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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	■	↔	■

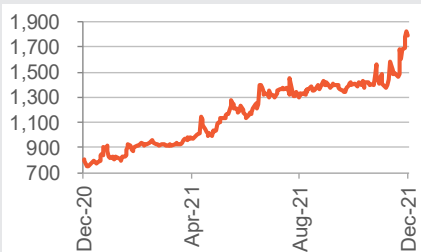
Company details

Market cap:	Rs. 4,244 cr
52-week high/low:	Rs. 1,999 / 740
NSE volume: (No of shares)	0.1 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	1.1 cr

Shareholding (%)

Promoters	53.9
FII	1.6
DII	14.9
Others	29.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.4	27.1	54.2	121.2
Relative to Sensex	23.9	29.0	43.5	97.7

Sharekhan Research, Bloomberg

Greenlam Industries Ltd
Trading a five-year growth path

Building materials	Sharekhan code: GREENLAM		
Reco/View: Buy	↔	CMP: Rs. 1,758	Price Target: Rs. 2,127 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Greenlam Industries Limited (Greenlam) has announced a Rs.950-crore expansion plan in the laminates, plywood and particleboard divisions, which would help triple revenue by FY2026. Peak debt-to-equity ratio to be contained at 0.8x.
- Capacity expansion would place it among the top three players in Plywood along with leadership position in the particleboard segment. The company expects to gain market share from unorganised segment.
- We expect Greenlam to benefit from industry growth tailwinds with capacity expansions undertaken at an opportune time.
- We retain a Buy on Greenlam with a revised PT of Rs. 2,127, owing to its healthy growth outlook over FY2021-FY2024E.

Greenlam Industries Limited (Greenlam) announced a major capacity expansion plan of Rs. 950 crore spread over 30 months towards setting up of its third laminates plant and foray into Plywood and Particle board business. Plywood and laminate capacities are expected to come on-stream by Q4FY2023, while the particleboard facility would begin operating by Q4FY2024. The capacity expansion would yield incremental revenue of Rs. 1500 crore per annum on full utilisation, which would aid the company in tripling revenues by FY2026. The capex would be undertaken with leverage in check, which is expected to peak at 0.8x. The planned capacity expansions would place Greenlam among the top three players in Plywood and attain leadership position in the particleboard segment.

- Laminate capacity expansion along with foray into the Plywood and particleboard segment: The company announced a major capacity expansion plan of Rs. 950 crore spread over 30 months towards setting up of third laminate plant (3.5mn sheets/boards p.a. at a capex of Rs. 125 crore) and a foray into the plywood segment (18.9 million sq meter p.a. at capex of Rs. 125 crore) and particleboard (231,000 cbm p.a. at capex of Rs. 600 crore) business.
- Eyeing three-fold rise in revenues by FY2026: Greenlam estimates to generate Rs. 2000-2100 crore revenues from its existing business while new businesses will add Rs. 1500 crore (laminates - Rs. 500 crore, Plywood-Rs. 400 crore, Particle board-Rs. 600 crore), aggregating to Rs. 3500-3600 crore revenues by FY2026 from Rs. 1200 crore in FY2021.
- Leverage under check; to be key player in wood panel: The company is expected to fund its 950 crore capex plan with 65% debt and balance through internal accruals. The peak debt/equity is expected to be at 0.8x, keeping leverage under check. The RoCE is expected to be in the range of 22-25% once all capacity expansions are complete. The expansions in Plywood would help it to be in top three players domestically while helping it achieve a leadership position in the particleboard segment.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,127: Greenlam, with its dominant industry position in laminates is expected to be among top three players in Plywood and leader in Particle board. The company is expected to gain market share from unorganised segment in Plywood and particleboard segments domestically, while it is expected to benefit from rising export opportunities in exports. Greenlam is currently trading at a P/E of 26x its FY2024E earnings, which we believe provides further room for upside, considering 24% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 2,127.

