



“Greenlam Industries Limited Q4 FY 2017 Earnings  
Conference Call”

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**Moderator:** Good Day, and Welcome to Greenlam Industries Limited Q4 FY 2017 Earnings Conference Call. This conference call may contain forward-looking statements about the Company which are based on their 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 participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I would hand the conference over to Mr. Saurabh Mittal -- Managing Director and Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you, Mr. Mittal!

**Saurabh Mittal:** Good morning, friends and a very warm welcome to all of you. On this call, I am joined by Mr. Ashok Sharma -- our CFO; Samarth Agarwal part of the Finance Team and SGA, our Investor Relationship Advisor. The Results and Presentations are available on the Stock Exchanges and of the Company website and I hope everyone has had a chance to look at it.

Financial year 2017 has been eventful year for the country as well as for our industry. In the second-half of the year post the announcement of the demonetization, the sector witnessed a temporary setback that led by liquidity squeeze which impacted the demand and the buying of the channel partners. We embrace the challenging times with increasing prudence in marketing spends, managing production programs and a strict watch on the inventory and the debtor's management. We also, very closely followed demand scenario in domestic markets. And I am glad to add that our final quarter performance mirrors our efforts and has ended on a very good note. The domestic market is on a path to recovery and we believe the consumers appetite for comfort and modern living is increasing.

Our flagship brands Greenlam Laminates, Decorative veneers, Mikasa doors and floors are on the top of the customer recall in the respective categories and are in the forefront to benefit from the demand take off to be witnessed in the domestic market in the near future.

Our overseas business continues to perform well and I am glad to inform that they have turned profitable for the financial year 2017 and have been accretive to our consolidated profitability. Going forward, we are very positive on the domestic market as well as international markets of the company. We are on track with our next leg of expansion of 2 million sheets which will bring our total capacity of laminates to 14 million sheets per annum and this capacity should be able to commence production in the month of June."

On the GST front, the government has announced laminates and engineer wood flooring rates at 18%. While the decorative veneers, the melamine chipboard and the door business has been in

the segment of 28% similar to current applicable taxes. Currently we have one plant which is under the excise free, tax free zone and the other plant is having excise of 12.5% plus the VAT of the local state, so totaling about 27% - 28% in most of the cases. So, we are reviewing the impact of GST on our businesses in terms of our profit and loss, in terms of our working capital management and post which we will take a call based on the regulatory requirements, which should be in the next couple of weeks.

With the drive of demonetization and hopefully with the GST getting implemented we believe that this will add a significant opportunity for companies like us to gain market share and overall with more transparency and better compliances of the local companies we think this will benefit our business.

I would now like to hand over the line to Ashok our CFO he will take you through the financial and the operational highlights of the company, post which we will be able to answer your queries and questions if any.

**Ashok Sharma:**

Good morning, friends. Now, I will take you through the standalone financial performance of the Company.

First for the quarterly results; for the fourth quarter ended FY 2017 on standalone basis revenue increased by 8% to Rs. 268 crores led by 11% growth in domestic laminate segment. Gross profit was at Rs. 118 crores with a margin of 44% against 46.4% in Q4 FY 2016 due to change in revenue mix as well as increase in some of the raw material.

EBITDA for the quarter was Rs. 39.5 crores with a growth of 10%. EBITDA margin was at 14.7% as against 14.4% in Q4 FY 2016. PAT for the quarter was at Rs. 17.3 crores a growth of 32%. Our domestic sales increased by 7.8% to Rs. 175 crores and export grew by 8.2% to Rs. 93 crores.

Financial performance for the FY 2017, on standalone basis revenue grew by 3.6% to Rs. 970 crores led by 6.5% growth in domestic laminate segment. Gross margin was flat 44.7% compared to last year.

EBITDA for the year was Rs. 127 crores as against Rs. 124 crores in FY 2016. EBITDA margin was at 13.1% as against 13.2% previous year. PAT grew by 6.5% to Rs. 42.9 crores.

Now, I will move on to financial performance on a consolidated basis. Our revenue grew by 4.5% to Rs. 1,076 crores, gross margin were at 47.3% as against 47.8% previous year. EBITDA grew by 9.1% to Rs. 141 crores. PAT grew by 32% at Rs. 49.8 crores.

On the operating performance front, return on capital employed of the business is at 19.1% in FY 2017 as against 14.8% in FY 2016. Return on equity was at 17.1% as against 15.4% in FY 2016.

