



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	■	↔	■

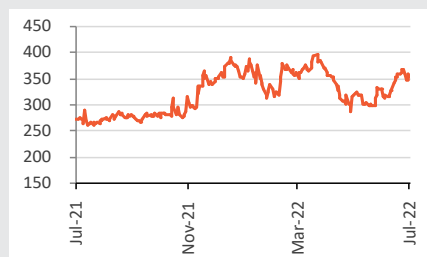
Company details

Market cap:	Rs. 4,495 cr
52-week high/low:	Rs. 416/250
NSE volume: (No of shares)	0.4 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	6.2 cr

Shareholding (%)

Promoters	51.2
FII	1.4
DII	18.5
Others	28.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.5	-0.5	-5.1	30.1
Relative to Sensex	5.2	-0.2	-3.1	22.1

Sharekhan Research, Bloomberg

Greenlam Industries Ltd
Capacity additions to drive growth

Building materials	Sharekhan code: GREENLAM		
Reco/View: Buy	↔	CMP: Rs. 354	Price Target: Rs. 420
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 420, considering its strong growth outlook over FY2022-FY2024E.
- Consolidated revenues beat estimates led by strong realization growth in laminates while OPM lagged on account of continued raw material cost pressures.
- The company targets overall revenue growth of 20-25% y-o-y for FY2023 and aims to treble revenues in three years. In laminates segment, it expects to grow its sales volumes by 12-15% y-o-y.
- The company's Rs. 1000-crore capex plans for laminates, particleboard, and plywood businesses remain on track. Gujarat based acquired unit to start contributing from H2FY2023.

Greenlam Industries Limited (Greenlam) reported higher-than-estimated consolidated revenues at Rs. 471 crore (up 40% y-o-y, up 1.6% q-o-q) led by 28% y-o-y rise in laminate average realizations while sales volume grew by 7.9% y-o-y (capacity utilization stood at 110%). However, OPM at 10.7% (down 66 bps y-o-y, flat q-o-q) was lower than our expectation affected by higher raw material costs. Veneers & allied segment reported a 52% y-o-y growth in revenues at Rs. 40 crore although continued to report operating loss, which stood at Rs. 2.5 crore. Overall, consolidated operating profit/net profit were up 32% y-o-y/42% y-o-y at Rs. 50 crore/Rs. 25 crore (although were lower than expectations). The management expects overall revenues to rise 20-25% y-o-y led by 12-15% y-o-y rise in laminate volume (Gujarat based acquired unit to contribute from H2FY2023 along with nil shutdowns expected at the Behror plant) along with an equivalent rise in realizations y-o-y. The company's Greenfield and brownfield expansion plans at a capex of Rs. 1,000 crore remain on track.

Key positives

- Domestic laminate volumes and revenues were up 41% y-o-y and 92% y-o-y.
- It undertook price hikes of 3% in domestic laminates and 5% in exports laminates which aided strong realisations growth and flattish OPM q-o-q.

Key negatives

- OPM at 10.7% lagged our expectation on account of higher raw material costs.
- Wooden doors reported revenue decline of 48% both y-o-y and q-o-q at Rs. 3.6 crore. Veneers & allied segment continued to report operating losses.

Management Commentary

- The company targets overall revenue growth of 20-25% y-o-y for FY2023 and triple its revenues over three years. In laminates, it expects to grow its sales volumes by 12-15% y-o-y.
- The company hiked prices by 3% in the domestic laminates and 5% in exports laminates during Q1FY2023. It did not undertake any price hike in other segments.
- The exports demand is robust because of challenges faced by European producers with respect to raw materials, gas costs, etc. Consequently, exports from Europe has also not been there.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2023-FY2024, factoring higher realizations and lower OPM.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 420: Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in the plywood space and the leader in the particleboard segment. Healthy demand, capacity additions and market share gains from unorganised players would 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 25.5x its FY2024E earnings, which we believe provides further room for an upside, considering a 34% net earnings CAGR over FY2022-FY2024E. Hence, we retain our Buy rating with a revised price target (PT) of Rs. 420.

