



## 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	✗	↔	✓

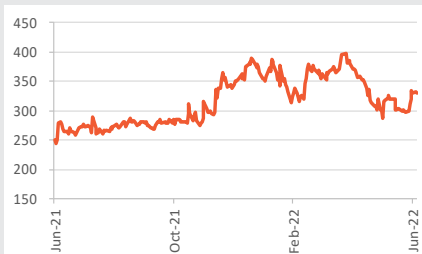
## Company details

Market cap:	Rs. 3,989 cr
52-week high/low:	Rs. 416 / 241
NSE volume: (No of shares)	0.4 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	5.6 cr

## Shareholding (%)

Promoters	53.9
FII	1.6
DII	14.2
Others	30.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.8	-6.2	-5.4	31.9
Relative to Sensex	7.8	2.1	2.6	30.7

Sharekhan Research, Bloomberg

## Greenlam Industries Ltd

## A small but strategic acquisition

## Building materials

## Sharekhan code: GREENLAM

## Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 331

Price Target: Rs. 400



Downgrade

## Summary

- Greenlam's acquisition of a laminate manufacturing unit in Gujarat has a revenue potential of Rs. 250 crore at peak utilisation, 8-9% OPM with RoCEs comparable to the existing business.
- The strategically-located unit opens up huge mass-market product segment dominated by unorganized players. Network leverage in semi-urban & rural areas, proximity to raw materials & ports are other key benefits.
- The company's Rs. 950 crore capex plan for laminate, particleboard and plywood remains on track with peak net debt expected at a manageable level.
- We retain a Buy on Greenlam Industries Limited (Greenlam) with an unchanged PT of Rs. 400, considering its strong growth outlook over FY2022-FY2024E.

At its analyst conference call, Greenlam Industries Limited (Greenlam) highlighted the salient features behind the recent acquisition of 3.4 mn sheets (scalable to 5.4 mn sheets) laminate manufacturing facility of Bloom Dekor, Gujarat. Its existing laminate facilities running at full capacity utilisation and a new unit (3.5mn sheets & boards at A.P.) almost a year away led to geographically strategic acquisition at just Rs. 36 crore (to be funded through internal accruals, additional Rs. 15 crore for upgrading & expanding capacities). The acquisition opens up a huge mass-market segment (50% volume, 35% value share), dominated by unorganized players and is ready to move to branded products. The acquired assets has revenue potential of Rs. 250 crores at peak utilization, 8-9% OPM with RoCEs comparable to existing business due to lower working capital requirements.

- Inorganic acquisition with Rs. 250 crore revenue potential:** Greenlam acquired laminate manufacturing facility of Gujarat based Bloom Dekor for Rs. 36 crore. The laminate facility with 3.4 million sheets capacity can be upgraded and expanded to 5.4 million sheets capacity by Q4FY2023. The facility is spread over ~8 acres while the land nearby can be acquired for future expansions. The company expects the plant to achieve peak capacity utilisation by FY2024. The mass-market product facility is expected to generate Rs. 250 crore revenues at peak utilisation level. It will also allow expansion of company's network in semi-urban and rural areas and give leverage to its current offerings. The location of this plant offers a demographic advantage as Gujarat is a hub for the raw materials and being closer to port cuts down on logistics cost and time.
- OPM lower but RoCE comparable to existing operations:** The acquired product facility being in mass market segment tends to remain price-sensitive. The OPM are expected to be lower at 8-9% compared to the company's 11% OPM of existing businesses in FY2022. However, the fewer SKUs for the product segment is expected to result in lower working capital requirements which would lead to similar RoCE as for the existing business. Further, the company has not acquired stocks, brand or distribution network of the target unit.
- Eying pie in mass-market segment:** The large laminate mass market size (~50% volume and ~35% value share) dominated by unorganised players provide growth opportunities for Greenlam by creating space for itself in the mass market segment. As per management, the mass-market segment is ready to move into branded segment. Additionally, it adds a strategic location (Gujarat) to its other laminate manufacturing facilities located at Rajasthan, Himachal Pradesh and Andhra Pradesh (under –construction). After upgradation of the Gujarat plant and completion of the Andhra Pradesh plant, Greenlam would reinforce its leading position in domestic laminate industry with overall capacity of 24.52 mn sheets.

**Revision in estimates** – We have increased our revenues/operating profit/net earnings estimates by 8%/5%/7% for FY2024, factoring in contribution from acquired unit although at lower OPM.

