



Greenlam Industries Limited

Strong performance with healthy balance sheet and business outlook

Building materials

Sharekhan code: GREENLAM

Result Update

Stock Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

Reco/View

Change

Reco: Buy	↔
CMP: Rs. 1,167	
Price Target: Rs. 1,400	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,816 cr
52-week high/low:	Rs. 1,225/568
NSE volume: (No of shares)	0.1 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	1.1 cr

Shareholding (%)

Promoters	54.9
FII	1.3
DII	16.8
Others	27.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	25.1	47.7	99.8
Relative to Sensex	0.3	20.4	31.2	48.5

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 1,400, as we see further room for upside considering strong net earnings growth outlook over FY2021-FY2023E.
- The company reported strong overall performance for Q4FY2021, as it saw the highest laminate production and increased veneers capacity utilisation.
- The company continues to generate strong operating cash flows, reduce leverage, and improve working capital requirement.
- Greenfield capacity at south is expected by FY2023 end, which would lead to next leg of growth.

Greenlam Industries Limited (Greenlam) reported strong overall performance for Q4FY2021, as it saw the highest laminate production and increased veneers capacity utilisation. Consolidated revenue grew by 28.2% y-o-y to Rs. 415 crore, led by strong growth in laminates (88% revenue share), which grew by 28.9% y-o-y because of 31% y-o-y rise in volume (112% capacity utilisation versus 83%/102% in Q4FY2020/Q3FY2021). While average realisation increased by 0.9% y-o-y (6.1% q-o-q). Domestic/international laminate volumes were up 55%/13.9% y-o-y, while value growth was 42.7%/18.6% y-o-y, respectively. Revenue from veneer/engineered floors rose by 33.5%/17.2% while engineered doors revenues declined by 4.5% y-o-y. The company's gross margin contracted by 146 bps y-o-y to 48.7%, as it felt the impact of rising raw-material price. Although the company was able to pass through the rise in raw-material price in the domestic market, it was passed partially in international markets. The company has taken a 12%-14% price increase since October-November 2021 to pass the rising input costs. However, the company was able to improve OPM by 219 bps y-o-y to 16.1% on account of operating leverage and cost efficiencies. Hence, operating profit grew by 48% y-o-y to Rs. 67 crore. The company reported net profit of Rs. 30.8 crore after taking exceptional loss of Rs. 12.4 crore towards settling outstanding entry tax disputes with Rajasthan and Himachal Pradesh Commercial Tax Department. Adjusting for the same, adjusted net profit grew by 99% y-o-y to Rs. 43.2 crore, which was much higher than our estimate. During the current COVID-19 second wave, the company has been able to run its plants without major challenges related to labour and raw-material supply. However, sales have been impacted from the second week of April 2021 as 75%-80% of the markets were shut, although construction at some sites was going on. The company did not face any impact on international demand front. On its 1.5 million sheet Greenfield expansion in south, the company has faced delays in receipt of approvals due to COVID-19, which is expected to come by 2-3 months, post which it is likely to commence construction, which would take 12-15 months. Hence, the plant is expected to be commissioned by FY2023 end. GRML reduced its net debt by Rs. 140 crore in FY2021 (lower by Rs. 57 crore q-o-q) to Rs. 123 crore. The company has also reduced its working capital days from 93 days in FY2020 to 89 days in FY2021. The company generated strong operating cash flows of Rs. 213 crore during FY2021, while we expect over Rs. 340 crore cash flow generation over FY2022E-FY2023E. We have fine tuned our estimates for FY2022E-FY2023E. GRML is currently trading at a P/E of 26.2x/21.0x its FY2022E/FY2023E earnings, which we believe provides further room for upside, considering 25% net earnings CAGR over FY2021-FY2023E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 1,400.

Key positives

- Strong outperformance led by volume growth.
- Net debt reduction of Rs. 57 crore q-o-q.

Key negatives

- Greenfield capacity expansion getting delayed due to delay in approvals led by COVID-19 pandemic.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,400: Greenlam, with its dominant industry position, strong domestic growth outlook, and rising export opportunities is slated to see revenue/EBITDA/net profit report a CAGR of 15%/19%/25% over FY2021-FY2023E. Further, Greenlam's planned Greenfield capacity expansion plan would provide the next leg of growth. Strong operating cash flow generation (Rs. 340 crore+ over FY2022E-FY2023E) would help de-leverage the balance sheet and improve RoCE. We have fine tuned our estimates for FY2022E-FY2023E. Greenlam is currently trading at a P/E of 26.2x/21.0x its FY2022E/FY2023E earnings, which we believe provides further room for upside, considering 25% net earnings CAGR over FY2021-FY2023E. Hence, we retain our Buy rating with revised PT of Rs. 1,400.

