



“Greenlam Industries Limited  
Q2 & H1 FY20 Earnings Conference Call”

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**Moderator:** Good day ladies and gentlemen, and a very warm welcome to the Greenlam Industries Limited Q2 & H1 FY20 Earnings Conference Call. This conference call may contain certain 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 remainder, 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 am now glad to hand the conference over to Mr. Saurabh Mittal – Managing Director and Chief Executive Officer of Greenlam Industries Limited. Thank you and over to you Sir!

**Saurabh Mittal:** Good evening friends and very warm welcome to all of once again. On the call I am joined with Mr Ashok Sharma our CFO, Mr Samarth Agarwal, AVP Finance, 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 it.

On the building material sector, there have not been major deviations in the global as well as domestic market in terms of demand improvements. However, few markets in domestic and in international arena have shown some improvements. Organized players like us with a strong balance sheet, a strong brand, and larger touch points, had been able to leverage this benefit and outperform the broader market. This is quite visible in our performance where our leadership position is fairly assisting our growth. Capacity expansion of additional 1.6 million sheets at Nalagarh Plant was operational from 11 September 2019. With this expansion, our total installed capacity for laminates stands at 15.62 million sheets per annum.

After the disruption of the business in the first quarter due to SAP HANA implementation, this quarter saw very stable financial performance. We were able to report and achieve positive growth across most of our parameters like sales, EBITDA, PAT and cash flow improvements. We were also able to manage our working capital cycle fairly well. This positive growth has been a mix of business performance and also some of the accounting norm changes which Ashok will explain in detail when I hand over the call to him.

In the past, we have highlighted that we have been wanting to grow all our business and our business operations is moving on that path and we are very passionate to improve our business with most of our customers. We are extremely customer focused and our endeavor is to drive volume and valued growth across categories. We continue to be committed to

redefine spaces with quality products, innovation in technology and bring the best trends in décor to our customers. We are always excited to initialize and take pride for our customer centric approach. We are continuously sharpening our skill sets and we are working with our team members, channel partners, influencers at regular intervals. Today, Greenlam is very well known in the international markets in our space and it is known for innovation, quality, design, and commitment. We will continue our momentum and all the same for improved performance. Economic cycles might vary but at Greenlam we are a firm believer of transformation of interiors and we are well equipped to grab these opportunities. I will now handover the line to our CFO, Ashok. Ashok will take you through the finance and operational highlights of the company.

**Ashok Sharma:**

Good evening friends, I will take you through the financial performance. For the Q2 FY20, our revenue grew by 9.6% to Rs. 349 Crores compared to Rs. 318 Crores previous year same quarter. Gross margin expanded by 110bps to 47%. EBITDA for the quarter two was at Rs. 48.5 Crores with a growth of 23%, EBITDA margin stood at 13.9% against 12.4% in Q2 FY2019 an expansion of 150 points. PAT for the quarter was at Rs. 27.5 Crores, a growth of 51% YoY.

For H1 FY20 revenue grew by 5.3% to Rs. 638 Crores as compared to Rs. 606 Crores previous year. Gross margin expanded by 140 points to 48.2%. EBITDA for the H1 was at Rs. 78.4 Crores as against Rs. 73.1 Crores, previous year a growth of 7.3%. EBITDA margin stood at 12.3% as against 12% previous year. PAT grew by 7% to Rs. 35.9 Crores as against Rs. 33.5 Crores previous year.

Total debt stood at Rs. 264 Crores, including short-term debt of Rs. 165 Crores, a reduction of around Rs. 6 Crores. Our debt to equity ratio improved to 0.57. On an annualized basis, ROCE stood at 14.8% whereas return on equity stood at 15.7%. Our working capital has slightly increased by 8 days to 91 days mainly on account of higher inventory. The financial performance has been impacted on account of Ind AS 116 as this was adopted by the company in this quarter as well as changes in tax rates as changed by the government, and the same has been highlighted in our presentation.

Moving on to segmental performance, laminate and allied products forms around 85% of our Q2 and H1 sales. For the Q2 laminate recorded a sales of Rs. 296 Crores a growth of 8.6% on Y-o-Y basis. Sales volume for the quarter was at 3.48 million sheets, a growth of 4%. Production volume was at 3.51 million sheets, a growth of 6.1% and utilization of 98% on an annualized basis. We have expanded our laminate capacity by 1.6 million sheets in September 2019. EBITDA margin for laminate business stood at 15.4%. Our average

realization for the quarter was at Rs. 803 per sheet as against Rs. 778 previous year same quarter.

Moving on to H1, our sales grew by 4.2% to Rs. 542 Crores on Y-o-Y basis. Sales volume were at 6.25 million sheets, a de-growth of 4%. Production for the half year were 6.78 million sheets with a capacity utilization of 96% EBITDA margin expanded by 70bps to 14.1%. Average realization for half year was Rs. 810 per sheet as against Rs. 763 per sheet previous year.

