

Wood Panel

Target price: Rs792

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 2.3	↑ 2.6
EBITDA	↑ 18.8	↑ 5.8
EPS	↑ 51.0	↑ 13.1

Target price revision

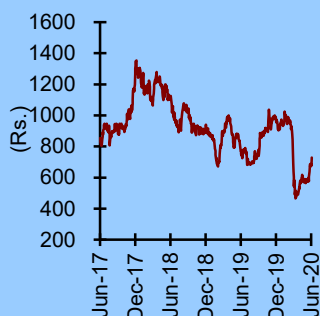
Rs792 from Rs700

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	54.7	54.7	54.7
Institutional investors	18.5	18.4	18.2
MFs and other	13.7	13.6	13.4
Insurance	0.0	0.0	0.0
FII	4.8	4.8	4.8
Others	26.6	26.9	27.1

Source: NSE

Price chart



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INDIA

Greenlam Industries

HOLD

Maintained

Rs795

Exports continue to drive outperformance

Greenlam Industries (GRLM) has reported an impressive beat on EBITDA margins in Q4FY20 led by a sharp gross margin improvement in laminate and allied product segment, which in turn was led by superior product mix and lower input costs. This was despite losing revenues to the tune of Rs400mn-500mn in Mar'20 due to lockdown. Veneer and allied product segment however continues to disappoint with losses swelling YoY due to operating deleverage and muted realisation amid higher competitive intensity. With GRLM foreseeing strong market share gain opportunity in both domestic and export laminate markets in the near to medium term, we build-in a steady-state recovery in laminates segment starting Q2FY21. Maintain HOLD.

- **Valuation and outlook:** Factoring-in Q4FY20 outperformance, we increase our revenue/PAT estimates for FY21E/FY22E by 2.3%/2.6% and 51.4%/13.1%, respectively. We now expect the company to exhibit revenue and PAT CAGRs of 1.7% and 5%, respectively, over FY20-FY22E. We maintain **HOLD** with a revised target price of Rs792 (earlier: Rs700) valuing the stock at 20x FY22E earnings.
- **Laminates and allied product segment – Impressive growth traction in exports helps mitigate decline in domestic volumes:** Overall laminate revenues in Q4FY20 were down 6% YoY – largely due to 26.3% decline in domestic volumes. Export volumes however sustained their growth momentum (up 11.7% YoY) driven by recent commissioning of large-sized laminate capacity at Nalagarh. Despite decline in domestic volume growth, segmental gross margin improved 620bps YoY aided by superior product mix and lower input costs. We expect laminate and allied product segment to clock revenue and EBITDA CAGRs of 2.2% and 3.5%, respectively, over FY20-FY22E.
- **Veneer and allied product segment – lockdown stepped up decline in DV segment:** Veneer and allied product revenues declined 30% YoY due to sales lost in the course of Covid-19 lockdown. While decorative veneer revenues declined by a sharp 31% YoY, EWF/ED segments shrunk 24%/12% respectively. With volume disruption in the niche segments (EWF and ED) likely to prevail in the near term, EBITDA breakeven in both these businesses would get deferred to FY22E. We expect veneer and allied product segment to register revenue and EBITDA CAGRs of -1.1% and 125% respectively over FY20-FY22E.
- **PAT at Rs217mn (I-Sec: Rs161mn), down 8.6% YoY:** Consolidated PAT was down by a mere 8.6% YoY at Rs217mn led by impressive operational performance. We expect PAT to grow at 5% CAGR over FY20-FY22E.