Net working capital this year improved by 23 days to 63 days inventory days was reduced from 88 days to 77 days while debtors reduced from 65 days to 49 days and creditor reduced marginally from 67 days to 63 days. We are able to reduce our debt by Rs. 140 crores from Rs. 365 crores last year to Rs. 224 crores this year. Primarily on account of good operating performance and working capital rationalization initiative taken by us in this year.

Now, I will move on to segmental performance. Laminate and allied products constitute around 84% of our quarterly sales and 86% for the overall annual sales. for the fourth quarter ended laminate and allied segment recorded a sale of Rs. 224.5 crores a growth of 9.4%. Sales volume for the quarter were at 3.46 million sheets a growth of 15%. Production volumes were at 3.32 million sheets with a growth of 12% and utilization level of around 111%. Our average realization for the quarter was at 626 per sheet against 645 due to change in product mix mainly in export market. International business contributed to 49% in terms of volume and 40% in terms of value for laminate in this quarter.

For the year as a whole, revenue grew by 4.4% to Rs. 832 crores with a volume growth of 7.3% to 12.72 million sheets. On a consolidated basis including the performance of our subsidiary, financial performance for the FY 2017 we registered a sales growth of 5.3% to Rs. 938 crores and volume growth of 6.8% to 12.73 million sheets. EBITDA margin expanded by 140 points to 14.8%; production increases by 7.2% to 12.64 million sheets with a capacity utilization of 105%. Average realization was a 704 per sheet against 713 per sheet in last year.

Now, I move on to veneer and allied segment which forms 16% of our quarter four sales and 14% of our annual sales. For the quarter, our sales was at Rs. 44 crores against Rs. 43.5 crores in the quarter last year. EBITDA grew at 96% to Rs. 4.9 crores. EBITDA margin was at 11.2% with an expansion of 540 points. For the FY 2017 sales declined by 0.7% to 138.3 as against 139.3 previous year.

In the veneer segment capacity utilization for the quarter stands at 34% while our sales volume was 0.41 million square meter against 0.45 million square meter in Q4 FY 2016.

Realization grew by 2% to Rs. 824 per square meter. For the year as a whole utilization stood at 31% while the sales volume was at 1.37 million square meters. Engineered wood flooring under the brand name Mikasa is slowly gearing up, we have clocked sale of Rs. 18 crores in this year as well as for the doors also which has clocked the sale of around Rs. 12 crores.

That is all from our side. I would now like to open the floor for question-and-answer.

**Moderator:** Thank you. We will now begin the question-and-answer session. We will take the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

**Anshuman Atri:** My question is regarding the demand for various segments as well as these new products which are being ramped up. How do you see it in FY 2018 and FY 2019, what kind of growth can we expect and how will GST help? And in terms of pricing how do you see the pricing in the next year going forward in different product category?

**Saurabh Mittal:** Number of questions. So, number one, on the demand side we think, we can grow the business by may be 10% - 12% in financial year 2018 across all categories. On the laminates and veneers, probably the business will grow by about let us say 10 odd percent. The flooring and doors the business is still small, so probably we will have a higher rate of growth in the flooring and door business. On the GST front, the rates have been announced which we said in the call earlier. So, laminates are about 80% -85% of our business. And we think the lowering of the GST or the GST at 18% will help us in the market primarily because the price gaps between us and the unorganized players will narrow down because today we have compliance issues in unorganized people and with a 10% lower in taxes the product cost of the consumer will reduce by that percent probably and the price gap of the local companies which will help us expand our market share. So, this is how I think this will help us in the laminates & flooring business. Door and veneers, it is about the same, so really on the taxation piece we do not expect much benefit. But if the compliances of the local companies goes up, will surely benefit us in those categories also. Your last question was on the pricing part. So, pricing, laminates we have taken a very tiny, small increase because RM cost went up for chemical and for kraft paper and some other paper, late in the quarter four. So, there has been a small price increase in the domestic market. The veneer, flooring & doors, I think pricing are largely flattish and we will have to work towards improving the product mix as the product mix improves the realization has a chance of going up.

**Anshuman Atri:** Okay. One question on the floor and doors. Is it possible to get last year's revenue and also EBITDA numbers for this year and last?

**Saurabh Mittal:** Sure. Ashok can address that?

**Ashok Sharma:** Yeah, revenue for last year for floor was Rs. 18 crores and EBITDA was negative Rs. 11 crores and for the doors revenue was Rs. 12.3 crores and EBITDA was negative Rs. 3.2 crores.