Moving on to decorative veneers and allied segment, which consists of decorative veneer, engineered floors and engineered doors. The entire veneer and allied revenue stood at Rs. 53 Crores for the quarter as against Rs. 45.9 Crores previous year same quarter a growth of 15%. For the H1, total sales grew by 11.6% to Rs. 97 Crores as against Rs. 87 Crores in H1 of previous year. In this revenue for decorative veneer for Q2 FY20, de-grew by 1% to Rs. 30 Crores. For H1, revenue de-grew by 6% to Rs. 55.4 Crores as against Rs. 59 Crores in previous year. Capacity utilization for the quarter was at 42% and for the H1 was 37%. Sales volumes were at 0.44 million square meter for this quarter and 0.78 million square meters for H1. Average realization stood at Rs. 670 per square meter for the quarter and for the H1 it was Rs. 727 per square meter.

Moving on to engineered wood flooring. For Q2 revenue grew by 18% to Rs. 14.9 Crores with an EBITDA loss of Rs. 1.1 Crores. For H1 FY2020 revenue grew by 26% to Rs. 26.4 Crores and an EBITDA loss of Rs. 2.4 Crores. Capacity utilization for the Q2 stood at 28% and for the H1 this was 23%.

Moving on to engineered doors for Q2, revenue grew by 170% to Rs. 8.1 Crores and EBITDA loss reduced to Rs. 0.1 Crores. For H1 those revenue grew by 116% to Rs. 15.2 Crores and EBITDA loss reduced to Rs. 1.3 Crores. Capacity utilization for Q2 was 33% and for H1 it was 26%.

That is all from our side, I would now like to open the floor for Q&A.

**Moderator:** Thank you ladies and gentlemen. We will now begin the question and answer session. The first question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja:** Good evening sir and thanks a lot for taking the question. Sir can you please provide us with the breakup of how much is the exports and how much you have done in the domestic market and what is the respective revenues as well as volumes?

- Ashok Sharma:** We will send that across to you.
- Sneha Talreja:** Sure. can you let us know how has been the realization trend in both the domestic market as well as the exports market. and where have we reached right now, what amount of growth?
- Ashok Sharma:** If you see the realization in terms for the quarter, domestic realization grew by around 2% and export realization grew by around 6%.
- Sneha Talreja:** How has been the volume trend in both the markets?
- Ashok Sharma:** We will send across that detail to you.
- Sneha Talreja:** Sure. Sir, are we seeing any kind of improvements in the domestic market?
- Saurabh Mittal:** Very difficult to give you any sign of improvement as we think it is too early to say too much on that.
- Sneha Talreja:** But nothing from the real estate activity or something, are you seeing some kind of growth happening there?
- Saurabh Mittal:** Nothing substantially which we can talk about in terms of improvement. I guess when you say improvement, you are probably referring to the residential part of the market because the commercial part of the market is doing reasonably well. So nothing substantial which we can say to you.
- Sneha Talreja:** Sure sir. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.
- Chintan Shah:** Sir I wanted to understand how the market share would be between the three players, Greenlam, Merino, and Royale Touché, if you could give an idea on how it has moved over last quarter?
- Saruabh Mittal:** I cannot tell you what last quarter has been because we do not have Royale Touché revenue as they are split between two three different companies. Merino in laminates revenue, both domestic & export put together, will be very similar to us and Royale Touché as a group should be in the band of annualized Rs. 400 to 450 Crores. We do not have their last quarter results.

- Chintan Shah:** Could you give idea total market size for the segment?
- Saurabh Mittal:** When I say the revenue is for domestic and for the international business, overall the international business which is something like a USD 7 billion market and the domestic is about Rs. 5500 Crores approximately.
- Chintan Shah:** Rs. 5500 Crores?
- Saurabh Mittal:** Rs. 5700 Crores approximately.
- Chintan Shah:** What would our share be?
- Saurabh Mittal:** Our share in domestic market comes to about 13% and about 30% share in the exports market i.e. exported out of India.
- Chintan Shah:** Sorry I missed the domestic number.
- Ashok Sharma:** 13% of the overall domestic market.
- Chintan Shah:** Thanks sir.
- Moderator:** Thank you. The next question is from the line of J Radhakrishnan from IIFL. Please go ahead
- J Radhakrishnan:** Thank you for taking my question sir. Sir, what kind of capex we can expect going forward post this expansion of the laminates?
- Saurabh Mittal:** For this year or which period are you talking about, this financial year?
- J Radhakrishnan:** Going forward, for the remaining part of the year and next year?
- Ashok Sharma:** Our normal capex is around in the range of around Rs. 25 to Rs. 30 Crores and that remains on every year basis. Since we have added capacity recently, we do not need any immediate capacity expansion. For any future expansion, we will be above to give our capex plans as and when we decide it. Routine capex will be in the range of around Rs. 30 Crores per annum
- J Radhakrishnan:** So only routine capex no major capex for next one to one-and-a-half years we can assume?
- Ashok Sharma:** For the expansion part, we will take a call once we have firmed up our plans.