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	2,083.5	2,713.9
OPM (%)	14.4	11.0	11.3	12.5
Adjusted PAT	86.2	93.3	107.0	167.8
% Y-o-Y growth	(0.6)	8.3	14.7	56.8
Adjusted EPS (Rs.)	7.1	7.7	8.9	13.9
P/E (x)	49.6	45.8	39.9	25.5
P/B (x)	7.3	6.4	5.7	4.7
EV/EBIDTA (x)	25.6	23.7	18.9	13.1
RoNW (%)	16.0	15.2	15.3	20.5
RoCE (%)	12.2	11.4	11.7	13.7

Source: Company; Sharekhan estimates

Revenues beat estimates while OPM lagged

Greenlam Industries reported a 40% y-o-y rise (up 1.6% q-o-q) in consolidated revenues at Rs. 470.6 crore which was 7% higher than our estimates. Revenues of the laminates & allied segments (91% revenue share) grew by 39% (up 1.5% q-o-q) at Rs. 430 crore driven by a 28.8% y-o-y rise (-1.5% q-o-q) in realizations while volumes grew by 7.9% y-o-y (up 3% q-o-q). Consolidated gross margins were down 86 bps y-o-y (up 16 bps q-o-q) at 45%. Consequently, OPM at 10.7% (-66 bps y-o-y, flat q-o-q) came in below our estimate of 12.1%. Consolidated operating profit grew by 31.8% y-o-y (up 1.6% q-o-q) to Rs. 50.4 crore, which was 6% lower than our estimate. Interest expense for Q1FY2023 was up 57% y-o-y (up 58% q-o-q) at Rs. 5.3 crore. Strong revenue growth helped consolidated net profit rise 42% y-o-y (-3.4% q-o-q) at Rs. 24.7 crore (12% lower than our estimate). The overall net working capital days increased by 3 days to 77 days.

Capacity expansions remain on track

The company's Rs. 1000-crore capex for expansion in laminates, plywood and particle board is on track. Its 231,000 cbm Greenfield particleboard capacity at Naidupeta, Andhra Pradesh is expected to start commercial production by Q4FY2024. Its 18.9 mn sqm greenfield plywood capacity at Tindivanam, Tamil Nadu is expected to start commercial production from Q4FY2023. Its 3.5 mn sheets Greenfield laminate capacity at Naidupeta, Andhra Pradesh is expected to start commercial production by Q4FY2023. The company would be having production from recently acquired Gujarat based laminates unit of 3.4 mn sheets majorly from H2FY2023. The said expansion is expected to drive growth going ahead.

Key Conference Call Takeaways

- ◆ **Guidance:** The company targets overall revenue growth of 20-25% y-o-y for FY2023 and triple its revenues over three years. In laminates, it expects to grow its sales volumes by 12-15% y-o-y.
- ◆ **Q1FY2023:** Domestic laminate volumes rose 41% y-o-y while exports declined by 13% y-o-y. Both contributed equally in terms of volumes for Q1FY2023. Lower exports were owing to Rs. 18-20 crore of exports inventory is stuck in transit.
- ◆ **Other segments:** Capacity utilization in Veneers, wooden floors and wooden doors for Q1FY2023 stood at 26%, 13% and 8.5-9%, respectively.
- ◆ **Price hikes:** The company undertook a price hike of 3% in domestic laminates and 5% in exports laminates during Q1FY2023. It did not undertake any price hike in other segments. Veneer segment continues to face challenges in raw materials and high competition. The company struggled in doors with respect to models, pricing, finishing etc.
- ◆ **Particle board:** Its 231,000 cbm Greenfield particle board capacity at Naidupeta, Andhra Pradesh is expected to start commercial production by Q4FY2024. The particle board business has lower asset turnover of 1:1 while has higher operating margins of 25-28%. It is largely domestic led market. There are no major organised players capacity in particle board. It is being sold as pre-laminated products. The segment expansion well aligns with its laminates business. The unit will have 17% tax rate versus company's tax rate of 25%. The RoCE of the business is expected to be 20-24%.
- ◆ **Plywood:** Its 18.9 msqm Greenfield plywood capacity at Tindivanam, Tamil Nadu is expected to start commercial production from Q4FY2023. It will be catering majorly to domestic markets. The RoCE of the business is expected to be 20-22%. The lower end of the plywood market is declining. The company will be present in mid to high range.
- ◆ **Greenfield laminate:** Its 3.5 million-sheet greenfield laminate capacity at Naidupeta, Andhra Pradesh is expected to start commercial production by Q4FY2023. New capacity will cater equally to domestic and international markets. It would have same RoCE as existing laminate business.
- ◆ **Gujarat laminates unit:** The company would be having production from recently acquired Gujarat-based laminates unit of 3.4 mn sheets starting from Q2FY2023 (to a smaller extent).
- ◆ **Imports:** Some larger laminators have imported MDF and particleboard in break bulk but it is unlikely to be sustainable.
- ◆ **Exports:** Demand is robust because of challenges faced by European producers with respect to raw materials, gas cost etc. Consequently, exports from Europe are also absent. The western and eastern Europe is the largest market worldwide for wood panel sector.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY23	Q1FY22	y-o-y %	Q4FY22	q-o-q %
Net sales	470.6	336.1	40.0%	463.4	1.6%
Other income	2.4	1.9	28.6%	1.3	82.7%
Total income	473.0	338.0	39.9%	464.7	1.8%
Total expenses	422.7	299.8	41.0%	415.2	1.8%
Operating profit	50.4	38.2	31.8%	49.6	1.6%
Depreciation	14.7	14.2	3.8%	14.5	1.5%
Interest	5.3	3.4	56.6%	3.3	58.0%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	32.7	22.5	45.5%	33.0	-0.8%
Taxes	8.2	5.2	58.2%	7.4	11.1%
Minority Interest	-0.1	-0.1		0.1	
PAT	24.7	17.4	41.6%	25.6	-3.4%
Adjusted PAT	24.7	17.4	41.6%	25.6	-3.4%
EPS (Rs.)	2.0	1.4	41.6%	2.1	-3.4%
OPM (%)	10.7%	11.4%	-66 bps	10.7%	0 bps
NPM (%)	5.2%	5.2%	6 bps	5.5%	-27 bps
Tax rate (%)	25.0%	23.0%	201 bps	22.3%	268 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Eyeing a rapid recovery