**Anshuman Atri:** This year's EBITDA?

**Ashok Sharma:** This is for the FY 2017. You want for the FY 2016 also?

**Anshuman Atri:** Yeah.

- Ashok Sharma:** The revenue for the floor was Rs. 16.3 crores and EBITDA was minus Rs. 7.6 crores Door was started last year only. So, the revenue was Rs. 1.1 crores and EBITDA was negative Rs. 2.6 crores.
- Anshuman Atri:** Okay. Just one last question on CAPEX. What can we expect this year?
- Ashok Sharma:** Yeah, last year CAPEX was around, FY 2017 CAPEX was around Rs. 23 crores - Rs. 24 crores. This year the sixth press which we have announced for Nalagarh expansion that money will also be spent and the normal CAPEX, so we expect around Rs. 50 crores in this year.
- Moderator:** Thank you. The next question is from the line of Basudev Banarjee from Antique Finance. Please go ahead.
- Basudev Banarjee:** Few things I have missed out just wanted to know what has been the laminates volume, exports growth for the quarter and for the year and your outlook for laminates exports and domestic in FY 2018?
- Ashok Sharma:** Okay, you want the growth or you want the volume?
- Basudev Banarjee:** Volume, sir. For the quarter and the year.
- Ashok Sharma:** Okay. So for the quarter domestic was 1.76 million and export was 1.7 million and for the full year domestic was 6.22 million and export was 6.49 million.
- Basudev Banarjee:** Okay. And sir, growth outlook for both domestic and export laminates?
- Ashok Sharma:** On the growth part I think this year you could expect about 10% growth in each of the categories.
- Basudev Banarjee:** And one thing sir, like other plywood manufacturers or tiles manufacturers were fearing because of the uncertainty of GST rates that is coming can there be a period of dealer offtake coming down significantly. Now GST rates being largely neutral do you see that weakness in volume coming in or it will be business as usual?
- Saurabh Mittal:** I am not sure, so much on it but we have started hearing from the channel partner they do not want to increase the stocks, etc. But in our laminates case, we have about 11 warehouses currently and our distributor dealers have stocks obviously but they do not have excessive stocks. So, really there could be a temporary disruption of a couple of weeks but really, we have to see how this goes.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** Sir, a couple of things, one is our new businesses can you elaborate on our strategies going forward in both doors and the engineer wood flooring and by what time do you expect it to be EBITDA as well as PBT breakeven?

**Saurabh Mittal:** So, Nehal, on the strategy not much has changed since the last quarter and strategy remains same and of expanding the channel in the flooring, adding more dealers and focusing on projects and Doors as you know less of our channel business more of project business. So, from the strategy not much has changed really ensuring more successful or more focused execution of the strategy which we are right now focused on. So, on the financial front, we hope that at least we can get into EBITDA breakeven in floors and doors in this financial year. Obviously, our endeavor internally will be to do more but I think this could be a fair expectation.

**Nehal Shah:** And what kind of capacity utilization, you think you will be able to do say probably by next three years say by FY 2020 with the strategies being put in at the moment?

**Saurabh Mittal:** FY 2020?

**Nehal Shah:** Just a ballpark number by may be over the next three years.

**Saurabh Mittal:** That is a long shot.

**Nehal Shah:** Yeah, I know it is long shot.

**Saurabh Mittal:** You know on the full capacity we are talking about Rs. 100 odd crores for doors & flooring full capacity revenue of about Rs. 200 crores - Rs. 225 crores depending on the value mix at about 18% - 20% utilisation we will get to EBITDA breakeven at about 25 odd percent utilisation we get to PBT breakeven. So, this is the financial. Internally obviously we want to get this up and running at the earliest but you know really putting up figure and what percent we will reach right now in FY 2018 it is a tough call. The GST at 18% for the new flooring is surely going to help us and I can say that the brand recalls the repetition of orders continuity on business is improving. So, it's moving in a positive direction I can say for sure.

**Nehal Shah:** Any imports, so basically apart from us the entire engineer wood flooring comes through imports, right?

**Saurabh Mittal:** Yeah, correct

**Nehal Shah:** So, would GST impact them were they a bit of, were they trading in grey market as well through imports?

**Ashok Sharma:** Yeah, Nehal we are not sure about this benefit. But certainly, if there are certain non-compliant things like under billing or under invoicing imports. Those will probably get hit by this. But otherwise, on a normal if everybody is getting the 100% duty paid material then probably he will also get the benefit of same 18% as what we will be getting. But if there are people who do the non-compliant thing and which I am sure people in the unorganized market maybe doing.

**Nehal Shah:** Okay. And sir, last thing, what is our dealer network as of now in both these new. Obviously. Door is institutional businesses, in engineer flooring how many dealers have we done till now?

