

Greenlam Industries Ltd

BUY

CMP Rs744

Target Rs1,031

Upside 39%

Highlights	<ul style="list-style-type: none"> With lockdown measures in April 20 and majority of tier 1 cities being COVID hotspots during the quarter, domestic business of GRLM was a near washout. However, overseas business saved the day. During Q1FY21, domestic business operated at 30% and international business operated at 85% of pre-COVID levels. Domestic laminate revenues de-grew by 65.7% y/y while international laminate revenues marginally declined by 12.9% y/y. Further on y/y comparison, domestic veneer/wood flooring/doors witnessed sharp decline in sales of 75.4%/70.9%/27.4% respectively. Accordingly, total net sales came in at Rs 1,604 mn (-44.6% y/y). Although GRLM managed to reduce operating costs by 37% y/y, the very nature of laminate industry remains fixed cost intensive which pressurized the operating margins. Accordingly, EBITDA margins declined by 539 bps y/y to 4.9%. Absolute EBITDA stood at Rs 79 mn, a sharp fall of 73.6% y/y. Net loss for the quarter stood at Rs 77 mn vs. net profit of Rs 83 mn in Q1FY20. Working capital cycle was distorted due to RM built up and sharp decline in sales – at 218 days vs 94 days last quarter. However, we expect the situation to normalize from Q2FY21E.
Our View	<ul style="list-style-type: none"> Management has guided that July 2020 business has reached to 80% levels as compared to July 2019 with domestic business at 60% and near normalization in operations of international business. Accordingly, our financial projections for FY21E/FY22E remain intact with no revisions. Based on our channel checks assessment, we remain convinced that market leader like GRLM will emerge stronger from COVID scenario due to strong balance sheet and superior working capital & supply chain management.
Valuation	<ul style="list-style-type: none"> We maintain our BUY rating with target price of Rs 1,031/share – DCF derived value with implied P/E multiple of 24.7x on FY22E.
Risk to our call	<ul style="list-style-type: none"> In a scenario of second wave of COVID spread, volume de-growth in FY21E would be much sharper than expected, resulting into a significant negative operating leverage.

Exhibit 1: Result table

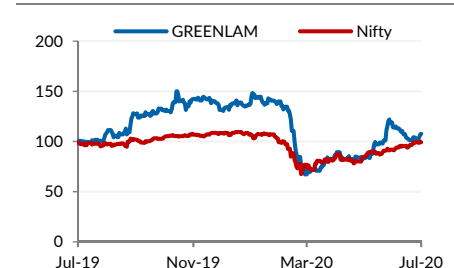
Y/e 31 Mar (Rs mn)	Q1 FY21	Q4 FY20	q/q (%)	Q1 FY20	y/y (%)
Revenue	1,604	3,240	(50.5)	2,895	(44.6)
Gross Profit	797	1,626	(51.0)	1,434	(44.4)
GP margin (%)	49.7	50.2	(48) bps	49.5	19 bps
EBITDA	79	452	(82.6)	298	(73.6)
EBITDA Margin (%)	4.9	14.0	(905) bps	10.3	(539) bps
Depreciation	135	142	(4.9)	94	42.6
Interest	50	53	(5.1)	45	11.2
PBT	(95)	281	(133.9)	162	(159.0)
Tax	(18)	64	(128.2)	79	(123.1)
PAT	(77)	217	(135.5)	83	(192.9)

Source: Company, YES Sec – Research

Stock data (as on July 29, 2020)

Nifty:	11,203
52 Week h/l (Rs)	1049 / 442
Market cap (Rs/USD mn)	17957 / 240
Outstanding Shares (mn)	24
6m Avg t/o (Rs mn):	5
Div yield (%):	0.5
Bloomberg code:	GRLM IN
NSE code:	GREENLAM

Stock performance



(%)	1M	3M	1Y
Absolute return	-5.7%	23.9%	9.0%

Shareholding pattern (As of June'20 end)

Promoter	54.90%
FII+DII	18.15%
Others	26.86%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,031	1,031

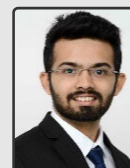
Δ in earnings estimates

Rs bn	FY21E	FY22E
EBITDA (New)	1.01	2.08
EBITDA (Old)	1.01	2.08
% change	0.0	0.0

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Exhibit 2: Trend in y/y growth

(%)	Q1FY21		
	Volume	Value	% of sales
Total Laminates	(37.5)	(40.7)	90.8
Domestic	(54.5)	(65.7)	NA
International	(21.1)	(12.9)	NA
Veneer	(73.5)	(75.4)	3.9
Wood flooring	(38.9)	(70.9)	2.1
Wooden doors	26.3	(27.4)	3.2

