Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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. 1,361**	
Price Target: **Rs. 1,605**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

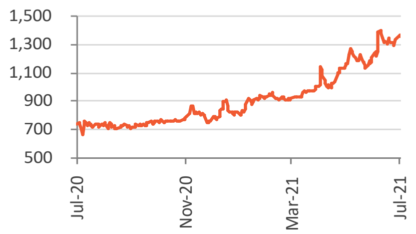
Company details

Market cap:	Rs. 3,285 cr
52-week high/low:	Rs. 1459/585
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	9.8	18.7	70.4	83.7
Relative to Sensex	10.1	13.0	58.2	47.1

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Promising growth outlook

Building materials | Sharekhan code: GREENLAM | Result Update

Summary

- We retain Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 1,605, considering its healthy earnings growth outlook over FY2021-FY2024E.
- The company reported better than expected revenues but was affected by increased raw material costs due to its inability to pass on cost to international clients that led to lower than expected net earnings.
- Its 1.5 million laminate capacity is expected to be onstream by Q3FY2023 which along with expansion in product adjacencies would provide next leg of growth.
- Dominant industry position, strong domestic growth outlook, demand shift from unorganised to organised players and rising export opportunities to lead to healthy earnings growth over FY2021-FY2024E.

Greenlam Industries Limited (Greenlam) reported higher than expected consolidated revenues at Rs. 336 crore (up 109.6% y-o-y, down 19.1% q-o-q) led by strong growth in laminates revenues (92% revenue share in Q1FY22) and grew by 112.7% (-15.3% q-o-q) at Rs. 310 crore driven by 121% y-o-y (-15.5% q-o-q) rise in volume. Veneer & Allied segment revenues (28% revenue share) grew by 80% y-o-y (-47% q-o-q) to Rs. 26.5 crore. Revenue from wood flooring/door business rose by 121%/35.1%. Domestic/international laminate volumes were up 135%/112.5% y-o-y, while value growth was at 148%/97.3% y-o-y, respectively. The laminate division capacity utilization stood at 110% in Q1FY2022 versus 112% in Q4FY2021 but the same could not be converted to sales (despite client orders) due to the delayed unlocking of domestic markets along with availability constraints of containers delaying export sales. The company estimates Rs. 30 crore worth of lost sales for Q1FY2022. The company's gross margins at 45.9% were down 382bps y-o-y (-284bps q-o-q) which was affected by rising raw material costs (chemical and craft paper prices were up 30-35% y-o-y and 30-40% y-o-y) and lower value mix. The company was not able to pass on the rise in raw material cost to international clients (laminate export sales grew by 3.6% q-o-q while domestic sales de-grew by 36.5% q-o-q) leading to lower blended gross margins. However, it has taken two rounds of price increase, one in March 2021 and another 2-2.5% price hike is communicated which should be effective during Q2FY2022. Consequently, OPM at 11.4% (+646bps y-o-y, -478bps q-o-q) came in much below our estimate of 15.7%. Consolidated operating profit grew by 386% y-o-y (-43% q-o-q) to Rs. 38.2 crore (lower than our expectation). Lower base and expansion in OPM on y-o-y basis led to a consolidated net profit of Rs. 17.4 crore versus net loss of 7.7 crore in Q1FY2021 and net profit of Rs. 43.3 crore in Q4FY2021. The consolidated net debt increased q-o-q by Rs. 90 crore to Rs. 213 crore (Net debt/Equity of 0.36x Vs 0.21x in Q4FY2021) as production continued in Q1FY2022 but was converted to sales. The inventory level is expected to streamline in Q2FY2022. On its 1.5 million sheet Greenfield expansion in south, the company took the possession of 66.49 acres land. It is undertaking required approvals and licenses for the Greenfield Project of which commercial production is expected to commence by Q3FY2023. We have fine tuned our estimates for FY2022E-FY2023E. We introduce FY2024E earnings in this note. GRLM is currently trading at a P/E of 25x/21x its FY2023E/FY2024E earnings, which we believe provides further room for upside, considering 22% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 1,605.

