

Greenlam Industries Ltd

BUY

CMP Rs750

Target Rs1,165

Upside 55%

Highlights	<ul style="list-style-type: none"> ✓ Relief in national and regional lockdowns led to restoration of demand during Q2 but sales were below pre-COVID levels. During the quarter domestic / international revenues in laminate business were ~82% / 93% as compared to last year. ✓ Revenue in Q2 stood at Rs 2,893 Mn – decline of 17.1% y/y and growth of 80.4% q/q. Laminates sales declined by 12.7% y/y wherein domestic / exports sales de-grew by 18.8% / 6.9% y/y respectively. The sales of Veneer / Wood flooring / Doors segment de-grew by 51% / 38.9% / 13.6% y/y respectively. ✓ Gross profit margins (GP%) came in at 49% Vs 47.1% / 49.7% in Q2FY20 / Q1FY21 respectively. Laminates GP% contracted sequentially from 50.5% to 49.9% on the back of change in product mix wherein 0.7mm laminates constituted major portion of sales leading to 5% q/q fall in realizations. Operational margins improved sequentially to 14% during Q2 from 4.9% and remained flat as compared to Q2FY20. EBITDA in absolute terms stood at Rs 405 Mn – a decline of 16.6% y/y and growth of 415% q/q.
Our View	<ul style="list-style-type: none"> ✓ Management has stated that business during October 2020 is in-line with October 2019. This invigorates our confidence w.r.t future outlook as we expect a sharp rebound in domestic business led by urban areas scaling to normalcy in operations from Q3FY21E onwards. ✓ Accordingly, we upgrade our EBITDA estimate by 43% for FY21E and factor in top-line/EBITDA growth of 16.5%/28% CAGR over FY21E-FY23E. ✓ Despite cash outgo of ~Rs 1.6 bn over FY21E-FY23E towards commissioning of Andhra plant and maintenance capex, we expect net debt/equity to decline from 0.3x to 0.09x over the same period led by strong internal accruals.
Valuation	<ul style="list-style-type: none"> ✓ Rolling forward to Sep-22E, we upgrade our TP from Rs 1,031 to Rs 1,165 – assigning DCF derived P/E multiple of 25x. We maintain our BUY rating (+55% potential upside).
Risk to our call	<ul style="list-style-type: none"> ✓ Second wave of COVID-19 spread in India

Exhibit 1: Result table

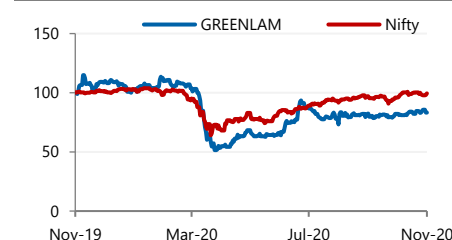
Y/e 31 Mar (Rs mn)	Q2 FY21	Q1 FY21	q/q (%)	Q2 FY20	y/y (%)
Revenue	2,893	1,604	80.4	3,490	(17.1)
Gross Profit	1,416	797	77.7	1,642	(13.8)
GP margin (%)	49.0	49.7	(75.2) bps	47.1	190 bps
EBITDA	405	79	415.0	485	(16.6)
EBITDA Margin (%)	14.0	4.9	909 bps	13.9	8 bps
PBT	235	(95)	-	273	(13.9)
Tax	49	(18)	-	(3)	-
PAT	186	(77)	-	275	(32.6)

Source: Company, YES Sec – Research

Stock data (as on Nov 03, 2020)

Nifty:	11,821
52 Week h/l (Rs)	1049 / 442
Market cap (Rs/USD mn)	18151 / 244
Outstanding Shares (mn)	24
6m Avg t/o (Rs mn):	6
Div yield (%):	0.5
Bloomberg code:	GRIM IN
NSE code:	GREENLAM

Stock performance



(%)	1M	3M	1Y
Absolute return	1.4%	13.8%	-16.1%

Shareholding pattern (As of Sep'20 end)

Promoter	54.90%
FII+DII	17.72%
Others	27.39%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,165	1,031

Δ in earnings estimates

Rs bn	FY21E	FY22E	FY23E
EBITDA (New)	1.45	1.96	2.36
EBITDA (Old)	1.01	2.08	-
% change	43.1	(5.6)	-

KUNAL SHAH

Lead Analyst

kunal.shah@ysil.in



UDIT GAJIWALA, Associate

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Exhibit 2: Trend in y/y growth

(%)	Q2FY21		
	Volume	Value	% of sales
Total Laminates	(7.2)	(12.7)	89.3
Domestic	(5.4)	(18.8)	NA
International	(8.6)	(6.9)	NA
Veneer	(52.3)	(51.0)	5.1
Wood flooring	(67.9)	(38.9)	3.1
Wooden doors	(12.1)	(13.6)	2.4