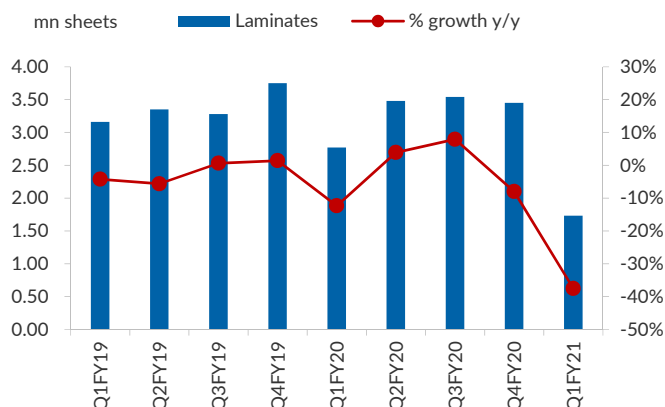
Source: Company, YES Sec – Research

Presentation and con-call highlights:

- ✓ Due to lockdown measures in April 2020 and tier 1 cities (major end users) witnessing COVID hotspots throughout the quarter, domestic business was a near washout. However, overseas markets have performed relatively better. During the quarter, domestic business operated at 30% and international business at 85% of pre-COVID levels.
- ✓ Company introduced commodity line of product range – Greenlam Decoliner in-order to widen the product portfolio and cater to various price points.
- ✓ Domestic realizations declined by ~20% y/y and overseas realizations improved by 12-13% y/y during the quarter. Fall in domestic realizations was primarily due to change in product mix with higher sales of commodity products.
- ✓ Although May-June 2020 witnessed pent up demand, demand trajectory currently is tapering off due to localized lockdowns and monsoons. Business during July 2020 has reached 80% levels as compared to July 2019 with domestic business at 50-60% levels while near normalization in international business.
- ✓ Given the cash-flow crunch, fixed costs intensive nature of industry and elongated working capital cycle, there is a lot of supply-side disruptions on ground level with unorganized segment being the most affected. Company believes to have gained market share during the quarter due to the same reasons.
- ✓ No loan moratorium was availed during Q1 as company had enough unutilized working capital limits to support liquidity requirements.
- ✓ Working capital cycle remained distorted in Q1 due to significant built up of RM and sharp decline in sales. However, normalization should be attained from Q2FY21E.

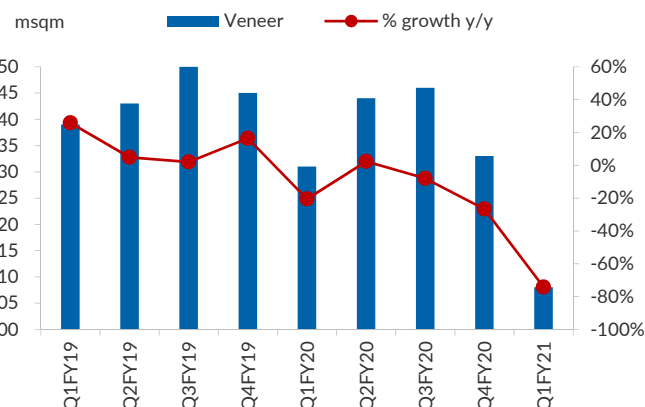
CHARTS

Exhibit 3: Laminate volume de-growth of 37.5% y/y led by domestic volume de-growth of 54.5%...