Key positives

- Strong outperformance on revenue led by higher than expected volume.
- Greenfield capacity expansion expected to be operational by Q3FY2022.

Key negatives

- Loss of sales and EBITDA due to delayed unlocking of domestic markets and challenges for container availability for exports.
- Lower gross margins impacted by steep rise in raw material which has been passed through lag effect.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,605: Greenlam, with its dominant industry position, strong domestic growth outlook, demand shift from unorganised to organised players and rising export opportunities is slated to see revenue/EBITDA/net profit report a CAGR of 14%/16.5%/22.4% over FY2021-FY2024E. Further, Greenlam's planned Greenfield capacity expansion plan along with expected expansion in product adjacencies would provide the next leg of growth. Strong operating cash flow generation (Rs. 500 crore+ over FY2022E-FY2024E) would help de-leverage the balance sheet and improve RoCE. We have fine tuned our estimates for FY2022E-FY2023E. We have introduced FY2024E earnings in this note. GRLM is currently trading at a P/E of 25x/21x its FY2023E/FY2024E earnings, which we believe provides further room for upside, considering 22% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 1,605.

Key Risks

Weak macroeconomic environment leading to a lull in industry growth trend.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,199.6	1,499.8	1,620.3	1,777.2
OPM (%)	14.4	14.3	15.0	15.4
Adjusted PAT	86.2	110.0	132.2	158.2
% Y-o-Y growth	(0.6)	27.7	20.2	19.6
Adjusted EPS (Rs.)	35.7	45.6	54.8	65.5
P/E (x)	38.1	29.9	24.9	20.8
P/B (x)	5.6	4.8	4.1	3.5
EV/EBIDTA (x)	20.5	16.6	14.6	12.9
RoNW (%)	16.0	17.7	18.2	18.6
RoCE (%)	12.2	14.4	15.6	16.6

Source: Company; Sharekhan estimates

Strong revenue outperformance while weak gross margins a blip

Greenlam Industries Limited (Greenlam) reported higher than expected consolidated revenues at Rs. 336 crore (up 109.6% y-o-y, down 19.1% q-o-q) led by strong growth in laminates (92% revenue share in Q1FY22) grew by 112.7% (-15.3% q-o-q) at Rs. 310 crore driven by 121% y-o-y (-15.5% q-o-q) rise in volume. Veneer & Allied segment revenues (28% revenue share) grew by 80% y-o-y (-47% q-o-q) to Rs. 26.5 crore. Revenue from wood flooring/door business rose by 121%/35.1%. Domestic/international laminate volumes were up 135%/112.5% y-o-y, while value growth was 148%/97.3% y-o-y, respectively. The laminate division capacity utilization stood at 110% in Q1FY2022 versus 112% in Q4FY2021 but the same could not be converted to sales (despite client orders) due to delayed unlocking of domestic markets along with availability constraints of containers delaying export sales. The company estimates Rs. 30 crore worth of lost sales for Q1FY2022. The company's gross margins at 45.9% were down 382bps y-o-y (-284bps q-o-q) which was affected by rising raw material costs (chemical and craft paper prices were up 30-35% y-o-y and 30-40% y-o-y) and lower value mix. The company was not able to pass on the rise in raw material cost to international clients (laminate export sales grew by 3.6% q-o-q while domestic sales de-grew by 36.5% q-o-q) leading to lower blended gross margins. However, it has taken two rounds of price increase, one in March 2021 and another 2-2.5% price hike is communicated which should be effective during Q2FY2022. Consequently, OPM at 11.4% (+646bps y-o-y, -478bps q-o-q) came in much below our estimate of 15.7%. Consolidated operating profit grew by 386% y-o-y (-43% q-o-q) to Rs. 38.2 crore (lower than our expectation). Lower base and expansion in OPM on y-o-y basis led to consolidated net profit of Rs. 17.4 crore versus net loss of 7.7 crore in Q1FY2021 and net profit of Rs. 43.3 crore in Q4FY2021.

