



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	✓	↔	✓

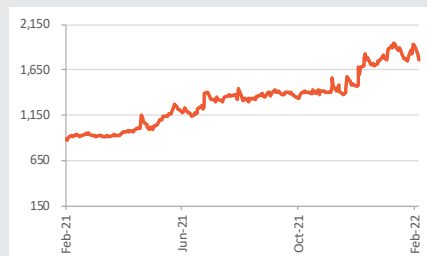
Company details

Market cap:	Rs. 4,253 cr
52-week high/low:	Rs. 2025 / 870
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	14.2
Others	30.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	26.0	30.4	99.0
Relative to Sensex	-2.9	30.3	24.2	86.4

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Plant disruptions affect Q3; Outlook positive

Building materials

Sharekhan code: GREENLAM

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 1,762

Price Target: Rs. 2,127



Downgrade

Summary

- We retain Buy on Greenlam Industries Limited (Greenlam) with an unchanged PT of Rs. 2,127, considering its strong growth outlook over FY2021-FY2024E.
- The company reported in-line revenue for Q3FY2022, while OPM lagged due to pollution-related operational disruptions caused at its NCR plant.
- The laminate demand environment remains healthy along with record high prices post Q3. It has passed on the entire raw material and international freight inflation to consumers.
- The company's Rs. 950 crore capex plan for laminate, particle board, and plywood over 2-3 years remain on track.

Greenlam Industries Limited (Greenlam) reported in-line consolidated revenue at Rs. 450 crore, up 34.4%, led by value-led growth in laminates (revenue increased by 38% y-o-y, while volume grew by 1.7% y-o-y) as its Behror plant faced seven days closure and restricted operations thereafter during Q3FY2022 (NCR pollution-related closure). Operating profit margin (OPM) at 11.9% (down 544 bps y-o-y) lagged estimates as factory disruption led to lower absorption of fixed costs and higher raw-material inventory. Overall, consolidated operating profit/net profit declined by 7.9%/15.7% y-o-y at Rs. 53.4 crore/Rs. 26.9 crore (below our estimates). Its Behror plant operates without restrictions w.e.f. February 4, 2022, while it has been able to pass on the entire rise in raw material and incremental international freights (w.e.f. January 21, 2022) in both domestic and exports markets. The company's capacity expansion plan of Rs. 950 crore over 2-3 years in laminates, particle board, and plywood remain on track.

Key positives

- Domestic laminate revenue grew by 52.5% y-o-y with volume growth of 19.2% y-o-y.
- Blended laminate realisations were up 34% y-o-y.

Key negatives

- Disruptions at its Behror plant led to lower-than-expected margins.
- Engineered wooden floors and doors continue to operate at lower capacity utilisations at 11% and 19%, respectively.

Management Commentary

- The company would be investing Rs. 950 crore over a period of 2-3 years to be financed through debt equity mix of 65:35.
- Its 3.5 mn laminate capacity at A.P. is expected to start commercial production from Q4FY2023. The 231,000cbm particle board capacity at A.P. in Q4FY2024. The 18.9 million square metre plywood capacity in Q4FY2023.
- The company as of now has passed on entire raw-material cost in domestic and international markets with domestic hike undertaken on November 1, 2021, and exports hikes taken throughout Q3.

Revision in estimates – We have increased our estimates for FY2022-FY2024, factoring higher realisations in laminates.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,127: Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in plywood and leader in particle board. The company is expected to gain market share from the 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 21x its FY2024E earnings, which we believe provides further room for upside, considering 32% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with an unchanged 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	1,764.7	2,044.3	2,312.5
OPM (%)	14.4	11.8	13.5	14.4
Adjusted PAT	86.2	106.8	154.9	199.6
% Y-o-Y growth	(0.6)	23.9	45.1	28.9
Adjusted EPS (Rs.)	35.7	44.2	64.2	82.7
P/E (x)	49.4	39.8	27.4	21.3
P/B (x)	7.3	6.3	5.2	4.3
EV/EBIDTA (x)	26.1	21.7	16.3	13.6
RoNW (%)	16.0	17.3	21.2	22.4
RoCE (%)	12.2	13.6	17.5	19.4