## Our Call

**Valuation – Maintain Buy with a unchanged PT of Rs. 400:** Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in plywood and the leader in particle board. A healthy demand environment along with market share gains from the unorganised segment is expected to drive volumes. Its expansions in laminates, plywood and particle board is expected to provide next leg of growth with manageable leverage on the balance sheet. Greenlam is currently trading at a P/E of 24x its FY2024E earnings, which we believe provides further room for upside, considering a 32% net earnings CAGR over FY2022-FY2024E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 400.

## Key Risks

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

## Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,199.6	1,703.4	1,939.0	2,576.6
OPM (%)	14.4	11.0	11.8	12.8
Adjusted PAT	86.2	93.3	105.5	162.6
% Y-o-Y growth	(0.6)	8.3	13.0	54.2
Adjusted EPS (Rs.)	7.1	7.7	8.7	13.5
P/E (x)	46.0	42.5	37.6	24.4
P/B (x)	6.8	6.0	5.3	4.4
EV/EBIDTA (x)	24.4	22.6	18.5	12.8
RoNW (%)	16.0	15.2	15.1	20.0
RoCE (%)	12.2	11.4	11.5	13.4

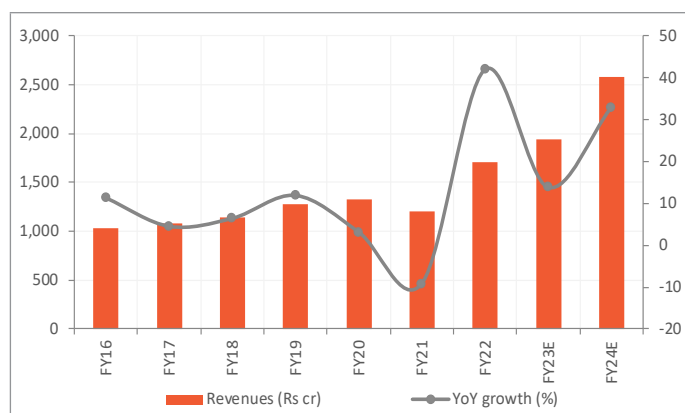
Source: Company; Sharekhan estimates

## Key Conference Call Takeaways

- ♦ **Acquisition:** The company has acquired entire land, building, plant and machinery of laminate division of Bloom Dekor for Rs. 36 crore. The company is not acquiring stocks, brand or its distribution network. The laminate manufacturing facility has an installed capacity of 3.4 million sheets per annum. The land area is 7-8 acres. Nearby land by acquired for future expansion.
- ♦ **Target market:** The acquisition would help expand its offerings to the market by entering the mass market segment of laminates. The company's venture into mass market segment during covid period garnered good response which led to its increased focus on mass-market segment. The laminate mass market segment comprises 50% in volume terms and 35% in value terms of the total industry. It is predominately unorganized market.
- ♦ **Scale up of acquired facility:** The company would be undertaking maintenance for next 2 to 3 months and then upgradation over 3 to 6 months. It would be incurring additional Rs. 15 crores for maintenance and upgradation. The entire capacity would be available by the end of the fiscal year.
- ♦ **Financing:** The company would finance the acquisition through internal accruals.
- ♦ **Revenue potential:** The company estimates revenue potential of Rs. 250 crore from 5.4 million sheets at full capacity utilisation.
- ♦ **Margin and return profile:** The acquired asset is expected to generate 8-9% OPM but would need lower working capital of Rs. 50-52 crore (lower SKU requirement) which would lead to near similar RoCE as its existing operations.
- ♦ **Existing expansion funding:** The company has embarked on Rs. 950-1000 crore capacity expansion plan which would be funded through debt (65%, Rs. 650 crore) and equity (Rs. 350 crore). As of the start of fiscal year, it has already spent Rs. 100 crore and Rs. 250 crore balance equity would be required over the two years which would be managed through internal accruals. It had Rs. 150 crore cash balance at the beginning of the fiscal year while it raised Rs. 195 crore through preferential issue to maintain cash balance for any inorganic opportunities. It does not need to raise further equity. The net debt at FY2024 end is expected to be at Rs. 750 crore. Regarding Rs. 650 crore debt, it would raise one-third of total requirement (~Rs. 200 crores) through external borrowings at 2-2.5% interest rate. Balance would be rupee debt at 7.5% interest rate. Currently, at the company level, the interest rate for working capital (post interest subvention) is 2.5% while long term borrowings are at ~7.5% interest rate. The company has Rs. 26 crore debt repayment for FY2023.
- ♦ **Company's regional mix:** In laminates, South comprise major sale are comprising 35-40%, followed by North and West while East comprise ~10-15% of sales.
- ♦ **Laminate export mix:** In FY2022, laminate export volumes comprised 50% while it consisted 52% in value terms.