Capacity expansion on track

On its 1.5 million sheet Greenfield expansion in the south, the company took the possession of 66.49 acres land. It is undertaking required approvals and licenses for the Greenfield Project of which commercial production is expected to commence by Q3FY2023. The consolidated net debt increased q-o-q by Rs. 90 crore to Rs. 213 crore (Net debt/Equity of 0.36x Vs 0.21x in Q4FY2021) as production continued in Q1FY2022 but was converted to sales. The inventory level is expected to streamline in Q2FY2022. Greenlam's planned Greenfield capacity expansion plan along with expected expansion in product adjacencies would provide the next leg of growth. Strong operating cash flow generation (Rs. 500 crore+ over FY2022E-FY2024E) would help de-leverage the balance sheet and improve RoCE.

Key Conference Call Takeaways

- **Loss of sales in Q1FY2022:** The company could not convert Rs. 30 crore worth of sales which were backed by client orders on account of non-availability of containers and delayed unlocking of domestic markets.
- **Raw material impact:** The company continued to suffer on rising raw material prices which till date has been on the uptrend. It was able to pass the rise in raw material price in domestic markets but the pass through in international markets was partially done in Q2FY2022. It has been able to pass the rise in sea freights since January 2021 to its international clients. The chemical prices have risen by 30-35% y-o-y with some rising by 70-80%. Craft paper prices are up 30-40% y-o-y.
- **Working capital:** The company was able to manage debtors reasonably well although rise in finished and raw material inventories increased working capital requirement. The inventory level is expected to streamline in Q2FY2022.
- **Demand outlook:** The management expects residential demand to improve. The demand is reverting to normalcy in July 2021. International markets remain mixed where some parts in South East Asia are under lockdown while European and USA markets are better positioned.
- **Unorganised to organized demand shift:** The demand is expected to shift from unorganized to organized players due to rise in raw material prices, supply chain disruptions and demand volatility.
- **Leverage:** The debt level has gone up by Rs. 90 crores in Q1FY2022 as production continued but could not be converted to sales.
- **Growth outlook:** In FY2022, the management expects export value growth to be 10-12% y-o-y. Both domestic and exports revenues are expected to grow.
- **Capacity expansion:** The company completed land registration for its 1.5 million laminate sheet Greenfield plant in South, Andhra Pradesh. It expects to start construction in Q3FY2022 and commercial production post 12 months.
- **New ventures:** The company is looking at opportunities in product adjacencies and will share the details once finalized.

Results (Consolidated) Rs cr

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net sales	**336.1**	**160.4**	**109.6%**	**415.3**	**-19.1%**
Other income	1.9	1.0	80.5%	3.0	-38.3%
Total income	338.0	161.4	109.4%	418.4	-19.2%
Total expenses	297.9	152.5	95.4%	348.3	-14.4%
Operating profit	**38.2**	**7.9**	**385.8%**	**67.1**	**-43.0%**
Depreciation	14.2	13.5	5.5%	14.1	1.0%
Interest	3.4	5.0	-32.3%	3.5	-3.0%
Exceptional items	0.0	0.0		-12.4	
Profit Before Tax	**22.5**	**-9.5**	**-**	**40.2**	**-44.0%**
Taxes	5.2	-1.8	-	9.3	-44.3%
Minority Interest	-0.1	0.0		-0.1	
PAT	17.4	-7.7	-	30.9	-43.7%
Adjusted PAT	**17.4**	**-7.7**	**-**	**43.3**	**-59.8%**
EPS (Rs.)	7.2	-3.2	-	18.0	-59.8%
OPM (%)	11.4%	4.9%	646 bps	16.1%	-478 bps
NPM (%)	5.2%	-4.8%	-	7.5%	-226 bps
Tax rate (%)	23.0%	19.0%	392 bps	23.1%	-14 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 to recover, with the 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.