Source: Company; Sharekhan estimates

NCR pollution-led shutdown impacts margins

Greenlam reported in-line revenue for Q3FY2022 with consolidated revenue rising by 34% y-o-y at Rs. 450 crore, led by strong revenue growth in laminates (up 38% y-o-y at Rs. 408 crore), while veneers remained weak (down 5.5% y-o-y at Rs. 24 crore). Revenue from engineered wooden floor and doors grew by 29% y-o-y and 33% y-o-y to Rs. 11 crore and Rs. 7 crore, respectively. Performance was impacted due to disruption at the Behror plant, which was temporarily shut for a period of 5 days and thereafter operated with restrictions as per the guidelines of CAQM (Commission for Air Quality Management (CAQM) on pollution-related issues in National Capital Region. OPM at 11.9% (-544 bps y-o-y) lagged our estimate as factory disruption led to lower absorption of fixed costs and higher raw-material inventory. Overall consolidated operating profit/net profit declined by 7.9%/15.7% y-o-y at Rs. 53.4 crore/Rs. 26.9 crore (below our estimates).

Capacity expansions to provide next leg of growth

The company would be investing Rs. 950 crore over a period of 2-3 years, which would be financed through debt equity mix of 65:35. Its 3.5 million laminate capacity at A.P. is expected to start commercial production from Q4FY2023. Post which, it would be scaled up to 100% capacity utilisation over three years. The 231,000 cbm particle board capacity at A.P. is expected to start commercial production in Q4FY2024 and would be ramped up to full capacity utilisation over a four-year period. The 18.9 million square metre plywood capacity under the newly acquired HG Industries (75% stake) would start commercial production from Q4FY2023 and would be ramped up to 100% capacity utilisation over three years.

Key Conference Call Takeaways

- ♦ **Q3 performance:** The company's revenue for Q3 grew by 34% y-o-y although laminate growth was just 1.8% y-o-y on account of closure of its Behror plant for seven days and thereafter operated with restrictions as per the guidelines of CAQM on pollution-related issues in National Capital Region. It estimates Rs. 40 crore-50 crore loss of revenue for the same. In January 2022, it had eight fewer working days while from February 4, 2022, CAQM allowed the plant to run all seven days without restrictions. International logistics issues still continue.
- ♦ **Price hikes:** The company as of now has passed on the entire raw-material cost in domestic and international markets with domestic hike undertaken on November 1, 2021, and exports hikes taken throughout Q3. The company has passed on the incremental freight increase in exports to end-consumers from January 21, 2022.
- ♦ **Capacity expansion:** The company would be investing Rs. 950 crore over a period of 2-3 years to be financed through debt equity mix of 65:35. Its 3.5million laminate capacity at A.P. is expected to start commercial production from Q4FY2023. Post which, it would be scaled up to 100% capacity utilisation over 3 years. The 231,000 cbm particle board capacity at A.P. is expected to start commercial production in Q4FY2024 and would be ramped up to full capacity utilisation over a four-year period. The 18.9 million square metre plywood capacity under the newly acquired HG Industries (75% stake) would start commercial production from Q4FY2023 and would be ramped up to 100% capacity utilisation over three years. OPM for particle board and plywood is 25% and 12-13%, respectively. RoCEs would be 18-20% and 20-25%, respectively.
- ♦ **Laminate:** Revenue grew by 38% y-o-y, while volumes were up 1.7% y-o-y. Domestic revenue increased by 52.5% y-o-y with volume growth of 19.2% y-o-y. International revenue grew by 26% y-o-y and reported a volume decline of 13% y-o-y. OPM declined by 650 bps y-o-y at 13.3%. The segment operated at 99% capacity utilisation. Sales volumes stood at 3.98 million sheets and average realisation was at Rs. 984/ sheet.
- ♦ **Decorative veneer and allied products:** Decorative veneer revenue declined by 0.3% y-o-y to Rs. 24.4 crore. Volumes declined by 17.2% y-o-y to 0.3 million square metres and it operated at 29% capacity utilisation. Engineered wooden floors grew 28% y-o-y to Rs. 10.8 crore and capacity utilisation stood at 11%. Engineered wooden doors revenue grew by 33% y-o-y at Rs. 6.5 crore and operated at 19% capacity utilisation.
- ♦ **Net debt and working capital:** Net debt stood at Rs. 178.5 crore and net working capital days stood at 76 days.