- J Radhakrishnan:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Kshitij Kaji from Edelweiss. Please go ahead
- Kshitij Kaji:** Good evening Sir and thank you for taking my question. Sir we have seen a very good performance from the floors and doors segment in this quarter especially doors have seen a very big jump in the utilization. So do we see this kind of performance even going forward or is it only for this quarter?
- Saurabh Mittal:** Our endeavor is to be profitable. Obviously, you should see better performance because even at this performance level we are just about to breakeven at EBITDA level. We still lose Rs. 10 Lakhs. So we should improve this numbers as we move ahead. I cannot say for any one particular quarter but in general you know we should keep improving the numbers.
- Kshitij Kaji:** Okay Sir, every quarter on quarter you see improvement and the utilization to go up?
- Saurabh Mittal:** Well, I cannot say every quarter on quarter, but obviously the endeavor and our efforts is to bring the business to a profitable situation and near full capacity.
- Kshitij Kaji:** Okay Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhishek Agrawal, an individual investor. Please go ahead.
- Abhishek Agrawal:** Thanks for taking my question. Sir, I just wanted to check on like what kind of trends are we seeing in Central European region?
- Ashok Sharma:** I do not have the exact breakup of the numbers but I would say it is fairly positive because post acquisition of company we did the expansion of the laminate capacity, so it is a positive trend as our revenues are increasing in that market.
- Abhishek Agrawal:** You just mentioned that after the Decolan SA acquisition how is it is working out for you?
- Ashok Sharma:** It is working out well. Revenues are going up and we are offering expanded capacity of laminates, which is of a particular size which serves that market quite well. So it is a positive trend and I do not have data, which I can disclose to you right now but it is a good situation to be there.

**Abhishek Agrawal:** Sir if you can just highlight like which kind of products you are seeing more traction in or, how are you seeing a growth in a particular kind of product there it will be helpful?

**Saurabh Mittal:** In that area we mostly sell laminates and some form of compact laminates and these are the only two products we ship there and like I said earlier the demand situation is reasonably good not because of category is expanding but we are probably replacing local players, local manufacturers and all those geographies we are looking at expanding our sales particularly Germany, Italy, Spain, countries, this will be visible in our growth of the export of business here.

**Abhishek Agrawal:** Just wanted to check apart from this I think we have subsidiary in UK and Singapore as well, so how are those subsidiaries doing and if you can share some guidance on that?

**Saurabh Mittal:** The UK subsidiary is also doing reasonably well. We have got few more customers there that is also growing. The Singapore subsidiary for Asia Pacific business is largely stable I would say we are not experiencing too much growth there.

**Abhishek Agrawal:** Are you seeing like as we all know that there is a slow down, are you seeing traction from the commercial segment more or from the retail end?

**Ashok Sharma:** More on the commercial side.

**Abhishek Agrawal:** We are seeing more like recently the trends like we see more traction from the commercial end right?

**Ashok Sharma:** That is right.

**Abhishek Agrawal:** Okay sir. Thank you.

**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. Just wanted to understand on the raw material part of the business so how the raw material is moving and laminates particularly.

**Ashok Sharma:** Raw material prices are largely stable, while there has been slight reduction in the chemical prices, but overall you could assume a stable RM situation.