**Saurabh Mittal:** I do not have the exact math but I think it will be in the band of I think 125 to 150 kind of channel partners currently. But again, the challenge is not only the numbers of dealers' name, it is also about activating the dealers. In many cases, the dealers have obviously have been appointed. There has been display done, there has been signage done, we are promoting but I feel the activation of the existing channel partners it is not there completely, you know what I am trying to say. So, there are two situations, one is you have appointed dealers, dealers need to be completely engaged and activated to push the sales because we also need some pull coming in and you need to add more channel partners. So, we are trying to work on both the fronts.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Securities. Please go ahead.

**Pritesh Chheda:** Can you enumerate challenges which are there in the allied business which is your door and floor. Because a lot of the delta in the profitability is based on it and second, the year gone by it seems there is some disappointment in veneer. So, if you could spend some time there? And what is your outlook on veneer, is it a threat that the consumer preferences is moving out of veneer, do you think any of those also?

**Saurabh Mittal:** So, let me answer the veneer question, first. we had a de-growth last year of about close to 12 odd percent in revenue and on the margins also we had a de-growth. So, if you see the veneer business primarily in quarter three, we had a set back because of the demonetization I think that and we could not recover that sales in the coming quarters. I think that is a prime reason why things really slipped in the veneer business. If you see Q4, there was a 7% - 8% slip on the top-line on the veneer. It is not a very scalable business and because of the price factor, the prices that veneer gets sold, also have to do polishing, labor cost, etc., It is a luxury premium interior surfacing solution. So, really high-end homes, Villas, there are premium hospitality, premium offices this is where the consumption of veneer is largely done. Although in the last two years, we have also introduced the mid-priced veneer product in the form of the teak veneer and engineered veneer, but really veneer is still more of a luxury premium products. So, I think post demonetization that had an impact on the purchasing capacity, secondary sales of the veneer business and on the preference on the veneer. , Growth of the laminates business let us say mid-price surfacing solution is higher than the premium surfacing business which is the veneer



business. Are the consumers getting away from veneer? I am not so sure on that. So, really, I think it is more of a temporary pull back which eventually should grow. Globally also, veneer business has an important share in the total surfacing usage. So, may be just couple of more quarters but yes, you cannot expect this to be a very large business that is for sure.

**Pritesh Chheda:** See, it is a structural downturn?

**Saurabh Mittal:** Say again please.

**Pritesh Chheda:** You do not foresee a structural downturn, right?

**Saurabh Mittal:** I am not seeing for the moment, it is too early for us to comment on that. Two quarter things have slipped and why would it slip? it is an expensive product, it is a premium product, demonetization has taken a toll on it and we recovered some revenues in quarter four. We have introduced mid-priced veneers in Teak and added engineered veneers. A lot of the veneer products are equal to a lot of expensive laminates also currently. So, we have that price point also. So, I think may be a little more time. So, I do not think there is a structural shift or a movement. But I could say the growth percent of the veneer business is lower than the laminates business, that is a fair answer. Yeah, on the number two, you asked me about the challenges in the allied category. So, on the floor business the challenges really on the demand side on our ability to get more projects, get more specifications add more channel partners, activate the existing channel partners, it is more on the front end part. The product the performance of the product installation, quality, manufacturing that is all quite well settled. On the door front, we think the demand is there we have a lot of enquiries but conversion of those enquiries to business and getting this whole model stabilized and terms of because this is a made to measure pre-hung doors, so site measurement, size has to be taken, right production, installation when the product goes to the market, the builders change their dimension at times. So, I think the people are liking the model but it is still not completely seamless. So, there is still operational challenges which we need to fix up and we are addressing those challenge. But from a demand side, from a potential demand side, from overall concept, people are liking the concept, we make the pre-hung made-to-measure door for them. So, there are some operational problems in terms of executing the orders getting the right sizes fixing the product, installing the product correctly. So, I think there we are still struggling a bit.

**Pritesh Chheda:** Why there was increase in loss despite increase in revenue in this allied segment?

**Saurabh Mittal:** So, primarily if you see what happened, in FY 2016 versus FY 2015 the gross margin of the flooring has slipped a bit, so that is the prime reason. But if you see quarter four, in quarter four the flooring business has done a revenue of about Rs. 6.63 crores and gross margin has improved to 53% and EBITDA loss has reduced from Q3 as well as Q4 of FY 2016 to Rs. 1.67 crores and because the business is small, pricing, value mix, orders any small disturbance anyway impacts the margins.