Key risk

Weak macroeconomic environment leading to lull in industry growth trend.

Valuation (Consolidated)

Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	1,320.6	1,199.6	1,399.9	1,582.4
OPM (%)	13.5	14.4	15.2	15.6
Adjusted PAT	86.7	86.2	107.4	133.9
% Y-o-Y growth	12.4	(0.6)	24.6	24.7
Adjusted EPS (Rs.)	35.9	35.7	44.5	55.5
P/E (x)	32.5	32.7	26.2	21.0
P/B (x)	5.5	4.8	4.2	3.5
EV/EBITDA (x)	17.3	17.8	14.5	12.5
RoNW (%)	18.7	16.0	17.3	18.5
RoCE (%)	13.8	12.2	14.1	15.8

Source: Company; Sharekhan estimates

Strong outperformance on all fronts: Greenlam reported strong overall performance for Q4FY2021 as it saw the highest laminate production and increased veneers capacity utilisation. Consolidated revenue grew by 28.2% y-o-y to Rs. 415 crore, led by strong growth in laminates (88% revenue share), which grew by 28.9% y-o-y, led by 31% y-o-y rise in volume (112% capacity utilisation versus 83%/102% in Q4FY2020/Q3FY2021), while average realisation increased by 0.9% y-o-y (6.1% q-o-q). Domestic/international laminate volumes were up 55%/13.9% y-o-y, while value growth was 42.7%/18.6% y-o-y, respectively. Revenue from veneer/engineered floors rose by 33.5%/17.2% while engineered doors revenues declined by 4.5% y-o-y. Gross margin contracted by 146 bps y-o-y to 48.7%, as it felt the impact of rise in raw-material prices. Although the company was able to pass through the rise in raw-material prices in the domestic market, it was passed partially in international markets. The company has taken 12%-14% price increase since October-November 2021 to pass rising input costs. However, the company was able to improve OPM by 219 bps y-o-y to 16.1% on account of operating leverage and cost efficiencies. Hence, operating profit grew by 48% y-o-y to Rs. 67 crore. The company reported net profit of Rs. 30.8 crore after taking exceptional loss of Rs. 12.4 crore towards settling outstanding entry tax disputes with Rajasthan and Himachal Pradesh Commercial Tax Department. Adjusting for the same, adjusted net profit grew by 99% y-o-y to Rs. 43.2 crore, which was much higher than our estimate.

Capacity expansion with balance sheet improvement: During the current COVID second wave, the company has been able to run its plants without major challenges related to labour and raw-material supply. However, sales have been impacted from the second week of April 2021 as 75%-80% of the markets were shut, although construction at some sites was going on. The company did not face any impact on the international demand front. On its 1.5 million sheet Greenfield expansion in South, the company has faced delays in receipt of approvals due to COVID, which is expected to come by 2-3 months, post which it is likely to commence construction, which would take 12-15 months. Hence, the plant is expected to commission by FY2023 end. Greenlam reduced its net debt by Rs. 140 crore in FY2021 (lower by Rs. 57 crore q-o-q) to Rs. 123 crore. The company also reduced its working capital days from 93 days in FY2020 to 89 days in FY2021. The company generated strong operating cash flows of Rs. 213 crore during FY2021, while we expect over Rs. 340 crore cash flow generation over FY2022E-FY2023E.

Key Conference call takeaways

- ♦ **Current environment:** Currently, plants are running with no major labour or raw-material challenges. However, 75%-80% of the market is shut, but construction sites are working. Sales have been impacted from the second week of April 2021 in the domestic market. However, there has been no impact on international demand. The company has good order book in the international market. The unorganised market continues to face challenges in terms of rise and unavailability of raw-material prices.
- ♦ **Raw-material price rise:** Gross margin during Q4FY2021 was affected by increased raw-material prices. However, higher operational efficiencies led to OPM expansion. The company has taken 12%-14% price hike since October-November 2020 in three phases. Greenlam has been able to pass through the entire raw-material price rise in the domestic market. However, in the international market, Greenlam has been able to pass through the freight increase but not entirely the raw-material price rise.
- ♦ **Capacity expansion:** The company is at the last stage for getting approvals for its Greenfield plant in south, Andhra Pradesh. Over the next 2-3 months, the company expects to receive approval and commence construction that would take 12-15 months for completion. The company is initially planning to set up two new lines at the plant. One line can potentially add Rs. 120 crore-125 crore to the topline.
- ♦ **Capex:** For FY2022, Greenlam will incur Rs. 25 crore-30 crore routine capex; and if it is able to start building new the plant in Q3FY2022, then additional Rs. 50 crore-60 crore capex would be incurred.