Key Risks

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

Valuation (Consolidated)

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,199.6	1,710.0	1,899.8	2,149.6
OPM (%)	14.4	11.3	12.5	13.4
Adjusted PAT	86.2	92.3	125.3	165.6
% Y-o-Y growth	(0.6)	7.2	35.7	32.2
Adjusted EPS (Rs.)	35.7	38.3	51.9	68.6
P/E (x)	49.2	46.0	33.9	25.6
P/B (x)	7.2	6.4	5.5	4.6
EV/EBIDTA (x)	26.0	23.3	19.0	15.7
RoNW (%)	16.0	15.1	17.8	19.9
RoCE (%)	12.2	12.5	14.8	17.2

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ◆ **Five-year strategic plan:** Greenlam has charted out a five-year strategic roadmap starting 2021 to graduate from standalone surfacing products provider to an integrated (surface and substrate) solutions provider. It would strive to emerge as India's leading wood panel player. The company is targeting to triple its revenues over the next five years from Rs. 1,200 crore in FY2021.
- ◆ **FY2026 estimated revenue and OPM mix:** Greenlam estimates to generate Rs. 2000-2100 crore revenues from its existing business while new businesses will add Rs. 1500 crore, aggregating to Rs. 3500-3600 crore revenues by FY2026. The company expects 13-14% OPM for the plywood segment, 22-24% for particleboard segment, while for the laminates segment, margins would be at current levels.
- ◆ **RoCE:** The RoCE are expected to be at 22-25% once all expansions are done.
- ◆ **Funding capex:** The company would be funding the capex with 65% debt and balance internal accruals. The peak debt is estimated at Rs. 750-800 crore in FY2024 with debt/equity estimated at 0.8x.
- ◆ **Plywood expansion:** The company is planning an 18.9 mn sqm annual capacity at Tindivanam, Tamil Nadu at an estimated cost of Rs. 125 crore which is expected to start production by Q4FY2023. The company estimates Rs. 400 crore in revenues and hopes to be among the top three players in the sector. The plywood market estimated at Rs. 30,000 crore is 75% unorganized which the company expects to capture. The company already has a wide distribution network in South India, which is its largest market currently.
- ◆ **Particleboard segment expansion:** The particleboard segment is estimated to be worth Rs. 5000 crore and is largely sold as pre-laminated boards. The particle board market is largely unorganized (95%) with three national players having small capacities. The company has the opportunity to become market leader. It is planning a 2,31,000 cbm annual capacity at Naidupeta, Andhra Pradesh at a capex of Rs. 600 crore and is expected to commence production from Q4FY2024. It expects to generate Rs. 600 crore revenues at peak capacity. Initially, the company would start with 50:50 mix of plain and pre-lam boards which will be tilted towards pre-lam at 80% at peak capacity.
- ◆ **Laminate expansion:** The market size of laminate industry is estimated at Rs. 9,000 crore (domestic market Rs. 6500 crore, exports Rs. 2500 crore). The organized market is estimated at Rs. 4,000 crore. The company is adding a 3.5-mn sheet annual capacity at Naidupeta, Andhra Pradesh and is expected to commence production from Q4FY2023. The company estimates Rs. 500 crore revenue potential at peak capacity. The company can add 3-4 lines in future at a significantly lower capex.
- ◆ **Peak capacity timeline:** The plywood and laminate capacity is expected to reach 100% capacity utilization over 3 years. In the first year, it is expected to be 50% which would be scaled up to 70-75% in second year and 100% in third. The particleboard capacity utilization would reach 100% over four years with the first year at 50%, second year at 60-75%, third year at 70-80% and fourth 100%.
- ◆ **Preference to particle board over MDF venture:** The company is open to venturing into MDF segment but has no concrete plan at the moment. It gave preference to particle board expansion as there is no meaningful player in the segment, it strengthens its core laminate business as particle board are sold majorly as pre-laminated boards and there can be significant value addition done.

Outlook and Valuation

■ Sector outlook – 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.