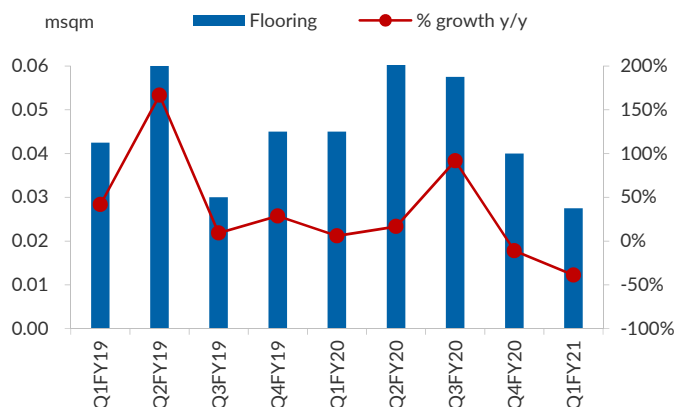
Source: Company, YES Sec – Research

Exhibit 4: ...while veneer volumes plunged by 73.5% y/y



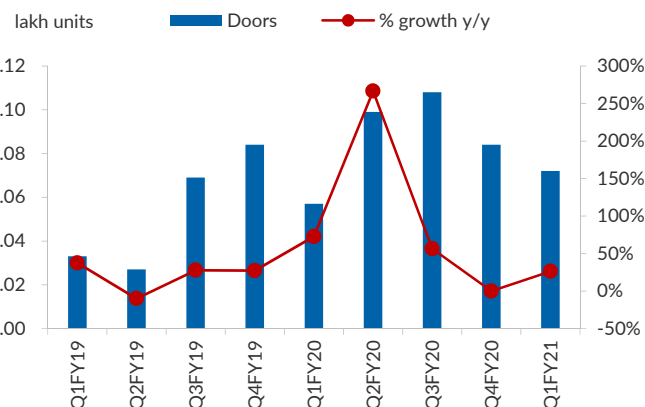
Source: Company, YES Sec – Research

Exhibit 5: Wood flooring volumes de-grew by 38.9% y/y...



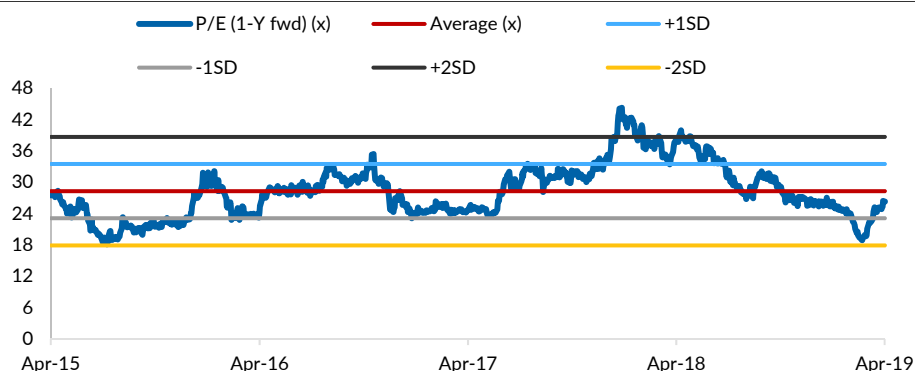
Source: Company, YES Sec – Research

Exhibit 6:while door business witnessed volume growth of 26.3% y/y



Source: Company, YES Sec – Research

Exhibit 7: One year forward P/E band (Historical)



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 8: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	12,807	13,206	10,482	14,523
Growth (%)	11.9	3.1	(20.6)	38.5
EBITDA	1,585	1,782	1,011	2,078
EBITDA margin (%)	12.4	13.5	9.6	14.3
Growth (%)	6.5	12.4	(43.3)	105.5
D&A	368	525	566	573
Other income	15	44	31	37
EBIT	1,232	1,301	476	1,541
EBIT margin (%)	9.6	9.9	4.5	10.6
Interest	170	218	217	199
PBT	1,063	1,083	259	1,342
Tax	291	217	65	336
Net profit	771	866	194	1,007
NPAT margin (%)	6.0	6.6	1.9	6.9
EPS (Rs)	32	36	8	42
Growth (%)	19.3	12.3	(77.6)	418.1

Source: Company, YES Sec – Research

Exhibit 9: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Equity Share Capital	121	121	121	121
Reserves	4,163	4,886	5,080	6,087
Total Shareholders' Funds	4,284	5,007	5,201	6,207
Non-current liabilities				
Long term borrowings	727	820	820	320
Deferred Tax liabilities	316	245	245	245
Current liabilities				
Short term borrowings	1,590	1,767	1,483	1,813
Trade payables	1,613	1,745	1,446	1,901
Other financial liabilities	453	599	599	599
Total equity and liabilities	9,389	11,141	10,753	12,044
Non-current assets				
PPE	3,258	4,185	3,719	3,245
CWIP	190	149	749	1,449
Current assets				
Inventories	3,075	3,710	3,126	3,775
Trade receivables	1,766	1,378	1,381	1,515
Cash and cash equivalents	102	304	364	644
Other bank balances	4	3	3	3
Other current assets	517	1,081	1,081	1,081
Total assets	9,389	11,141	10,753	12,044