Market Cap	Rs19.2bn/US\$253mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GREEN.BO/GRLM IN	Revenue (Rs mn)	12,807	13,206	10,570	13,667
Shares Outstanding (mn)	24.1	Rec. Net Income (Rs mn)	771	867	614	955
52-week Range (Rs)	1037/465	EPS (Rs)	32.0	35.9	25.4	39.6
Free Float (%)	45.3	% Chg YoY	19.4	12.4	(29.2)	55.6
FII (%)	4.8	P/E (x)	24.9	22.1	31.3	20.1
Daily Volume (US\$/'000)	53	CEPS (Rs)	47.2	57.7	48.5	64.0
Absolute Return 3m (%)	50.9	EV/E (x)	13.7	12.2	13.9	10.8
Absolute Return 12m (%)	7.9	Dividend Yield (%)	0.4	0.4	0.5	0.6
Sensex Return 3m (%)	36.7	RoCE (%)	18.2	16.1	11.8	16.7
Sensex Return 12m (%)	(8.7)	RoE (%)	19.7	18.7	11.7	16.2

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review

(Rs mn, year ending March 31)

Particulars	Q4FY20A	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Sales	3,240	3,260	3,602	(10.0)	3,580	(9.5)	13,206	12,807	3.1
Total Op. Income	3,240	3,260	3,602	(10.0)	3,580	(9.5)	13,206	12,807	3.1
Expenditure	2,788	2,855	3,158	(11.7)	3,034	(8.1)	11,423	11,222	1.8
Raw Materials	1,525	1,645	1,996	(23.6)	1,752	(13.0)	6,489	6,745	(3.8)
Cost of traded goods	89.4	30.0	33.2	168.9	28.9	209.2	215.2	132.9	61.9
Staff Cost	586	575	487	20.5	571	2.7	2,220	1,925	15.3
Other Expenditure	588	605	643	(8.6)	682	(13.8)	2,500	2,419	3.3
Operating Profit	452	405	444	1.8	546	(17.3)	1,782	1,585	12.4
OPM (%)	14.0	12.4	12.3	170bps	15.3	-130bps	13.5	12.4	110bps
Other Income	23.4	10.0	4.4	431.4	10.6	121.2	44.2	15.2	190.1
Interest	52.5	55.0	33.8	55.2	53.7	(2.2)	218.4	169.6	28.7
Depreciation	142	145	92	53.0	136	4.0	525	368	42.5
Exceptional income	0	0	0		0		0	0	
PBT	281	215	322	(12.6)	367	(23.4)	1,083	1,063	2.0
Tax	64	54	85	(24.0)	77	(15.9)	217	291	(25.7)
PAT	217	161	238	(8.6)	291	(25.3)	867	771	12.4
Minority Interest	0.0	0.0	0.0		0.0		0.0	0.0	
Reported PAT	217	161	238	(8.6)	291	(25.3)	867	771	12.4
NPM (%)	6.7	4.9	6.6	10bps	8.1	-140bps	6.6	6.0	60bps

Source: Company data, I-Sec research

Table 2: Segmental results

(Rs mn, year ending March 31)

	Q4FY20A	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Segment Revenue (Rs mn)								
Laminates & Allied products	2,836	3,025	(6.2)	2,970	(4.5)	11,222.4	10,845.2	3.5
Veneer & Allied products	404	577	(30.1)	610	(33.8)	1,983.5	1,961.9	1.1
Total	3,240	3,602	(10.0)	3,580	(9.5)	13,205.9	12,807.1	3.1
EBIT (Rs mn)								
Laminates & Allied products	418.2	500.8	(16.5)	621.1	(32.7)	1,870.5	1,740.5	7.5
Veneer & Allied products	2.9	11.3	(74.0)	(1.2)	(355.8)	19.5	115.1	(83.0)
Total	421.1	512.2	(17.8)	620.0	(32.1)	1,890.1	1,855.6	1.9
EBIT Margin (%)								
Laminates & Allied products	14.7%	16.6%	-182 bps	20.9%	-617 bps	16.7%	16.0%	62 bps
Veneer & Allied products	0.7%	2.0%	-123 bps	-0.2%	92 bps	1.0%	5.9%	-488 bps
Total	13.0%	14.2%	-122 bps	17.3%	-432 bps	14.3%	14.5%	-18 bps
ROCE (%)								
Laminates & Allied products	36.9%	46.2%	-926 bps	53.0%	-1,606 bps	41.3%	40.1%	116 bps
Veneer & Allied products	0.5%	2.0%	-151 bps	-0.2%	69 bps	0.8%	5.1%	-426 bps
Total	16.3%	19.8%	-352 bps	22.5%	-619 bps	15.9%	17.2%	-127 bps