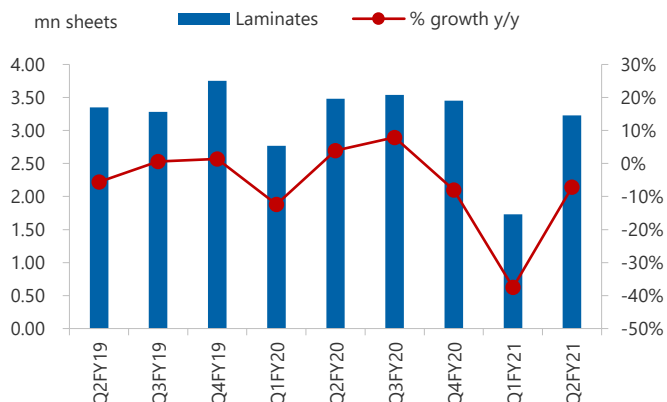
Source: Company, YES Sec – Research

Presentation and con-call highlights:

- ✓ **Demand in Q2FY21:** Though demand bounced back in Q2FY21 due to easing of national and regional lockdown, sales were not upto pre-COVID levels. The laminate sales in domestic / international were at ~82% / 93% pre-COVID levels respectively.
- ✓ **Working capital cycle:** Company registered best debtors days of 32 during the quarter. For Q2FY21 working capital cycle was at 109 days which improved drastically over previous quarter but remained elevated as compared to last year due to higher inventory coupled with lower sales.
- ✓ **Current demand scenario:** Management stated that October 2020 sales are in-line with October 2019, international sales have also reached pre-COVID levels. Domestic market is witnessing improvement wherein demand from residential / retail is substantially high. Management expects H2FY21 to be better than H1FY21 provided there are no further lockdowns.
- ✓ **Update on Greenlam South:** COVID-19 is likely to delay the approval and environment clearance procedure, hence it is likely that no work will begin in current fiscal. However, management expects to commission the plant within 12-15 months from commencement of work.
- ✓ **Margins:** Gross profit margins of laminates contracted sequentially on account of change in product mix wherein 0.7mm laminates constituted major sales. Sales of 1mm laminates were impacted due to prevailing lockdowns in major urban cities, however company expects the same to improve gradually. Going ahead management expects to maintain these margins as they do not foresee any major rise in input costs.
- ✓ **GREENLAM RUS LLC:** The company announced incorporation of Greenlam Rus LLC in Russian federation to carry out the business of marketing and distribution of Laminates and other products in Russia.
- ✓ **Flooring Business:** Management stated that they have businesses lined-up for this segment and with timely execution there will be an improvement in coming quarters.
- ✓ Exports continue to face issues related to availability of containers, which was the key reason for decline in export sales during Q2FY21.

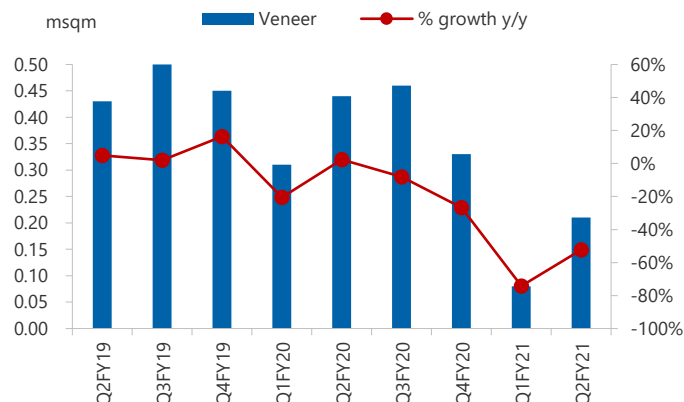
CHARTS

Exhibit 3: Laminate volume degrew by 7.2% y/y lead by 8.6% y/y decline in exports



