.35 Crores and these are the two lines but since it is a Greenfield unit that is why it is costing higher.

- Gaurav Agarwal:** Now that is okay. I was only intending to ask you know the incremental Capex for the Brownfield one in Andhra Pradesh, so I got the answer it is Rs.30 Crores to Rs.35 Crores for 4.75 million, right?
- Ashok Sharma:** That will depend upon again the dimension whether it is sheet, normally in the past, we have put one line which has capacity around 2 million sheets and since these are bigger dimension and mostly board will be there instead of sheet that is why it is coming lower., The capacity seems to be lower, but the sales value will be similar or higher than what you normally you get in one plant.
- Gaurav Agarwal:** Sir I am asking another question on this so is this Rs.35 Crores to Rs.40 Crores that you said, what is the context, r how many sheets, what kind of revenue can it do for Rs.30 to-Rs.40 Crores of capex, expansion?
- Saurabh Mittal:** With this Capex how much capacity can you put in it? Volume approximately you can assume this will generate about 2 million sheets a year on a thumb rule and this will generate 2 million into the pricing of...
- Gaurav Agarwal:** So the number you gave me is for 2 million okay.
- Saurabh Mittal:** Approximately in that range.
- Gaurav Agarwal:** Sir on the international side if you could explain which are the key markets for us. How has been the overall exports market for Indian laminates been doing since there is another company which has recently raised PE money and they have big plans to export from India these laminate products? So if you could give some light on what are the opportunities, sizes, how is it growing? Which countries are we competing with and you know whether we have gained some competitive advantage over the years, so anything which you can share with us?
- Saurabh Mittal:** Sure Gaurav. Probably these are questions, which will require more time and interaction.
- Gaurav Agarwal:** We can take it offline.
- Saurabh Mittal:** We can touch base independently.
- Gaurav Agarwal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.

Amit Zade: Good evening Sir. Thanks for the opportunity team and congrats for a good set of numbers. Sir my question was in follow up with the earlier question on our competitive side in the export market so basically when we had seen this issue of non-availability or say hike in sea freight rates has that impacted our competitiveness in the export market vis-à-vis other competition has that impacted the overall demand as well Sir?

Saurabh Mittal: Actually, as we talk the export demand looks quite healthy to us and I think in the last few months there has been a lot of disruption in the international markets due to raw materials not being available, so many other markets have also gone through their own challenges of COVID or shutdowns like Malaysia was shut, Indonesia was shut, some parts of Europe were partially shut, Latin America was shut for a while. I think there has been so much of disruptions globally, several international producers one of the most important one in Europe, declared force majeure. They did not have melamine for a while, so I think the disruption is not just limited to India. It is happening worldwide. On the demand side, demand is quite strong if I may actually say that to you. The export demand is quite strong and it has not altered the demand situation in the international markets.

Amit Zade: Maybe you are trying to say that supply-side constraints are still there, maybe if they are different for different exporters and for us , we are facing container availability, but other exporters are facing other challenges so that is why supply is getting impacted?

Saurabh Mittal: Yes and to add supply-side disruption is not only limited to Indian producers. It is a global phenomenon, so producers in Europe, Southeast Asia, Latin America, US are also facing supply-side disruptions, so that is one. As far as Greenlam is concerned, our inventory position, availability of material, etc., has been well managed by our teams and we did not have many challenges. On the container availability, it is not like there are no containers are available. Our Q1 international business has been higher than Q4 despite the challenges, so we want to impress on the fact that our numbers would have been even more superior had the issues not been there so it is not as if the numbers are reducing or something in that sort. Q1 overall international business has grown about 4%, so this could have been higher by approximately by about few million dollars, about 25 Crores we could have recognized the revenues. We had the orders to produce them that is what we are trying to explain.

Amit Zade: Your competitiveness has not impacted as such, is what we can ascertain?

Saurabh Mittal: I would say our competitiveness has improved rather than worsened.

Amit Zade: Alright that is all from my side. Thank you.

- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.
- Bhavin Chheda:** Good afternoon. What was the export revenue in the overall consolidated sales or international revenue sales in the quarter?
- Saurabh Mittal:** Rs.206 Crores, Bhavin.
- Bhavin Chheda:** Rs.206 Crores and regarding expansion plans in AP, I just missed out, you said the land purchase has already happened right and equipment ordering and what is the roadmap or the timelines now?
- Saurabh Mittal:** Bhavin as we see things now, we are fulfilled to start building the plant sometime in Q3 of this year. We have announced that we are setting up two production lines which we are actively reconsidering on whether we should add one more production line there, so if we start the construction of the plant sometime in Q3 from the date of starting the plant you can assume at least 12 months to get into production.
- Bhavin Chheda:** So basically it is Q3 FY23?
- Saurabh Mittal:** Yes, Q3 FY23.
- Bhavin Chheda:** Probably in a couple of months you will decide whether you are going ahead will 2 lines or 3 lines?
- Saurabh Mittal:** That is correct, Bhavin.
- Bhavin Chheda:** If I recollect the land cost was Rs.50 Crores and overall other plant-related cost was Rs.125 Crores to Rs.175 Crores.
- Saurabh Mittal:** That is correct Bhavin. The land cost obviously was not only limited to 3 lines because 65 acres, this will get apportioned of more lines and possibly some adjacent category of products also, Bhavin. You are right on your numbers.
- Bhavin Chheda:** Apart from this we are not doing any other capital expenditure in the decorative veneer and allied or that will be normal?
- Saurabh Mittal:** No decorative, veneer and allied business do not need any capital rather we are working towards reducing a little bit of, streamlining across the working capital but it does not require any capital expenditure. The last leg of certain construction at one of the factory

is pending which is going on otherwise existing plants will consume routine capex of plates and some heating equipment's and some routine capex and that is about it.

Bhavin Chhedda: So July sales has this normalized to 100% run rate or you say 90%. July sales I am saying?

Saurabh Mittal: For July domestic sales, the laminate business is on a 100% normal run rate. The wood veneer business is also significantly up. You can assume at 80% kind of level.

Bhavin Chhedda: The last one on the engineering wood flooring and doors, would we achieve breakeven like Q3, Q4 what is the internal target there?

Saurabh Mittal: I think we have been falling short on our words in this category. Each time we think we are so close to it even this quarter we have done floor and door put together was Rs. 14.35 Crores of sales and the loss actually was Rs.2.5 Crores of EBITDA loss, we had in Q1 so obviously we wanted it to happen at the earliest, but it is just like, it is there, yet not that types.

Bhavin Chhedda: So laminate capacity utilization of any quarters, existing capacity also you know operated over 100% I think. The maximum number I saw was 112% in March so technically the 15.6 points can produce how much on an annual basis?

Saurabh Mittal: Bhavin that depend on so many factors, but I think the run rate we had in Q4...

Bhavin Chhedda: Assuming there is business across product segment or demand revive?

Saurabh Mittal: We can maintain Q4 utilization level and even better by a few percentages so we can go up to we can assume 115 time types, Bhavin.

Bhavin Chhedda: So 15.6 million can roughly give 16.5 million sheets that would be the peak potential. Actually, it should be more?

Saurabh Mittal: No, it can be higher Bhavin.

Bhavin Chhedda: It can be higher, actually, 4.4 million in March quarter so if annualize that number technically it can give you just under 18 million.

Saurabh Mittal: I think definitely 18 would be a stressed number but yes, a doable number.

Bhavin Chhedda: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Arun Baid from BOB Capital Markets. Please go ahead.

Arun Baid: You did mention that you will get into adjacent categories over a period of time. Do we have some timelines by which we can expect when this will come through?

Saurabh Mittal: I do not think we can comment much on the moment but yes, we are actively reviewing the possibilities and starting the opportunities here.

Arun Baid: Sir can we see it by end of this financial year, FY22?

Ashok Sharma: I do not think it is possible for us to comment as of now. We are working on various things that management as a part of investment strategy does. Once we finalize the plan, we will get back to the market.

Arun Baid: Thanks a lot.

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 follow-up opportunity. I think you did address the export in terms of the probable growth from a medium-term perspective, Is it possible to also talk about domestic given the trends we are seeing whether it is residential, commercial, or readymade furniture, etc. What kind of growth at the industry level one could look at or the company from letting us say a 2 or 3-year perspective?