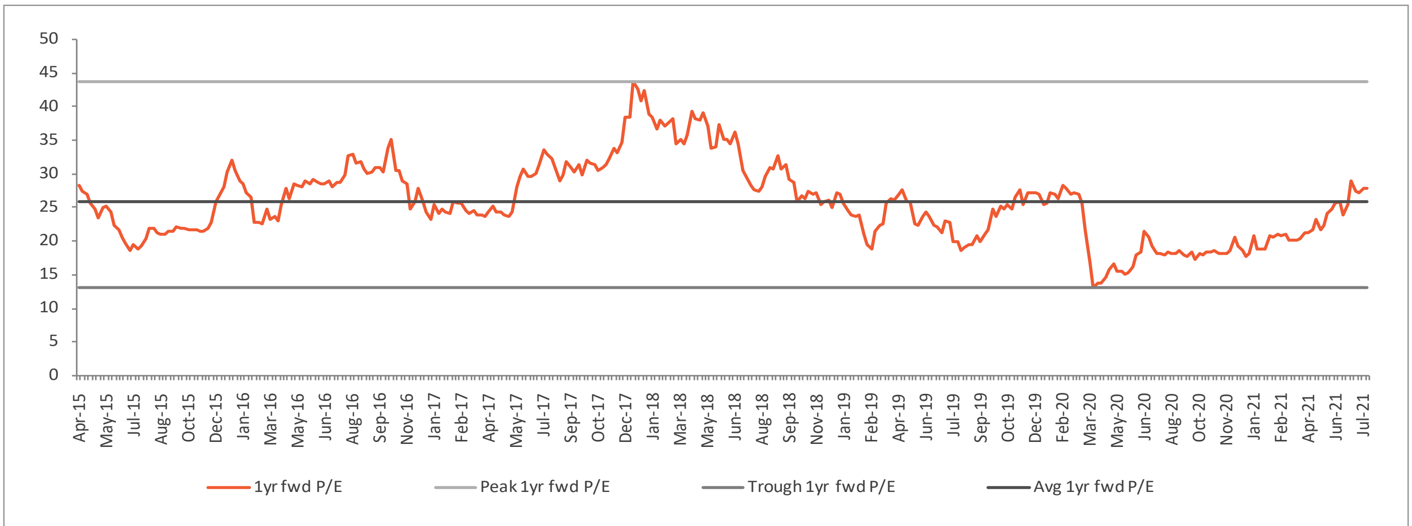
■ **Company outlook - Multiple growth levers for sustainable growth**

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 withcapex of Rs. 175 crore, which is expected to commission during FY2023. The said expansion is expected to bring about the next leg of growth for the company.

■ **Valuation - Maintain Buy with a revised PT of Rs. 1,605**

Greenlam, with its dominant industry position, strong domestic growth outlook, demand shift from unorganised to organised players and rising export opportunities is slated to see revenue/EBITDA/net profit report a CAGR of 14%/16.5%/22.4% over FY2021-FY2024E. Further, Greenlam's planned Greenfield capacity expansion plan along with expected expansion in product adjacencies would provide the next leg of growth. Strong operating cash flow generation (Rs. 500 crore+ over FY2022E-FY2024E) would help de-leverage the balance sheet and improve RoCE. We have fine tuned our estimates for FY2022E-FY2023E. We introduce FY2024E earnings in this note. GRLM is currently trading at a P/E of 25x/21x its FY2023E/FY2024E earnings, which we believe provides further room for upside, considering 22% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 1,605.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Greenlam Industries	29.9	24.9	16.6	14.6	4.8	4.1	17.7	18.2
Greenpanel Industries	18.4	13.4	10.2	8.4	3.3	2.7	19.6	22.5
Century Plyboards	38.1	31.2	24.3	20.0	6.5	5.4	18.4	19.0

Source: Company, Sharekhan estimates

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

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

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 detoriating 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

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