- Pritesh Chheda:** Impacts your overall number sir.
- Saurabh Mittal:** Yes, absolutely. We are completely cognizant of that.
- Pritesh Chheda:** Lastly, I just wanted to check, I could not catch the CAPEX plan that you have if you could....
- Ashok Sharma:** Yeah, last year we have in FY 2017 we have spent close to around Rs. 25 crores and this year we will have the CAPEX for the Nalagarh which will on stream from the next year and the normal CAPEX. So, around Rs. 50 odd crores will be spent in this year.
- Pritesh Chheda:** So, we are spending on the Nalagarh line.
- Ashok Sharma:** Yeah, that is one line which has been already announced in the previous year, that line will get completed by next month. So, that is adding 2-million capacity t plus the normal CAPEX. So, around Rs. 50 odd crores in this.
- Pritesh Chheda:** What is your normal CAPEX maintenance is.
- Ashok Sharma:** Around Rs. 20 crores - Rs. 25 crores.
- Moderator:** Thank you. The next question is from the line of Yash Somani from Girik Capital. Please go ahead.
- Yash Somani:** So, I just wanted to know the quantum of the advertising and promotional expenses for the year? And Saurabh, on which segment you spend it on, whether the laminates or the veneer, allied and breakup of the medium, if possible?
- Ashok Sharma:** On a consol basis we have spent Rs. 45 crores last year. It is really difficult to segregate this in to the individual segment because some of the expenses are basically allied, all the vertical has been spent but most of the expense happens on laminate segment.
- Yash Somani:** And how much of this would be sort of the promotional expenses which are at the discounts?
- Saurabh Mittal:** This is all for promotion, this is not discounts. So in promotion typically we have sampling, shop displays, digital spend, and print campaign spend. Although major chunk of expenses for laminates but also we are nurturing two new brands in the Mikasa floor and doors and even the veneer brand relatively is new over the name of Decowood so there some spends on promotion to the business, the percentage is higher in flooring, door and the veneer business versus the sales we are generating there.
- Yash Somani:** Exactly that is Saurabh what I wanted to understand.

**Saurabh Mittal:** So, we do not have a figure right on the hand on that. And like Ashok said really segregating completely true sense would be a bit difficult. But yes, the percent spend on veneer and allied versus top-line is far higher than what we are spending on laminates as a percentage because that is a mature business and there are larger volumes.

**Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

**Anand Bhavnani:** Sir, with the GST coming in a lot of unorganized players might be looking to be taken over by established players and there might be some consolidation in the industry as such. So, do you see this happening and how do you see Greenlam participating in any such consolidation in the industry?

**Saurabh Mittal:** I think it is a long shot because our industry is very fragmented. So, consolidation happening right away, to me I think it is a long shot. Yes, for sure. In some markets, the opportunity size in the addressable market for the organized sector will increase and may be pace of growth will be better than the unorganized sector and may be some unorganized people become organized. So really, I think we cannot predict too much on this. From our side, what we can do is we are adding capacity, we have a robust network of our own warehouses across the country. We are continuously working towards adding dealers and distributors in the laminate segment. We have become more active in the Tier-II price point of laminates which they sell in 0.8 mm category. So, from our side we are adding capacities our physical network in terms of company warehouses have expanded over the last two years. We are adding channel partners and looking at penetrating the markets further in the domestic market and we have become more active in the Tier-II brand of laminates in the 0.8 mm category. So, I think our growth percentage probably will get higher. Consolidation in the next whatever one or two years, to me it seems a bit difficult.

**Anand Bhavnani:** So, sir you mentioned that some of the unorganized players might come in to the larger and established players. On that sense, are you seeing people in the unorganized sales scaling up their distribution network or spelling more on advertising and promotion. So, any updates on the competitive scenario changes in the industry?

**Saurabh Mittal:** No particular change on the competitive land escape. They remain the same. Post demonetization we think the price gap between us and unorganized has narrowed down and with the implementation of GST with compliances increase, probably this will narrow down further.

**Anand Bhavnani:** I just want to understand price difference between us and the unorganized players that existed pre-demonetization and price different at the moment and the and post-GST how do you see this price difference?

**Saurabh Mittal:** See, the market is quite fragmented, we cannot really say in general, so, yes, one or two companies or two three companies who are reasonably large in the unorganized segment also.

where the prices gaps have not narrowed because of demonetization margin this is again specific to some markets in the country.

**Anand Bhavnani:** What percentage would be the gap sir?

**Saurabh Mittal:** So, it really depends in the 1 millimeter category the gap could be as large as may be 15% in the 0.8 millimeter category the gap could have probably be now at 7% - 8%. So, it depends on the category of the product and on the markets or zones or areas. But yes, it is narrowing I can say that.