Saurabh Mittal: Actual domestic markets will also grow and in domestic market we have two significant opportunities; one is just the market growth and we growing with the market, the other is the formalization of the market where we have a large number of smaller producers who are increasingly becoming inefficient in terms of their business model so this potential shift from unorganized to organized is also an important opportunity we think companies like us have. So now the value is not so critical because prices have gone up by 10%, 12% so saying I will grow 10% value is only price rise has happened, so probably my guess is this year the growth percent could be higher, but eventually, on a normalized run rate, I think 10%-12% growth is something one can expect.

Achal Lohade: So do you think 10%-12% is the revenue growth from a medium-term perspective.

Saurabh Mittal: On a normalized basis, while we do not factor price increase depending on the base year and the growth will be higher for that particular year, but eventually assuming the prices

would not fall further or fall marginally if our imports come down, steady-state 10%-12% growth is something one can expect.

Achal Lohade: Of this 10%-12% or 2%-odd will be price increases or it would be much more than that?

Saurabh Mittal: This is a rough price increase I am saying 10%-12% growth.

Achal Lohade: Okay without price increase that is volume growth you are talking about. Secondly what is the contribution for us from the south region because we understand from our appliances companies that south is actually seeing a far major impact in the quarter gone by and even as we speak, so just thought of checking what is our exposure in the south as a percentage of total domestic business and are you also seeing difficulty in terms of the momentum?

Saurabh Mittal: We are not seeing difficulty in the south. The mix has not got altered in any meaningful manner and south remains our largest market and with our excellent supply chain warehousing network we have even in the lockdown period, several OEMs, people producing kitchen wardrobes, sites were still ongoing. And we are one of the few companies which could maintain supplies to customers, so we are not experiencing that or maybe our basis was small that it was not showing up now.

Achal Lohade: What would be our mix of the total domestic how much would be south?

Ashok Sharma: I will come back to you. We do not have the figure as of now in hand. I will come back to you.

Achal Lohade: No problem Sir. One more question I had on the macro front, in terms of the exports opportunity I recall last time you had said we really do not compete against China in terms of the product segment which we are exporting so are things getting better from a competitive intensity perspective like, as the country, we are getting more benefit from this momentum?

Saurabh Mittal: The competition landscape which we had talked remains the same, that has not changed and while you say country competitiveness, yes I do believe that as a country this will only get stronger going ahead that we become one of the strongest countries in the world in producing high-pressure laminates and shipping it world over because the cost of setting up a new manufacturing facility globally is completely different versus what it can happen in India with training people, with a large domestic market, So yes I think India as a country

will become increasingly stronger, will gain competitive advantage in producing and exporting of laminates.

Achal Lohade: I am just kind of delving it into a little bit more. Sir, you talked about setting up the facility, the capex part of it, and the opex I wanted to check, what would be the ballpark. I know it is hard to say for any country but ballpark would be like cheaper by 25%-30% in terms of Capex and in terms of the operating cost?

Ashok Sharma: Capex surely will be cheaper and operating cost it depends on the size of the plant. Operating also involved manpower will really be the lower cost. RM there will not be many gaps besides depending on the size of the products we are producing. For larger size laminates, RM cost will be the same or probably will be slightly more expensive but yes manpower overheads, larger production base all that will add value on the operating part and even the working capital cycle management would be superior, but as we said in the past, the focus is not being the cheapest or the most competitive in manufacturing only, it is also about building the brand, building the distribution network, working with architects, creating demand for the product. So that is where companies like us are working and we have been working on that for several years already. Our directional thought is not just to be the cheapest producer, it is to produce efficiently, but more to market the brand, create a global brand, create more demand for the product, get your product specified. It is on the demand side and the market side where we think more value can get created.

Achal Lohade: This is very helpful Sir. I will come back in the queue if there is any. Thank you so much.

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

Saurabh Mittal: Thank you, everyone. Thank you for your time and your queries. Really appreciate your intelligent questions and Ashok will get in touch with you about what was unanswered questions or the dialogues he needs to have with you. Thank you once again for your time. Please be safe.

Moderator: Thank you. Thank you very much members of the management. Ladies and gentlemen on behalf of Greenlam Industries Limited that concludes this conference call. Thank you for joining us. You may disconnect your lines.