Results (Consolidated)

					Rs cr
Particulars	Q3FY2022	Q3FY2021	Y-o-Y %	Q2FY2022	Q-o-Q %
Net sales	449.7	334.6	34.4%	454.2	-1.0%
Other income	2.0	1.9	6.4%	2.1	-7.2%
Total income	451.7	336.5	34.2%	456.3	-1.0%
Total expenses	396.4	276.7	43.2%	408.3	-2.9%
Operating profit	53.4	57.9	-7.9%	45.9	16.2%
Depreciation	15.3	14.0	9.4%	14.5	5.9%
Interest	4.1	3.9	4.0%	3.3	22.3%
Exceptional items	0.0	0.0		-2.6	
Profit Before Tax	36.0	41.9	-14.1%	27.7	30.0%
Taxes	9.1	9.9	-8.5%	7.0	30.1%
Minority Interest	-0.1	0.0		-0.1	
PAT	26.9	32.0	-15.7%	20.8	29.6%
Adjusted PAT	26.9	32.0	-15.7%	23.4	15.3%
EPS (Rs.)	11.2	13.2	-15.7%	9.7	15.3%
			bps		bps
OPM (%)	11.9%	17.3%	-544	10.1%	176
NPM (%)	6.0%	9.5%	-356	4.6%	142
Tax rate (%)	25.2%	23.7%	155	25.2%	2

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 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.

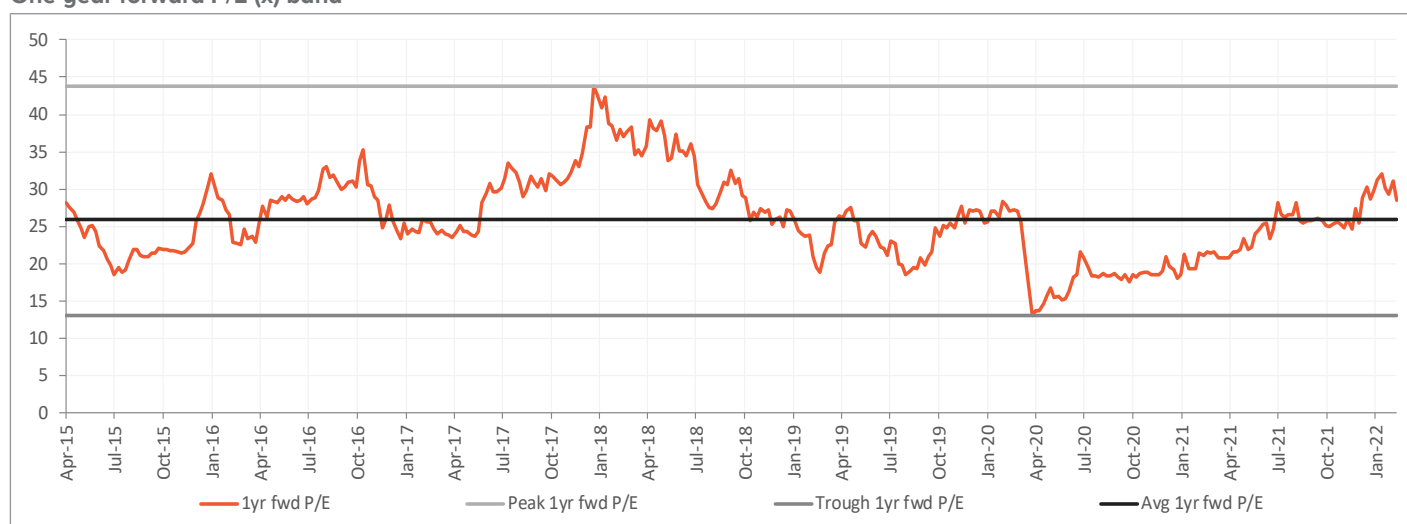
■ Company outlook – Multiple growth levers for sustainable growth

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 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 the next leg of growth.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 2,127

Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in plywood and leader in particle board. The company is expected to gain market share from the 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 21x its FY2024E earnings, which we believe provides further room for upside, considering a 32% net earnings CAGR over FY2021-FY2024E. Hence, we retain our Buy rating with an unchanged 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	27.4	21.3	16.3	13.6	5.2	4.3	21.2	22.4
Greenpanel Industries	21.9	17.1	13.4	11.5	5.2	4.1	26.5	26.8
Century Plyboards	31.9	26.9	21.1	17.6	7.0	5.6	24.4	23.1

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

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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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