Table 3: Change in estimates

(Rs mn)

Estimates	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	10,327.8	13,314.6	10,569.5	13,667.0	2.3%	2.6%
EBITDA	1,286.7	1,886.8	1,528.9	1,995.8	18.8%	5.8%
PAT	406.5	844.6	613.8	955.3	51.0%	13.1%
EPS	16.8	35.0	25.4	39.6	51.4%	13.1%

Source: Company data, I-Sec research

Laminates and allied products

Chart 1: Capacity utilisation trend

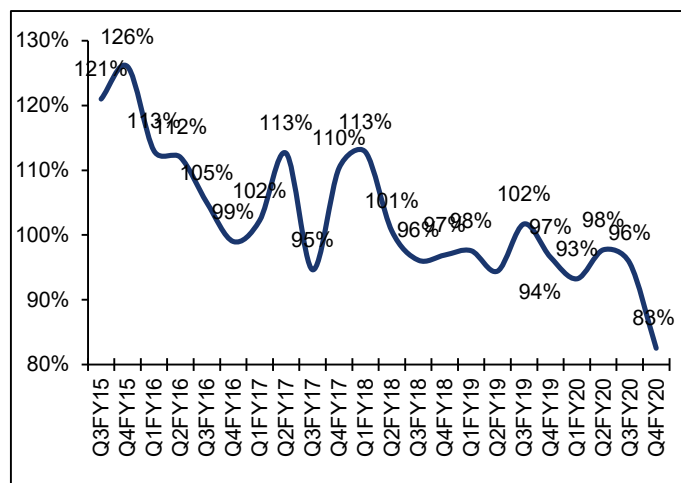


Chart 2: Sales volume trend

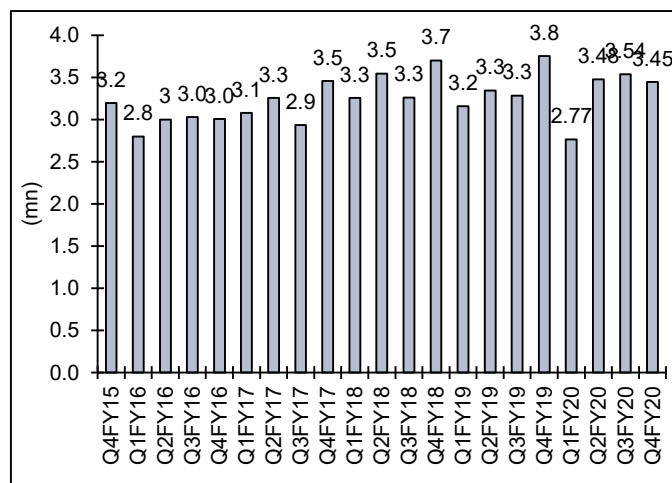


Chart 3: Average realisation trend

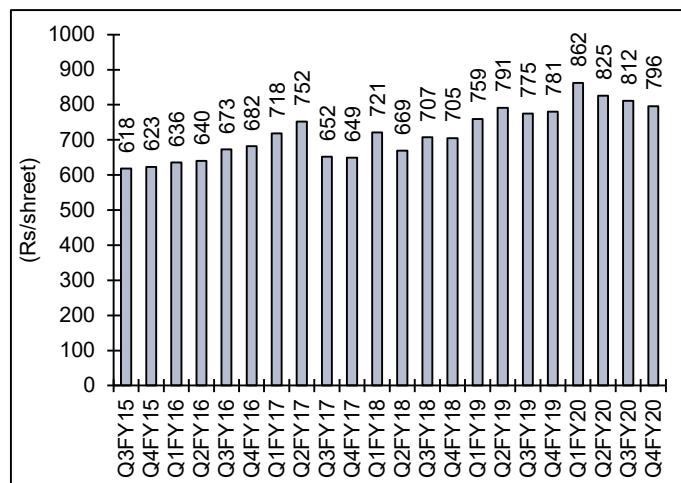
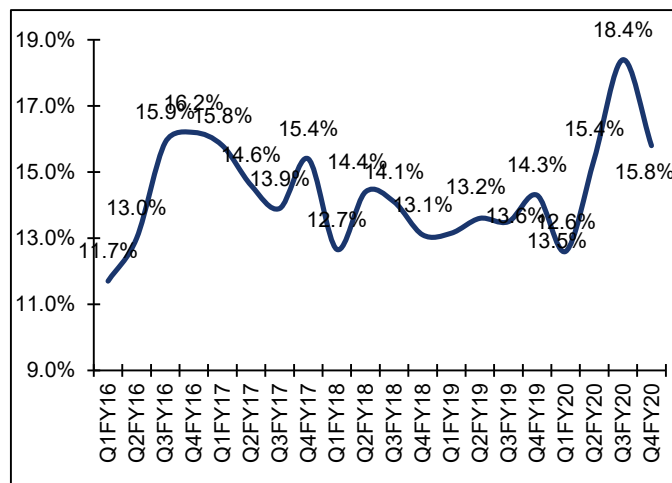