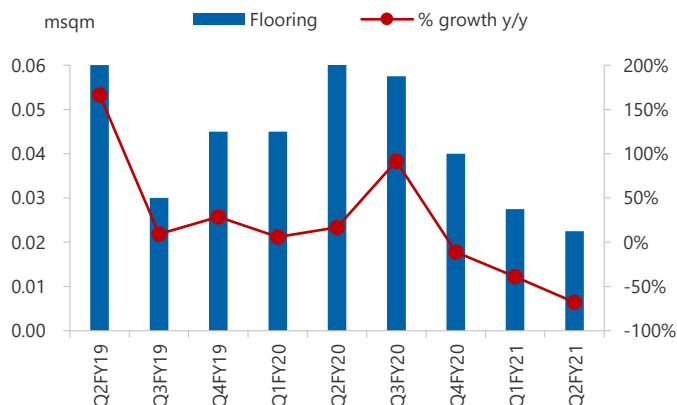
Source: Company, YES Sec – Research

Exhibit 4: ...while veneer volumes plunged by 52.3% y/y



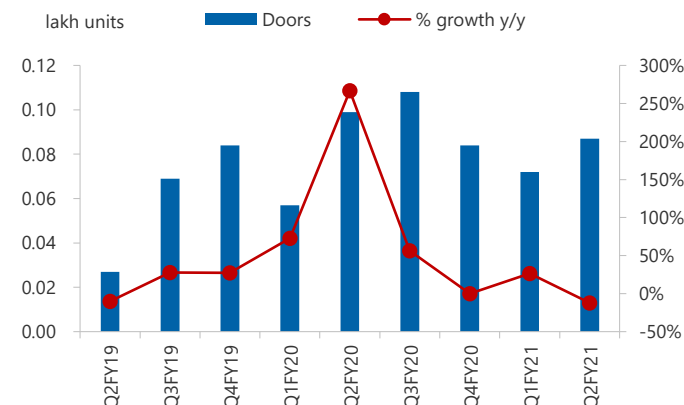
Source: Company, YES Sec – Research

Exhibit 5: Wood flooring volumes de-grew by 67.9% y/y...



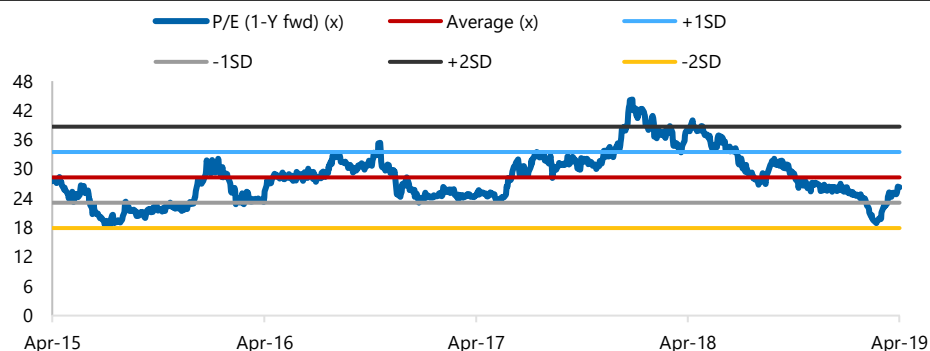
Source: Company, YES Sec – Research

Exhibit 6:while door business witnessed 12.1% y/y decline in volume



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)	FY20	FY21E	FY22E	FY23E
Revenues	13,206	11,444	13,754	15,524
Growth (%)	3.1	(13.3)	20.2	12.9
EBITDA	1,782	1,445	1,963	2,364
EBITDA margin (%)	13.5	12.6	14.3	15.2
Growth (%)	12.4	(18.9)	35.8	20.4
D&A	525	566	573	600
Other income	44	31	97	157
EBIT	1,301	910	1,487	1,921
EBIT margin (%)	9.9	8.0	10.8	12.4
Interest	218	217	204	207
PBT	1,083	693	1,283	1,714
Tax	217	173	321	429
Net profit	866	520	962	1,286
NPAT margin (%)	6.6	4.5	7.0	8.3
EPS (Rs)	36	22	40	53
Growth (%)	12.3	(40.0)	85.1	33.6

Source: Company, YES Sec – Research

Exhibit 9: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Equity Share Capital	121	121	121	121
Reserves	4,886	5,309	6,175	7,364
Total Shareholders' Funds	5,007	5,430	6,296	7,485
Non-current liabilities				
Long term borrowings	820	820	320	-
Deferred Tax liabilities	245	245	245	245
Current liabilities				
Short term borrowings	1,767	1,485	1,924	2,390
Trade payables	1,745	1,527	1,801	2,010
Other financial liabilities	599	599	599	599
Total equity and liabilities	11,141	11,065	12,144	13,688
Non-current assets				
PPE	4,185	3,719	3,245	4,045
CWIP	149	449	1,149	149
Current assets				
Inventories	3,710	3,395	3,867	4,357
Trade receivables	1,378	1,194	1,435	1,620
Cash and cash equivalents	304	894	1,033	2,102
Other bank balances	3	3	3	3
Other current assets	1,081	1,081	1,081	1,081
Total assets	11,141	11,065	12,144	13,688