- ♦ **Debt and WC:** Gross debt stood at Rs. 248 crore, cash Rs. 125 crore, and net debt at Rs. 123 crore. Working capital reduced from Rs. 306 crore to Rs. 291 crore. The company has reduced net working capital cycle days from 83 days in Q4FY2020 to 64 days in Q4FY2021.
- ♦ **New ventures:** The company is looking at opportunities in product adjacencies and will share the details once finalised.
- ♦ **Laminate market size:** Domestic consumption is estimated at Rs. 5,000 crore-6,000 crore. Exports from India are around Rs. 2,000 crore. The global laminate market is estimated at \$7 billion.
- ♦ **International distribution:** The company has its own distributors for international markets. The company does not subcontract for other brands. Export margins are almost similar to domestic, although they are dependent upon currency and raw-material prices.

Results (Consolidated)

Particulars	Q4FY2021	Q4FY2020	y-o-y%	Q3FY2021	q-o-q%
Net sales	415.3	324.0	28.2%	334.6	24.1%
Other income	3.0	2.3	29.9%	1.9	64.1%
Total income	418.4	326.4	28.2%	336.5	24.3%
Total expenses	348.3	278.8	24.9%	276.7	25.9%
Operating profit	67.1	45.2	48.3%	57.9	15.8%
Depreciation	14.1	14.2	-0.7%	14.0	0.4%
Interest	3.5	5.2	-33.8%	3.9	-10.9%
Exceptional items	-12.4	0.0	-	0.0	-
Profit Before Tax	40.2	28.1	42.7%	41.9	-4.1%
Taxes	9.3	6.4	44.2%	9.9	-6.4%
Minority Interest	0.1	0.0	-	0.0	-
PAT	30.8	21.7	42.1%	32.0	-3.5%
Adjusted PAT	43.2	21.7	99.2%	32.0	35.3%
EPS (Rs.)	17.9	9.0	99.2%	13.2	35.3%
OPM (%)	16.1%	14.0%	219 bps	17.3%	-116 bps
NPM (%)	7.4%	6.7%	73 bps	9.5%	-212 bps
Tax rate (%)	23.1%	22.9%	24 bps	23.7%	-58 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect faster recovery in operations

The building materials industry was severely affected by COVID-19 led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has been one of the fastest in recovery, with easing of the lockdown domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation levels. Most players have begun to see demand and revenue run-rate reaching 80%-90% compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

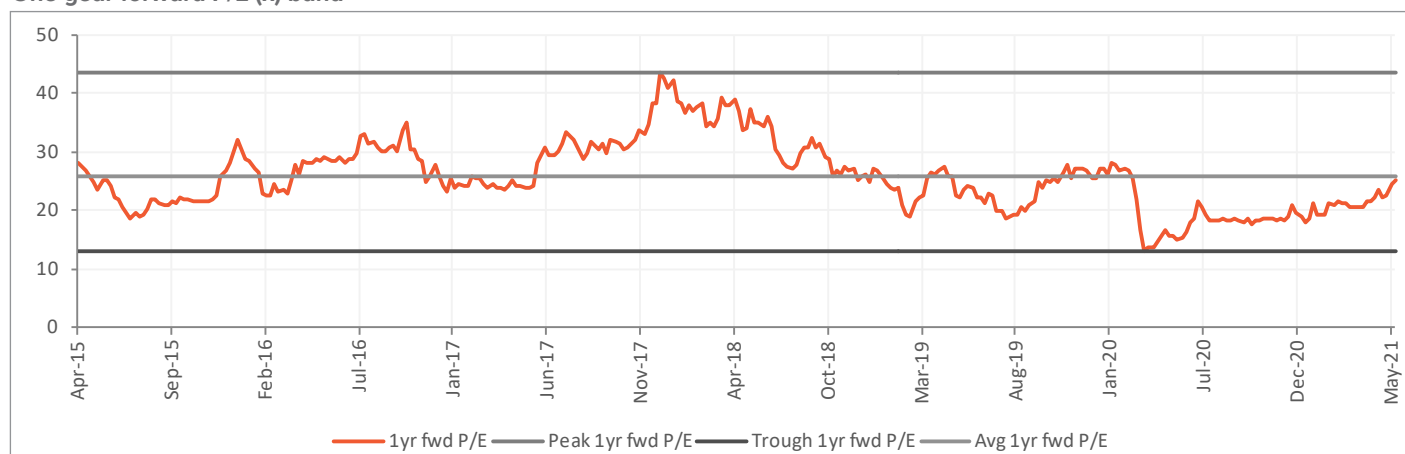
■ Company Outlook – Multiple growth levers for sustainable growth