Chart 4: EBITDA margin trend



Source: Company data, I-Sec research

Veneers and allied products

Chart 5: Capacity utilisation trend

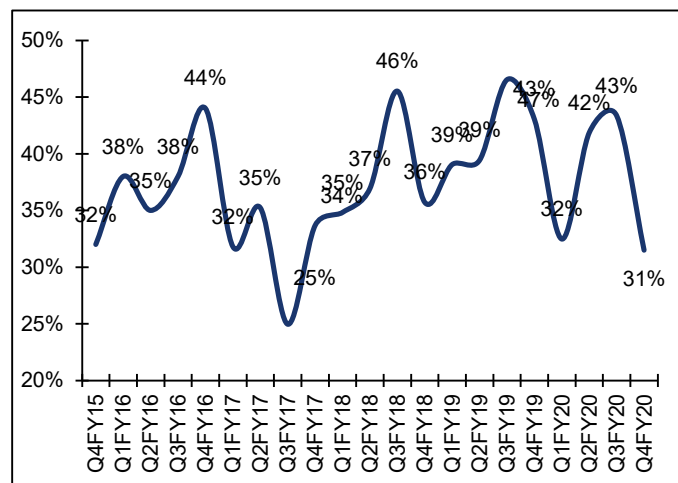


Chart 6: Sales volume trend

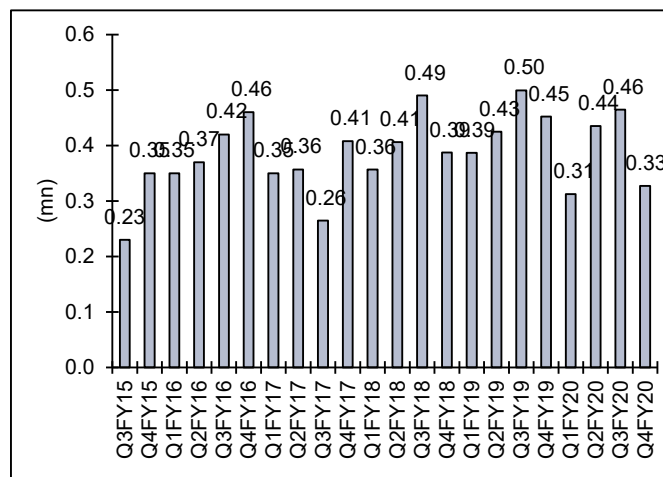


Chart 7: Realisation growth

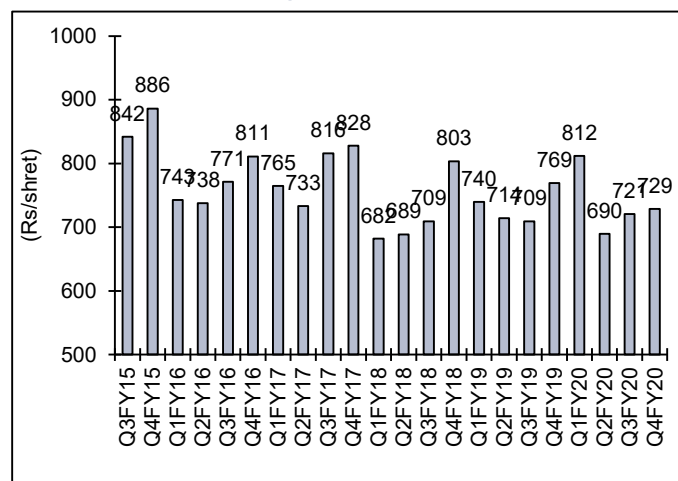
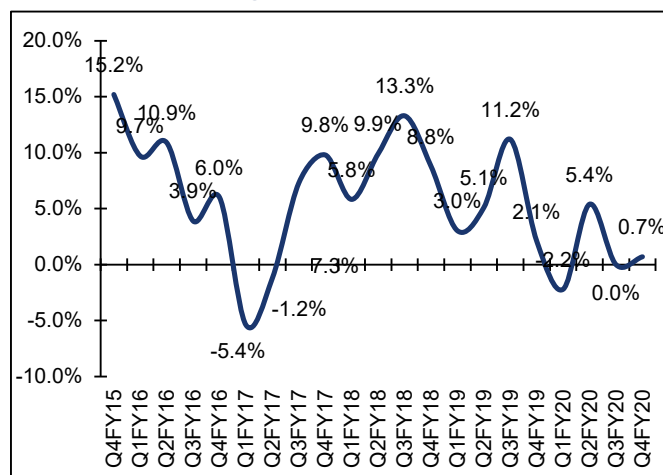


Chart 8: EBIT margin trend



Source: Company data, I-Sec research

Key takeaways from Q4FY20 conference call

Laminate and allied products (88% of revenues in Q4FY20)

- Gross margins in laminates have significantly improved due to better product mix and lower input costs (paper as well as chemicals)
- There is scope for gross margins to further expand with low-cost inventories likely to be absorbed in Q2FY20. However, the same is likely to get offset by operating leverage and adverse product mix.
- GRLM sees huge opportunity w.r.t. market share gains in laminates segment in a post Covid-19 environment driven by weakening competition in the domestic market as well as globally.
- Company expects market share gains in laminate exports with weakening competitive intensity from regional or smaller global players and inability on the

part of other Indian laminate exporters to make significant inroads in the current pandemic period.

- GRLM expects decent market share gain opportunity in 0.7mm thickness laminate segment.
- OEM segment is likely to witness better demand traction than the trade segment as people may incrementally move towards offline carpentry in the near term.

Veneer and allied products (12% of revenues in Q4FY20)

- GRLM does not expect significant disruption in ED volumes due to the export-led opportunity and order visibility seen in the segment.
- There could be further sales disruption in EWF – being a high discretionary product segment.