Source: Company, YES Sec – Research

Exhibit 10: Cash Flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
PBT	1,063	1,083	259	1,342
D&A	368	525	566	573
Finance cost	170	218	217	199
(Incr)/Decr in Working Capital	(681)	(581)	283	(330)
Taxes	(346)	(298)	(65)	(336)
Cash from ops.	641	981	1,260	1,450
(Incr)/ Decr in PP&E	(579)	(588)	(700)	(800)
Cash Flow from Investing	(571)	(559)	(700)	(800)
(Decr)/Incr in Borrowings	181	245	(283)	(170)
Finance cost	(168)	(220)	(217)	(199)
Dividend paid	(73)	(169)	0	0
Cash Flow from Financing	(61)	(221)	(500)	(370)
Incr/(Decr) in cash	9	202	60	280
Cash and cash equivalents at beginning of year	93	102	304	364
Cash and cash equivalents at end of year	102	304	364	644

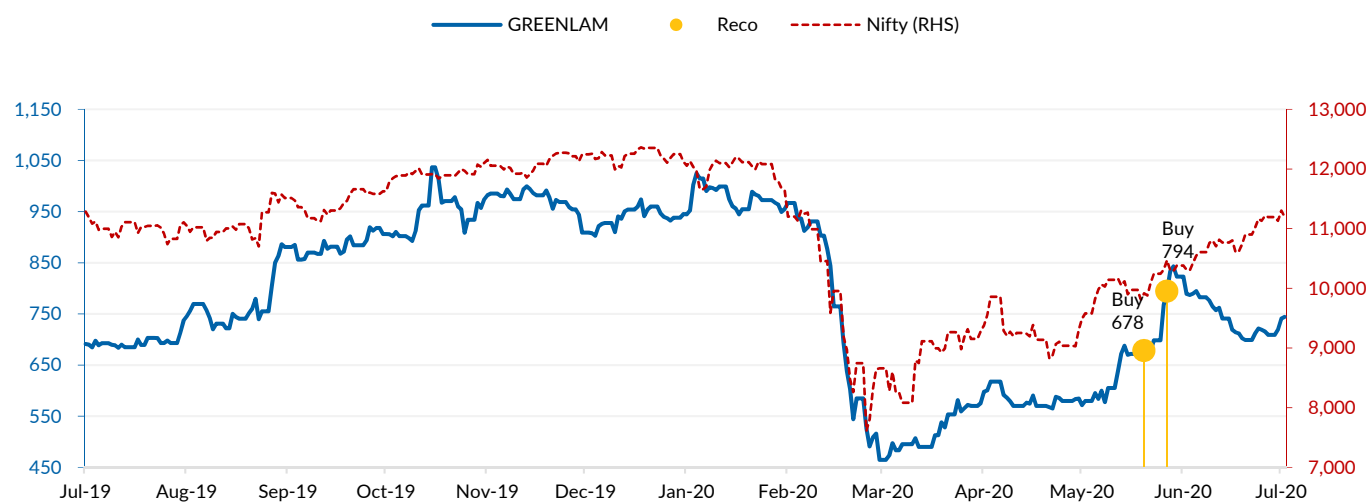
Source: Company, YES Sec – Research

Exhibit 11: Ratios (Consolidated)

Y/e 31 Mar	FY19	FY20	FY21E	FY22E
Growth Matrix (%)				
Revenue growth	11.9	3.1	(20.6)	38.5
EBITDA growth	6.5	12.4	(43.3)	105.5
EBIT growth	7.5	5.6	(63.4)	224.0
PAT growth	19.3	12.3	(77.6)	418.1
Profitability ratios (%)				
EBITDA margin	12.4	13.5	9.6	14.3
EBIT margin	9.6	9.9	4.5	10.6
PAT margin	6.0	6.6	1.9	6.9
RoCE	17.7	16.4	6.1	17.7
RoE	18.0	17.3	3.7	16.2
Leverage ratios (x)				
Net Debt/Equity	0.60	0.53	0.44	0.30
Net Debt/EBITDA	1.63	1.48	2.27	0.89
Interest coverage	7.27	5.96	2.20	7.74
Per share values				
EPS	32.0	35.9	8.1	41.7
CEPS	47.2	57.7	31.5	65.5
BVPS	178	208	216	257
Valuation ratios (x)				
P/E	29.6	20.7	92.4	17.8
P/CP	20.1	12.9	23.6	11.4
P/B	5.3	3.6	3.5	2.9
EV/EBITDA	16.1	11.5	20.0	9.5
NWC days	88	88	108	73
Receivables	50	38	48	38
Inventory	90	105	116	90
Payables	52	56	56	56

Source: Company, YES Sec – Research

Recommendation Tracker



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