**Anand Bhavnani:** Okay. And sir, this is more of a longer-term question at least if you can help us understand as much as possible. So, there might be possibility for outsourcing some bit of manufacturing since these unorganized players when they become uncompetitive their capacity might be available. So, are you thinking in terms of strategy to explore those options, if you can help us with your thinking.

**Saurabh Mittal:** So, we have done it in the past and realized that for the product quality specification we have and because the number of SKUs in laminates are quite high with the number of deco paper and plates, etc., the local companies are actually more expensive than us. So, there cost of production ex-factory is more expensive than our cost of production and coupled with the working capital management and the scheme management, the serving to the market on the outsourcing model it is quite difficult. So, we have not really reviewed this recently but we believe that organic manufacturing will have a lower cost of manufacturing and we have said in the past that from the 12 million capacity we have, now we are adding 2 million will come on stream by June. We can go up to 20 million capacity in our existing plants on a Brownfield basis where our capital expenditures will be lower and we will have operating leverage. So, we are not looking at outsourcing laminates from the unorganized players currently. We think an organic strategy and self-manufacturing is more cost efficient and better for a working capital management and servicing to the market. For the other product categories, you probably know that we already have the adequate capacity.

**Anand Bhavnani:** Yeah, right. And sir, last question, in terms of rupee getting appreciated in the last few months and if it is just say continues to appreciate a bit more. Do you see any particular threats on imports in any of the category that we operate in?

**Saurabh Mittal:** So, the rupee appreciation on the imports really amongst the categories we are presented. The rupee appreciation in the door business does not have much impact rather it lowers the cost because most of the RMs imported and sales are domestic. In the veneer business again, all the RM is imported sales are domestic. On the engineering flooring business is where we have competition from import products because we are the only producer in the country. So, potentially yes, there could be some impact on that. On the laminates I think currently, we get the right math, I think our imports and exports put together there is a fair hedge

**Ashok Sharma:** For company as a whole import and exports are nearly the same. But as rightly said except on the one product which is on the flooring, where competition is from the imports there can be some impact on that.

**Moderator:** Thank you. The next question is from the line of Chandru Gopal from JM Financial. Please go ahead.

**Chandru Gopal:** Just on these export market, I just wanted to know your outlook. How you see it growing and what all geographies we cover sir, in export market?

**Saurabh Mittal:** So, exports we have a diverse market where we are present currently and we should be able to look at growing the 8% to 10% this year on the export market. Of the entire export market, the APAC region is our largest zone, Southeast Asian markets and we have reasonable presence in North America, UK, Europe, Middle East, some African countries.

**Chandru Gopal:** And sir, how is the competitive intensity over there, I mean if you can just throw some light?

**Saurabh Mittal:** Yeah, on the exports we will have to dissect the market into two segments. One there is a level playing field that means there is no local producer in those exports. So, there the competition intensity is a level playing field with anybody because everybody imports the laminates into those markets. And then, there are markets where there is local manufacturing. So, where there is local manufacturing, our brand to scale up in those markets gets restricted after a point. So, yes, there is competition intensity in every market but where there is no manufacturing, ability to scale up the markets are higher where there is local manufacturing, after a point we cannot scale up the market because with local manufacturing, you can service the market quicker, your inventory requirements are lower, your focus on those local markets. So, it depends on the market.

**Chandru Gopal:** So, I mean the proportion of this if you can say like where the local marketing market can scale up will be a slightly lower for us, right we will be focusing more on those where the imports are there.

**Saurabh Mittal:** Yes, mostly, there we can still scale up the business there. If this had a good consumption in those markets, our presence is in both kind of markets.

**Chandru Gopal:** Okay. Great, sir. And sir, on these other expenses part, we can see that either coming off last two quarters, last quarter you mentioned that you have cut on spending marketing spends, is it going to be new normal because EBITDA margins are sustained because of this. So, just wanted to understand how you are going to take it forward in next financial year or so.

**Saurabh Mittal:** So, obviously we are keeping a strict watch on our other expenses and also in FY 2016 and the earlier after we demerged, we had high marketing cost because the demerger cost, the new

branding of laminates, the new branding of veneers, there are two new businesses in the form of Mikasa floor in the and Mikasa door. So, all that came in FY 2016. So, I think as a percent on the marketing cost we probably be at the same percent like we were 4.5% figure. So, we will probably be in the same range in FY 2018 also.

**Chandru Gopal:** Okay. And in FY 2016, I think Ashok sir, you shared the number on advertisement it was Rs. 47 crores, for FY 2016 can you share?