- Decorative veneer is likely to be hit the most in the current pandemic period due to higher discretionary nature of the product. GRLM expects volumes in natural veneer and recon veneers to get impacted while volume disruption in teak veneer may not be alarming due to its higher affordability.
- Realisations on EWF and ED got materially impacted due to adverse product mix and higher share of exports.
- Company is aggressively pursuing export opportunities in categories like EWF and ED.

Others

- Company is looking to rationalise fixed costs in the wake of Covid-19 crisis – particularly on employee costs, A&P spends, etc.
- GRLM lost 15 days of sales (Rs400mn-500mn) in Mar'20 due to the countrywide lockdown.
- Company has not faced major issues related to labour migration as majority of the labour were confined to the accommodation available within the factory premises.
- Management does not see any significant risk of any receivable turning into a bad debt. However, there could be some delays.
- Apr'20 was a complete washout as far as sales were concerned. Sales in May'20 has been far better with exports nearing 70-80% of normalcy and domestic sales hovering at 40-45% of May'19 sales.
- Working capital cycle increased by 3 days to 93 days due to higher inventories.
- Company has acquired land in Nellore, Andhra Pradesh, for its upcoming greenfield project. However, it is still awaiting government approval for the project, which has got delayed due to the current pandemic. Company foresees 6-9 months' delay in completing this project.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	12,807	13,206	10,570	13,667
Operating Expenses	11,222	11,423	9,041	11,671
EBITDA	1,585	1,782	1,529	1,996
% margins	12.4%	13.5%	14.5%	14.6%
Depreciation & Amortisation	368	525	556	589
Gross Interest	170	218	197	173
Other Income	15	44	44	44
Recurring PBT	1,063	1,083	820	1,277
Less: Taxes	291	217	206	322
Less: Minority Interest	-	-	-	-
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	771	867	614	955
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	771	867	614	955