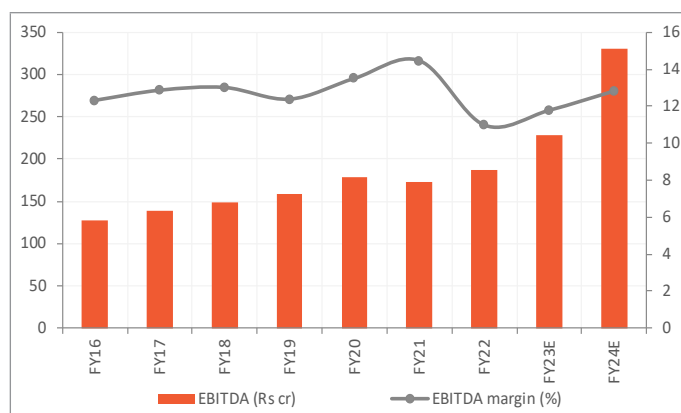
## Financials in charts

### Revenue trend



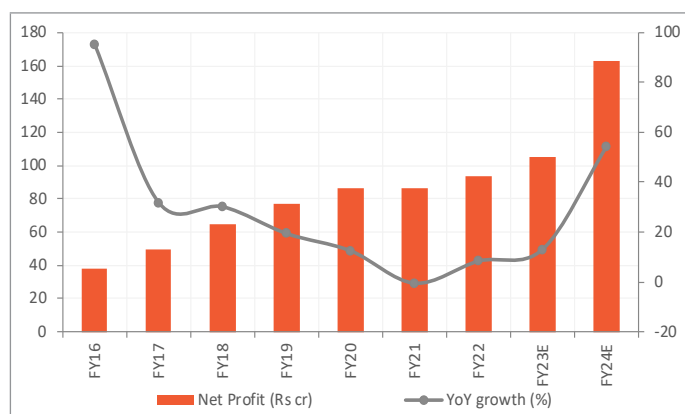
Source: Company, Sharekhan Research

### EBITDA trend



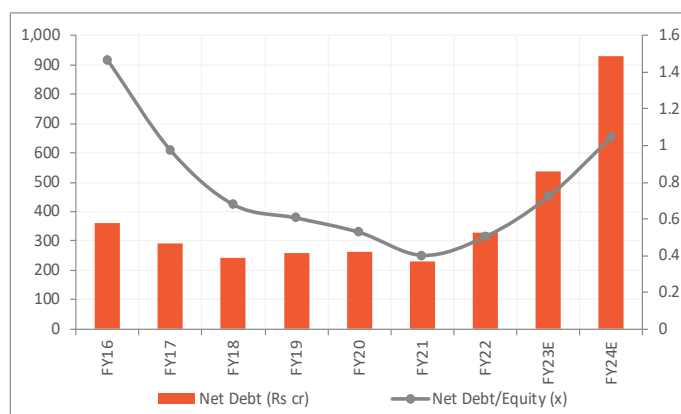
Source: Company, Sharekhan Research

### Net Profit trend



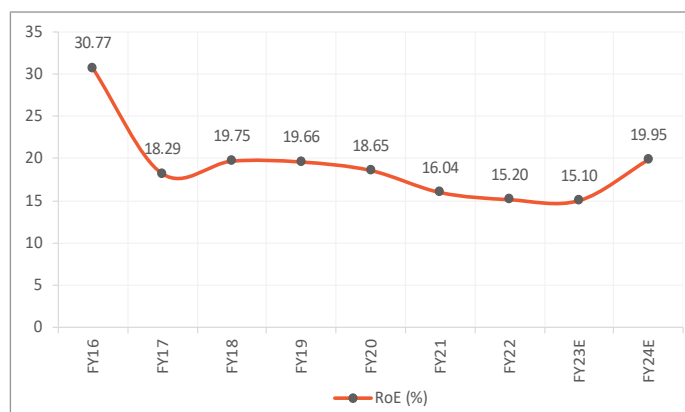
Source: Company, Sharekhan Research

### Net Debt trend



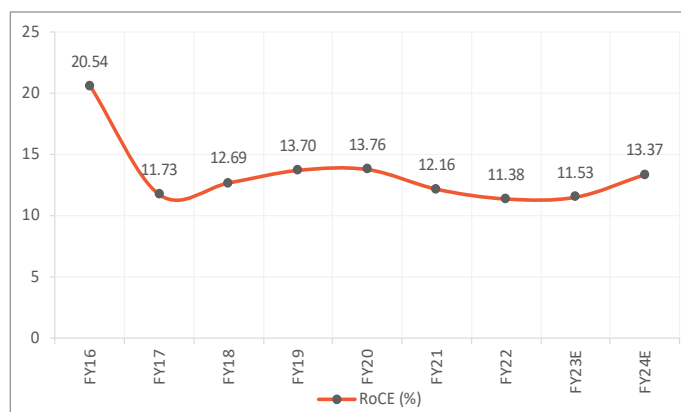
Source: Company, Sharekhan Research

### ROE trend



Source: Company, Sharekhan Research

### ROCE trend



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 a 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.

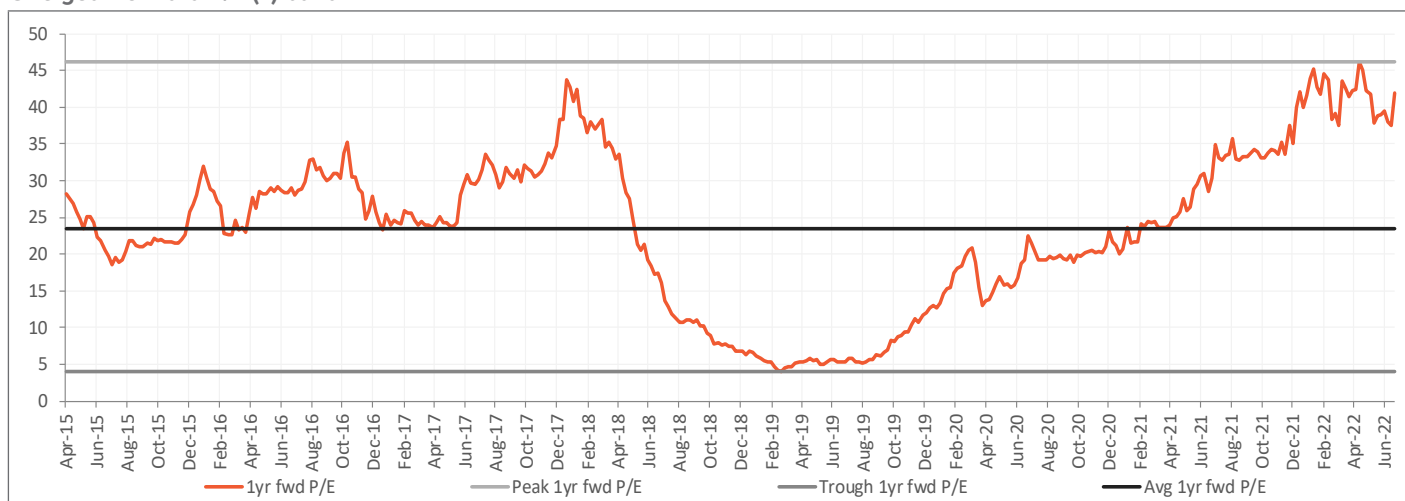
### ■ Company Outlook – Multiple growth levers for sustainable growth

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, and leveraging its strong distribution network. The government's focus on making India an export hub provides strong export growth opportunities for Greenlam. The company is expanding its capacities in laminates, particle board, and plywood at a capex of Rs. 950 crore over 2-3 years, which would provide it with the next leg of growth.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 400

Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in plywood and the leader in particle board. A healthy demand environment along with market share gains from the unorganised segment is expected to drive volumes. Its expansions in laminates, plywood and particle board is expected to provide next leg of growth with manageable leverage on the balance sheet. Greenlam is currently trading at a P/E of 24x its FY2024E earnings, which we believe provides further room for upside, considering a 32% net earnings CAGR over FY2022-FY2024E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 400.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Greenlam Industries	37.6	24.4	18.5	12.8	5.3	4.4	15.1	20.0
Greenpanel Industries	17.0	12.9	10.5	9.0	4.2	3.3	28.3	28.7
Century Plyboards	28.2	24.7	18.3	15.8	5.9	4.8	23.2	21.5

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 homeowners, 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 from market share gains from the unorganised sector, and 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 the 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 and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates 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: 022-67502000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022-67502000 / Fax: 022-24327343. 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](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.