**Pranav Mehta:** You think that this would continue or you think any pressure returning in the second half of FY20.



- Ashok Sharma:** I cannot say for second half. Q3 looks to be stable of what was the cost structure in the first half. About Q4 I do not think we can make a guess right now, but Q3 looks to be okay.
- Saurabh Mittal:** Normally Pranav, we do coverage let us say a quarter or so. So this quarter already that coverage in place. So as of now whatever data is there it does not give an indication that price is going to move too much from this level.
- Pranav Mehta:** Sir another thing, how is the market currently moving, are we seeing more liner sheet being sold in the market or are the premium sheets gaining some traction in the market particularly 0.9 and 1mm and all those sheets are getting better traction?
- Saurabh Mittal:** Liner always sell more than premium. So what is happening right now, very tough to say that, but obviously liner has a larger market than the premium products, but we have been able to maintain our renovations and growth of business. We are not playing in the liner segment specially in the domestic market. Our effort is to keep increasing the premium portfolio of our products..
- Pranav Mehta:** Because what I have heard is that liners are actually moving more in the market and the unorganized and semi organized are mainly depending on the liner segment currently because of the other high end premium sheets are not going that well in the market, so that is not the case with us ?
- Saurabh Mittal:** No, I am not saying that, I am saying liners always sell more than premium sheet. I am saying we are not playing in that market, we do not work in the liner market in the domestic space. Our effort is to build specification and build the premium sheets but as you understand liner is a liner, which is used at the back of the panel so unless the sheet is used on top you cannot use the liner on top. The liner is something which is used inside the cabinet or a shutter or where there is a kitchen shutter or wardrobe shutter so something has to be used on the face then only liner can get used at the back. Liner is not used independent of the base. That is not something new, people can comment but nothing unusual which is happening in the market right now.
- Pranav Mehta:** On the compliance front, are you seeing anything done by the government?
- Ashok Sharma:** Like what, in which part of compliance?
- Pranav Mehta:** GST compliance mainly, are you seeing on ground any movement or any hit on the unorganized sector?

- Ashok Sharma:** Nothing I think is dramatic which has been done from the previous quarter to this quarter. I think the status quo remains as of now, nothing is visible as of now.
- Pranav Mehta:** Okay. Sure sir. Thank you very much.
- Ashok Sharma:** Thank you Pranav.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investments. Please go ahead.
- Anirudh Shetty:** Thank you for taking my question. My first question is on growth, of course right now we are not doing so good, the end industry is going through a particular cycle, if you look at growth over long periods of time over the next 10 years how does one think about whether laminate industry should grow, does it grow as a multiply of economy, is there scope for more per capita usage share to gain from the unorganized, what kind of growth rates would one look at over a long periods of time?
- Saurabh Mittal:** I have not done the math what 10 year should look like at this moment, so my memory is not fresh on it. If you take a 10-year history, I think we have probably grown 12 to 15% domestic and export market. Surely India's consumption or our country's consumption is still weaker versus the developed world whether we can reach that when we can reach that I cannot give you a fair estimate on that, but yes obviously business should keep growing continuously and I cannot give you one number what it should be for 10 years or something, but as a company I hope that we will keep growing in future.
- Anirudh Shetty:** It will be very hard to pinpoint but if you could work with our range so we looking at, is it like a 10 to 15% kind of growth business which you would see in 2020, what would you think is a reasonable growth number to expect given kind of penetration it is the kind of growth economy is doing etc.
- Saurabh Mittal:** I cannot give you a guess on that , it will depend on the market situations and products, capacities and so many things but I think if you see our past on how we have grown over the last 8 to 10 years we probably should be growing at similar numbers hopefully.
- Anirudh Shetty:** One thing about the ROE in this business. So we are at 15.7% in the first half but of course there is a scope of better utilization given you recently expanded and also better utilizations in our other segment so for a consol ROE what is the fair number to be looking at, is there scope for expansion from these levels.

- Saurabh Mittal:** Obviously from these levels there is a scope because Q1 was quite a bad quarter for us because of the SAP implementation, we lost revenues and profitability. You can see what last year's ROE was, last year was 18% and over the last two years is 18%, in this year also two businesses are making losses. We expect all businesses to improve and things should look better and also the tax reduction will also help improve the ROE so I guess it should keep improving,
- Anirudh Shetty:** Okay got it. Thank you for answering my question.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohada:** Sir I wanted to sense, as company started making prelam particle board and prelam MDF, this is impacting the growth of laminate industry in India?
- Ashok Sharma:** Prelam particle board and prelam MDF is not new in the market and the commercial market the office model of commercial market largely consumes prelam particle board or prelam MDF. This will always be so while the residential market and the non-office model of residential market like kitchens, shop fit outs, wardrobes, etc. continues to consume laminates so I think both will co-exist I do not see an impact on the laminates market as a category because of prelam particle boards or prelam MDF.
- Achal Lohade :** How has been the business scenario in October, is it status quo or are you seeing any green shoots?
- Ashok Sharma:** I will allow Samarth to respond to that.
- Samarth Agarwal:** I will say that this is status quo and this thing you need to keep in mind that this month we were having two festivals Diwali and Dussehra and in this some of the market gets closed, our plant was also shut for three days, but it looks to be similar like of the previous quarter.
- Achal Lohade:** Okay Sir. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Mittal for his closing comments.
- Saurabh Mittal:** I would like to thank all of you for joining into our call and I hope we have been able to answer most of your queries well. I know some have been not so well answered because we did not have an answer. Mr Ashok & Mr Samarth will respond to couple of the pending queries and if you still have any questions you are most welcome and you can get in touch



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with us or with our Investor Relations Advisors, Strategic Growth Advisors. Thank you once again and have a great evening.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Greenlam Industries Limited, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.