**Ashok Sharma:** It was Rs. 59 crores.

**Chandru Gopal:** And sir, just on working capital, I mean what are the measures you have taken, is this sustainable working capital for us inventory and debtor reduction or it is going to see some?

**Saurabh Mittal:** No, so, I think the working capital measures we took in FY 2016 has kind of showed fairly good results in FY 2017, so it is completely sustainable from a working capital, an inventory and debtor perspective. Rather in the existing business, if you would go segment wise and business wise, our working capital cycles in veneers, floor and door actually still a bit distorted because our sales are low and inventory is in place, and may be Ashok can do that later with you, our performance on the laminates working capital cycle is quite good if you see overall.

**Ashok Sharma:** Yeah, laminate net working capital is around 56 days on a consol basis.

**Moderator:** Thank you. The next question is from the line of Akshat Gandhi from Kotak Mutual Fund. Please go ahead.

**Akshat Gandhi:** We have seen the ad expenses reducing Y-o-Y from Rs. 59 crores to Rs. 45 crores. So, how should we look at that line item for the next year?

**Saurabh Mittal:** So, we just start for that, so the reduction has been primarily because FY 2016 was the first independent financial year post-demerger we had new boards to be put up of laminates, we had new branding new Decowood, veneers, we had new cost of launching, Mikasa flooring, Mikasa door, so there was combination of several cost which kind of got into FY 2016. So, going forward I think the percent of spend we had in FY 2017 is about 4.5%, we could presume it will be in the similar range going forward.

**Akshat Gandhi:** Okay, sure. And what kind of expansion you plan on the network side for the various segment?

**Ashok Sharma:** I cannot put an exact figure to it. It is a constant process. obviously there is no mega expansion on the network side on the Decowood veneer business. So, wherever there are network gaps, we will try and fill that in. But largely to focus on Decowood veneer will be filling in the network gaps and focusing more on secondary sales on specifications with the architect, designers working with hospitality premium projects to build secondary demand.

- Akshat Gandhi:** Okay. Also, one last thing, we are hearing that Formica is probably entering India is that true enough and any views on that if you would like to comment.
- Ashok Sharma:** Yes, Formica has been in India for last I think 45 years - 50 years, not new. Formica was in India earlier with a joint venture with Bombay Burmah Trading, so they have been around for several years and then I think they went through various patches of change in their management, ownership, sell off, etc. so, Formica now is present I think for the last three - four years I think they have bought a small plant in Gujarat and they are present in the market directly own by the Formica International, I think earlier it was a JV ownership or something that is all. So, we are comfortable with them being around.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.
- Chirag Lodaya:** So, my first question is towards export growth. So, if we see last one year - one and a half year, laminate export from India growth has substantially come down, so you say mid-single-digit versus double-digit growth in previous year. So, what are the real growth challenges you are facing in export market?
- Saurabh Mittal:** So, your question is on lower growth of export, right? That is your question?
- Chirag Lodaya:** Yeah. So, what are the challenges, I mean in last two years we have seen substantial reduction in growth rates, laminate export from India not just Greenlam.
- Saurabh Mittal:** So, I am not sure, there have been substantial reduction, may be your figures are not correct, and if you see our numbers in volume FY 2016 versus FY 2017 we have grown 9.7% in quantity. In realization, there is a (-4.7%) and value we have grown shy of 5% that is the move on. Exports from India has not substantially de-grown. I think, they must have grown may be single-digit or may they could have been flattish for the company. So I do not think there is kind of de-grown. So, that is number one. What are the challenges? Obviously there are many challenges of opening up the international markets, market situation their consumption pattern of HPL, compact laminates, competitive pressure. So, I have to go down market wise to explain you that, but there has not been a de-growth even for the industry as a whole.
- Ashok Sharma:** In past couple of years in the several markets where we export, they were having their own challenges, some markets were having currency challenges and some market were dependent on the oil economy. So, even though now it is a bit stabilized but that was a quite troublesome in the past I think before six months or so.
- Chirag Lodaya:** Okay. And what were the margin differential in export versus domestic?