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	5,732	6,681	5,742	6,704
of which cash & cash eqv.	106	307	332	149
Total Current Liabilities & Provisions	2,070	2,949	1,790	2,302
Net Current Assets	3,662	3,732	3,952	4,401
Investments	0	6	6	6
Net Fixed Assets	3,303	4,305	4,198	4,609
Capital Work-in-Progress	217	149	-	-
Goodwill	-	-	-	-
Total Assets	7,183	8,193	8,156	9,016
Liabilities				
Borrowings	2,697	2,940	2,450	2,500
Deferred Tax Liability	201	245	200	200
Minority Interest	1	1	1	1
Equity Share Capital	121	121	121	121
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	4,163	4,886	5,384	6,194
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	4,284	5,007	5,505	6,315
Total Liabilities	7,183	8,193	8,156	9,016

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net revenues	2,895	3,490	3,580	3,240
% growth (YoY)	0.5	9.6	14.0	(10.0)
EBITDA	299	485	546	452
Margin (%)	10.3	13.9	15.3	14.0
Other income	3	7	11	23
Extraordinaries (Net)	-	-	-	-
Net profit	84	275	291	217

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,173	1,334	1,170	1,545
Working Capital Changes	(701)	131	(194)	(633)
Capital Commitments	(568)	(1,459)	(300)	(1,000)
Free Cashflow	(97)	7	675	(89)
Cashflow from Investing Activities	(0)	(6)	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	180	243	(490)	50
Dividend paid	(87)	(87)	(116)	(145)
Change in Deferred Tax Liability	6	44	(45)	-
Chg. in Cash & Bank balance	2	201	25	(183)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS	32.0	35.9	25.4	39.6
Cash EPS	47.2	57.7	48.5	64.0
Dividend per share (DPS)	3.0	3.0	4.0	5.0
Book Value per share (BV)	177.5	207.4	228.1	261.6
Growth (%)				
Net Sales	11.9	3.1	-20.0	29.3
EBITDA	6.5	12.4	-14.2	30.5
PAT	19.4	12.4	-29.2	55.6
Cash EPS	13.3	22.1	-15.9	32.1
Valuation Ratios (x)				
P/E	24.9	22.1	31.3	20.1
P/CEPS	16.8	13.8	16.4	12.4
P/BV	4.5	3.8	3.5	3.0
EV / EBITDA	13.7	12.2	13.9	10.8
EV / Sales	1.8	1.7	2.0	1.6
Operating Ratios				
Raw Material / Sales (%)	55.6	54.0	53.8	52.9
Employee cost / Sales (%)	15.6	13.2	12.0	12.7
SG&A / Sales (%)	15.9	16.0	16.1	16.1
Other Income / PBT (%)	1.4	4.1	5.4	3.5
Effective Tax Rate (%)	27.4	25.2	25.2	25.2
Working Capital (days)	93.5	92.4	84.0	76.0
Inventory Turnover (days)	90.8	102.6	92.0	88.0
Receivables (days)	52.2	38.1	40.0	38.0
Payables (days)	49.5	48.2	48.0	50.0
Net D/E Ratio (x)	0.6	0.5	0.4	0.4
Profitability Ratios (%)				
Net Income Margins	6.2	6.6	5.8	7.0
RoACE	18.2	16.1	11.8	16.7
RoAE	19.7	18.7	11.7	16.2
Dividend Payout	11.3	10.0	18.9	15.2
Dividend Yield	0.4	0.4	0.5	0.6
EBITDA Margins	12.8	13.5	14.5	14.6

Source: Company data, I-Sec research

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