Greenlam is a joint leader in the Rs. 5,700 crore laminate industry with a market share of ~20%. The company is expected to ride on strong growth, being envisaged for the wooden furniture industry, which is expected to post a 12% CAGR over 2020-2023. Key growth drivers are rising income levels, urbanisation, real estate development, and Housing for All, among others. Further, we expect Greenlam to grow at a faster pace, benefiting from market share gains from the unorganised sector, leveraging its strong distribution network. The government's focus on making India an export hub provides strong export growth opportunities for Greenlam. The company, through its subsidiary Greenlam South Limited (GSL), is undertaking 1.5 million sheet Brownfield capacity expansion in Andhra Pradesh at a capex of Rs. 175 crore, which is expected to commission during FY2023. The said expansion would provide the company the next leg of growth going forward.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,400

Greenlam, with its dominant industry position, strong domestic growth outlook, and rising export opportunities is slated to see revenue/EBITDA/net profit report a CAGR of 15%/19%/25% over FY2021-FY2023E. Further, its planned Greenfield capacity expansion plan would provide the next leg of growth. Strong operating cash flow generation (Rs. 340 crore+ over FY2022E-FY2023E) would help de-leverage the balance sheet and improve RoCE. We have fine tuned our estimates for FY2022E-FY2023E. Greenlam is currently trading at a P/E of 26.2x/21.0x its FY2022E/FY2023E earnings, which we believe provides further room for upside, considering 25% net earnings CAGR over FY2021-FY2023E. Hence, we retain our Buy rating with a revised PT of Rs. 1,400.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Greenlam Industries	26.2	21.0	14.5	12.5	4.2	3.5	17.3	18.5
Greenpanel Industries	20.5	14.9	11.3	9.3	3.7	3.0	19.6	22.5
Century Plyboards	37.6	31.4	25.3	21.0	6.2	5.2	15.8	16.4

Source: Sharekhan Research

About company

Greenlam is among the world's top 3, Asia's largest, and India's No. 1 surfacing solutions brand. With its presence in over 100 countries, Greenlam has a team of over 14,000 distributors and dealers along with more than 4,500 employees. The company offers end-to-end surfacing solutions spread across laminates, compacts, veneers, engineered wooden floors, and engineered wooden doors and frames to choose from. With two manufacturing facilities in the country, the company is the first choice of home owners, architects, and interior designers, when it comes to transforming living spaces.

Investment theme

Greenlam is a joint leader in the Rs. 5,700 crore laminate industry with a market share of ~20%. The company is expected to ride on strong growth being envisaged for the wooden furniture industry, which is expected to post a 12% CAGR over 2020-2023. Key growth drivers for the industry are rising income levels, urbanisation, real estate development, and Housing for All, among others. Further, we expect Greenlam to grow at a faster pace, benefiting with market share gains from the unorganised sector, leveraging its strong distribution network. The government's focus on making India an export hub provides strong export growth opportunities for Greenlam.

Key Risks

- ♦ Slowdown in the macro economy, leading to weak realty market.
- ♦ High concentration in the laminate industry.

Additional Data

Key management personnel

Mr. Shiv Prakash Mittal	Chairman
Ashok Kumar Sharma	Chief Financial Officer
Mr. Saurabh Mittal	Executive Director-CEO-MD
Ms. Parul Mittal	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Greenply Leasing & Finance	37.55
2	Mittal Saurabh	13.04
3	HDFC Asset Management Co.	9.03
4	Blue Diamond Properties	7.23
5	Dhawan Ashish	5.65
6	DSP Investment Managers	3.05
7	IDFC Mutual Fund	2.49
8	Mittal Shiv Prakash	2.10
9	Mittal Parul	1.98
10	Bhansali Akash	1.69

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.