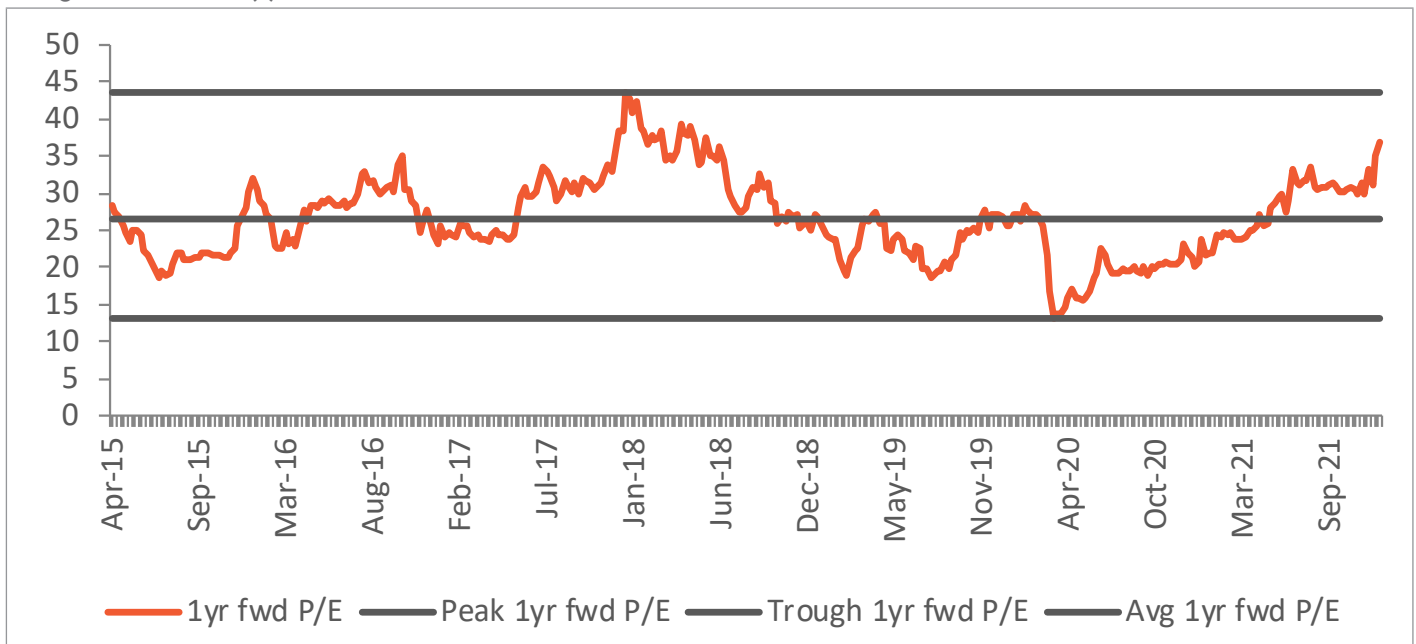
■ Company outlook – Multiple growth levers for sustainable growth

Greenlam is a joint leader in the Rs. 5,700-crore laminates 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 that arise 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 is undertaking a major capacity expansion plan of Rs. 950 crore spread over 30 months to set up its third laminate plant (3.5 mn sheets/boards p.a. at a capex of Rs. 125 crore) and a foray into the plywood (18.9 mn sq meters p.a. at a capex of Rs. 125 crore) and Particle board (231,000 cbm per annum at a capex of Rs. 600 crore) business.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,127

Greenlam, with its dominant industry position in laminates is expected to be among top three players in Plywood and leader in Particle board. The company is expected to gain market share from unorganised segment in Plywood and particleboard segments domestically, while it is expected to benefit from rising export opportunities in exports. Greenlam is currently trading at a P/E of 26x its FY2024E earnings, which we believe provides further room for upside, considering 24% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with revised price target (PT) of Rs. 2,127.

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	33.9	25.6	19.0	15.7	5.5	4.6	17.8	19.9
Greenpanel Industries	20.5	16.8	12.6	10.7	4.4	3.6	23.9	23.7
Century Plyboards	33.3	27.2	21.9	17.8	6.9	5.6	23.1	22.7

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	37.6
2	Mittal Saurabh	13.0
3	HDFC Asset Management Co.	9.0
4	Blue Diamond Properties	7.2
5	Dhawan Ashish	5.7
6	DSP Investment Managers	3.1
7	IDFC Mutual Fund	2.5
8	Mittal Shiv Prakash	2.1
9	Mittal Parul	2.0
10	Bhansali Akash	1.7

Source: Bloomberg

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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

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