Source: Company, YES Sec – Research

Exhibit 10: Cash Flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
PBT	1,083	693	1,283	1,714
D&A	525	566	573	600
Finance cost	218	217	204	207
(Incr)/Decr in Working Capital	(581)	282	(440)	(466)
Taxes	(298)	(173)	(321)	(429)
Cash from ops.	981	1,585	1,300	1,627
(Incr)/ Decr in PP&E	(588)	(400)	(800)	(400)
Cash Flow from Investing	(559)	(400)	(800)	(400)
(Decr)/Incr in Borrowings	245	(282)	(60)	146
Finance cost	(220)	(217)	(204)	(207)
Dividend paid	(169)	(96)	(96)	(96)
Cash Flow from Financing	(221)	(595)	(360)	(158)
Incr/(Decr) in cash	202	589	139	1,069
Cash and cash equivalents at beginning of year	102	304	894	1,033
Cash and cash equivalents at end of year	304	894	1,033	2,102

Source: Company, YES Sec – Research

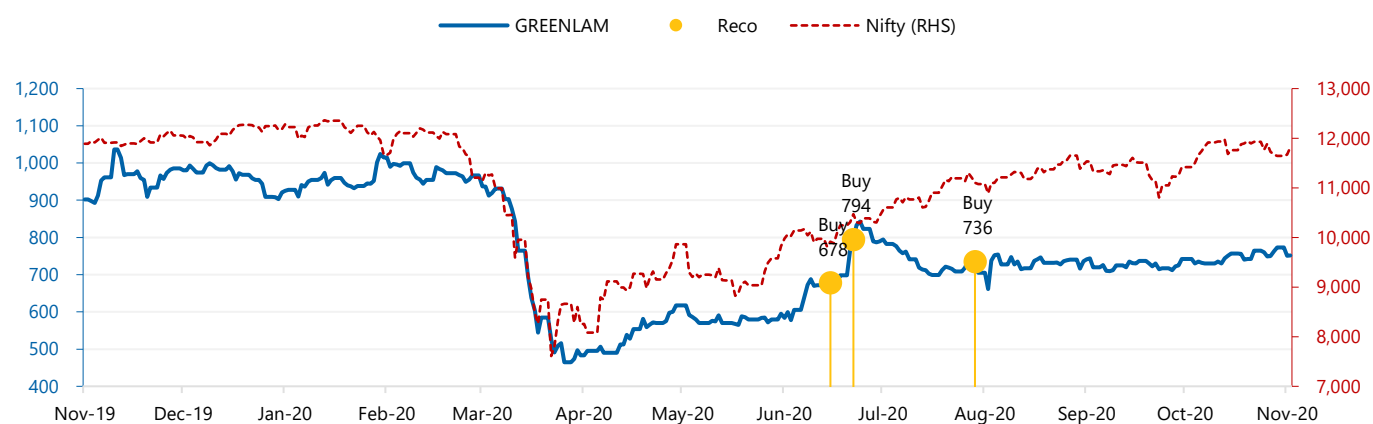
Exhibit 11: Ratios (Consolidated)

Y/e 31 Mar	FY20	FY21E	FY22E	FY23E
Growth Matrix (%)				
Revenue growth	3.1	(13.3)	20.2	12.9
EBITDA growth	12.4	(18.9)	35.8	20.4
EBIT growth	5.6	(30.1)	63.4	29.2
PAT growth	12.3	(40.0)	85.1	33.6
Profitability ratios (%)				
EBITDA margin	13.5	12.6	14.3	15.2
EBIT margin	9.9	8.0	10.8	12.4
PAT margin	6.6	4.5	7.0	8.3
RoCE	16.4	11.2	16.7	18.8
RoE	17.3	9.6	15.3	17.2
Leverage ratios (x)				
Net Debt/Equity	0.53	0.32	0.25	0.09
Net Debt/EBITDA	1.48	1.22	0.80	0.27
Interest coverage	5.96	4.20	7.30	9.29
Per share values				
EPS	35.9	21.6	39.9	53.3
CEPS	57.7	45.0	63.7	78.2
BVPS	208	225	261	310
Valuation ratios (x)				
P/E	20.7	34.8	18.8	14.1
P/CP	12.9	16.7	11.8	9.6
P/B	3.6	3.3	2.9	2.4
EV/EBITDA	11.5	13.7	10.0	7.9
NWC days				
Receivables	88	98	88	88
Inventory	38	38	38	38
Payables	105	116	105	105
Payables	56	56	56	56

Source: Company, YES Sec – Research

Greenlam Industries Ltd

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
One International Center, Senapati Bapat Marg, Elphinstone Road,
Mumbai – 400013, Maharashtra, India
Email: research@ysil.in | Website: https://yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
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Details of Compliance Officer: Vaibhav Purohit (For Broking / Research /
Investment Adviser): Email: compliance@ysil.in /
Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking):
Email: dhanraj.uchil@ysil.in / Contact No.: 022-33479684

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