- Saurabh Mittal:** Margin differential on a consol basis at the EBITDA level is nearly about similar. It really depends at times on the market condition like last two years, we were losing money and the consolidated because we were opening new markets and new countries. But now, on a normalized level it depends on the volume mix you achieve in either of the markets and both the markets, in various markets, within the market in different stages. But largely, at the EBITDA level would be very similar.
- Chirag Lodaya:** Okay. And lastly, on this movement in raw material prices, if you can just let you know what has been the moment in say phenol, melamine and design paper for us.
- Saurabh Mittal:** I will have Ashok address that.
- Ashok Sharma:** So, phenol, melamine and methanol these fluctuates a lot. In March and April it has gone up and now within a span of like 1 month, 45 days it has again come back to the previous normal, stage. In terms of design paper the price has gone up by around 3% - 4%.
- Saurabh Mittal:** On the design paper just to add to what Ashok is saying, mostly prices have firmed up in the solid colors and white color with titanium dioxide is being used which obviously is not the entire deco paper model. So, solid colors and white colors there has been a small increase, not small there has been a price firmed up. The other printed papers there is a marginal increased in the RM cost.
- Ashok Sharma:** And in terms of craft paper this also category there is an increase but it can be somewhere from the 5% - 6% to 8% to 10%.
- Chirag Lodaya:** Okay. And do we have any hedging policy, I understand your import and exports are also same.
- Ashok Sharma:** Yeah, we do have a hedging policy, on a regular basis whatever the net open outstanding position is being hedged.
- Moderator:** Thank you. The next question is from the line of Aditya Jadhav, he is an Individual Investor. Please go ahead.
- Aditya Jadhav:** So, I just have a one question, I know that it could be a long shot for you, but considering that there will be a paradigm shift from the unorganized market share to a market share there will be a lot of new either new set of players would be emerging or may be existing organized player will become a bigger and bigger of course, you being a learn of the lead you will also have a large market share? So, just wanted out understand, which are your competitor, you feel that they are doing equally good as what you are doing or may be in some area they might be even doing better than you?



- Saurabh Mittal:** On the competition, so are you asking me on the competition front, or are you asking me on the shift on the unorganized to organized?
- Aditya Jadhav:** No, I know it is taken for granted that there will be shift to unorganized to organized for sure now two thoughts about post GST, right? But I want to understand that the see competition is intense in this market, so wanted to understand how other players are playing this game?
- Saurabh Mittal:** Well, I cannot talk so much on how other players are doing, what they are doing?
- Saurabh Mittal:** But in the laminates the nearest competition you know is a company called Merino Industries, so they are our closest nearest competition in across segments in the market and they are also a great company and so this is what I can say in competition. Obviously, there is a lot of unorganized players and I will not take anybody's name on this call. But yes, there is competition in the market and I can also say that we are quite well-positioned ourselves in terms of our capacity in terms of product line, in terms of distribution to probably be part of this shift from the unorganized to the organized.
- Aditya Jadhav:** Okay. My second question is in extension to that, I would say that the three biggest players would be Greenlam, Merino and then probably even Stylam, right? And I heard that recently Stylam has almost increased their capacity to double or something. I have not verified it but just wanted to understand is this true? And if yes, will there be any over-capacity in the market or there is enough demand to digest that capacity?
- Saurabh Mittal:** So, in the domestic market after us and Merino, the next company would be a company in domestic there could be someone else in exports. So, overall there is a brand called Royale Touche, so they have different plants, different family members I think. We treat them as a number three player in value in the market. On your next question of whether there is overcapacity. If you look at the unorganized sector there is clearly overcapacity in the market because their installed capacity versus what they produce there is already a gap in the market and they are mostly in the commodity line or segment of the market which goes inside using usage of wardrobe, shuttles, paneling, drawer systems which is being used. So, in the unorganized segment there is already overcapacity for several years.
- Moderator:** Thank you. The next question is from the line of Chandru Gopal from JM Financial. Please go ahead.
- Chandru Gopal:** Just wanted to understand on veneer margins, how you see them going forward because they have been quite volatile?
- Saurabh Mittal:** So, when you say veneer margins I think you are referring to the entire segment and I have Ashok respond to that.

**Ashok Sharma:** Yeah, so Chandru you need to see in this what is the margin only the decorative veneers and veneer product. So, veneer and allied margin is of course volatile because these floors and doors yet to stabilize and their margin vary, so it has an impact on the overall. But if I talk only about the decorative veneer margin those are fairly in the range of 1% or 2% in that. So, like it is in the last full year it is in the range of around 16%, previous year it was 16.7% because we were having the higher sales. So, I think it will be in the range of 15% to 17% margin.

**Moderator:** Thank you. That was the last questions, I now hand the floor back to the management for closing comments.

**Saurabh Mittal:** Friends, thank you so much for joining us at this morning hour of your busy schedule and we really appreciate all the questions, queries, etc., and if there still remain some questions or some queries, feel free to contact Ashok and we will be happy to address them. Thank you so much once again, have a great day ahead.

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