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.

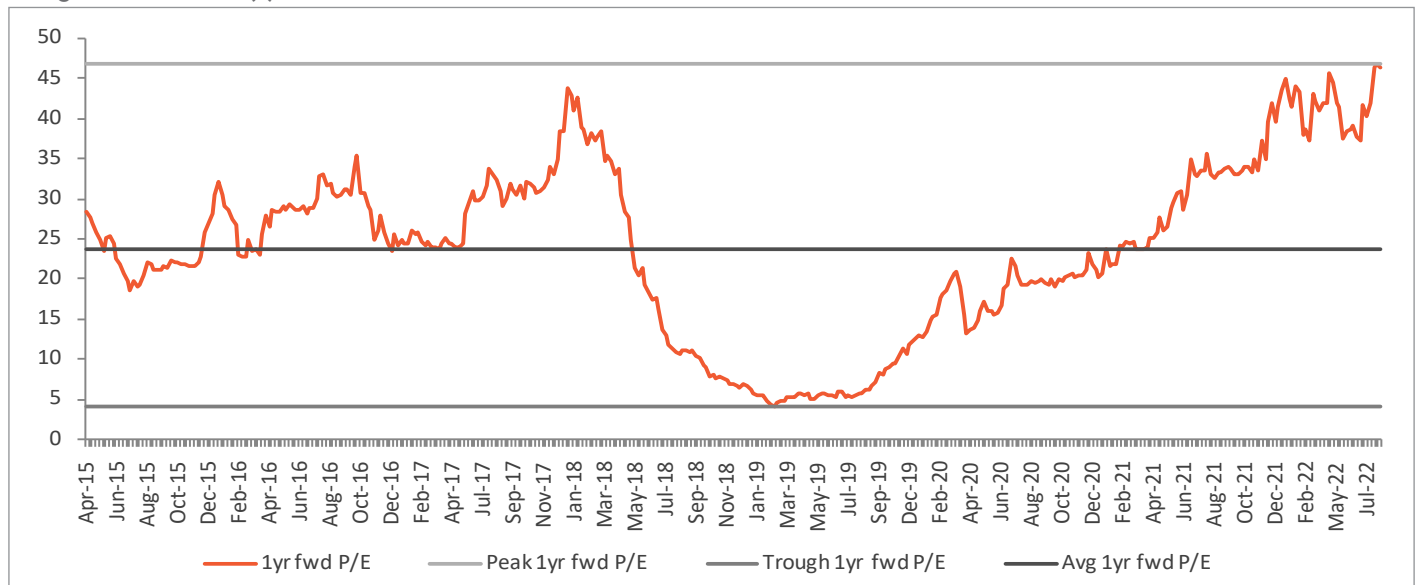
■ Company outlook - Multiple growth levers for sustainable growth

Greenlam jointly leads 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 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. 1000 crore over 2-3 years, which would provide it with the next leg of growth.

■ Valuation - Maintain Buy with a revised PT of Rs. 420

Greenlam, with its dominant industry position in laminates, is expected to be among the top three players in the plywood space and the leader in the particleboard segment. Healthy demand, capacity additions and market share gains from unorganised players would 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 25.5x its FY2024E earnings, which we believe provides further room for an upside, considering a 34% net earnings CAGR over FY2022-FY2024E. Hence, we retain our Buy rating with a revised price target (PT) of Rs. 420.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Greenlam Industries	39.9	25.5	18.9	13.1	5.7	4.7	15.3	20.5
Greenpanel Industries	16.6	13.3	10.0	8.8	4.3	3.3	29.7	28.6
Century Plyboards	32.5	28.5	21.2	18.4	6.8	5.5	23.2	21.5

Source: Company; 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

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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