



**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	■	↔	■

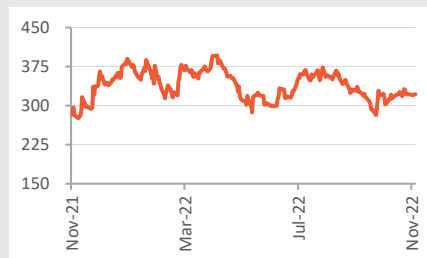
**Company details**

Market cap:	Rs. 4,091 cr
52-week high/low:	Rs. 416 / 274
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	1.5
DII	13.4
Others	34.0

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	3.0	-9.2	4.3	14.2
Relative to Sensex	-2.5	-12.2	-12.0	12.7

Sharekhan Research, Bloomberg

**Greenlam Industries Ltd**

**Healthy performance amidst challenges**

Building materials	Sharekhan code: GREENLAM		
Reco/View: Buy	↔	CMP: Rs. 322	Price Target: Rs. 420 ↔
	↑ Upgrade	↔ Maintain	↓ Downgrade

**Summary**

- We retain Buy on Greenlam Industries Limited (Greenlam) with an unchanged PT of Rs. 420, considering its strong growth outlook over FY2022-FY2025E.
- For Q2FY2023, Consolidated revenues beat estimates led by strong realization growth in laminates while OPM lagged on account of continued raw material cost pressures.
- The company reduced its net debt to Rs. 75.5 crore led by Rs. 195 crore preferential issue. The working capital gets reduced by 8 days to 69 days.
- The company's Rs. 1000-crore capex plans for laminates, particleboard, and plywood businesses remain on track.

Greenlam Industries Limited (Greenlam) reported higher-than-estimated consolidated revenues at Rs. 518 crores (up 14% y-o-y, up 10% q-o-q) led by 27% y-o-y rise in laminate average realizations while sales volume declined by 10% y-o-y (aided by strong domestic performance). The OPM at 10.4% (down 34 bps q-o-q) was lower than our expectation of 11.3% affected by elevated key raw material costs (Deco paper, Veneer & Plywood). Veneers & allied segment reported a 18% y-o-y growth in revenues at Rs. 47 crores although continued to report operating loss, which stood at Rs. 3.2 crore. Overall, consolidated operating profit/net profit were up 17% y-o-y/25% y-o-y at Rs. 54 crore/Rs. 29 crores. The domestic laminate demand is expected to remain healthy, although certain emerging export markets would continue to face weak demand due to currency fluctuations over the next 3-6 months. Completing Plywood capacity and commissioning of enhanced laminate capacity by Q4FY2023 is expected to provide 20% y-o-y growth in overall consolidated revenues for FY2024. The 2,31,000 cbm particle board capacity is expected to start commercial production by Q4FY2024.

**Key positives**

- Domestic and export laminate revenues were up 16% y-o-y and 12% y-o-y.
- It pared its net debt to Rs. 75.5 crores from Rs. 220 crores in Q1FY2023 led by Rs. 195 crore preferential issue. The net working capital days were reduced by 8 days to 69 days in Q2FY2023.

**Key negatives**

- Domestic and export volumes were down 8.5% y-o-y and 12% y-o-y. In exports, it faced currency fluctuations in specific emerging markets leading to lower volumes.
- OPM at 10.4% lagged our expectation because of higher raw material costs.

**Management Commentary**

- The demand was slow in October due to the festive season while demand was back to normal in November. The completion of Plywood capacity and commissioning of enhanced laminate capacity by Q4FY2023 would lead to a potential growth of 20% in overall consolidated revenues for FY2024.
- The 2,31,000 cbm particle board capacity is expected to start commercial production by Q4FY2024. Over 3-4 years, when it reaches full capacity utilization, it can generate EBITDA margins of 25%.
- It did not take any price hike in laminates in Q2FY2023 and is not looking at price hike in the near future. It took some price increases in Veneer and flooring business.

**Revision in estimates** – We have fine-tuned our net earnings estimates for FY2023-FY2024, factoring marginally lower volumes and OPM in laminates.

**Our Call**

**Valuation – Maintain Buy with an unchanged PT of Rs. 420:** Greenlam, with its dominant industry position in laminates, is expected to benefit from a healthy demand environment both in domestic as well as export markets. 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 the next leg of growth with manageable leverage on the balance sheet. We introduce our FY2025E earnings in this note. Greenlam is currently trading at a P/E of 25x/17x its FY2024E/FY2025E earnings, which we believe provides further room for an upside, considering a 37% net earnings CAGR over FY2022-FY2025E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 420.

**Key Risks**

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

**Valuation (Consolidated)**

Particulars	Rs cr			
	FY22	FY23E	FY24E	FY25E
Revenue	1,703.4	2,014.5	2,808.2	3,352.4
OPM (%)	11.0	10.8	11.9	12.8
Adjusted PAT	93.3	106.0	166.1	240.1
% Y-o-Y growth	8.3	13.6	56.8	44.5
Adjusted EPS (Rs.)	7.7	8.3	13.1	18.9
P/E (x)	41.7	38.6	24.6	17.0
P/B (x)	5.8	4.3	3.7	3.1
EV/EBIDTA (x)	21.7	18.6	12.2	9.4
RoNW (%)	15.2	13.3	16.4	20.1
RoCE (%)	11.4	9.9	12.1	13.7

Source: Company; Sharekhan estimates

## Broadly in-line performance

Greenlam Industries reported a 14.1% y-o-y rise (+10.1% q-o-q) in consolidated revenues at Rs. 518 crore which was 5% higher than our estimate. Laminates & Allied segment revenues (91% revenue share) grew by 13.7% y-o-y (+9.5% q-o-q) at Rs. 471 crore driven by 26.5% y-o-y rise (+5.9% q-o-q) in realisations while volumes declined by 10.1% y-o-y (+3.4% q-o-q). Consolidated gross margins were up 104bps y-o-y (-45bps q-o-q) at 44.6%. Consolidated OPM at 10.4% (+26bps y-o-y, -34bps q-o-q) came in tad below our estimate of 11.3%. Consolidated operating profit grew by 17% y-o-y (+6.6% q-o-q) to Rs. 53.7 crore which was marginally lower than our estimate. Higher other income (up 2.4x y-o-y) offset rise in interest expense (up 72% y-o-y). Healthy revenue growth along with improvement in OPM y-o-y led to consolidated adjusted net profit growth of 25% y-o-y (+18.4% q-o-q) at Rs. 29.2 crore (6% higher than our estimate). The overall net working capital days decreased by 8 days to 69 days. Its recently acquired laminate manufacturing facility at Prantij, Gujarat was operationalised in August 2022 with two press lines. Current capacity of the plant is 3.4 million sheets which will be enhanced to 5.4 million sheets by Q4FY2023. It has achieved financial closure for its capex program at Naidupeta, A.P. under HG Industries.

## Key Conference Call Takeaways

- ◆ **Outlook:** The demand was slow in October due to the festive season while demand was back to normal in November. The completion of Plywood capacity and commissioning of enhanced laminate capacity by Q4FY2023 would lead to a potential growth of 20% in overall consolidated revenues for FY2024.
- ◆ **Particle board expansion:** The 2,31,000 cbm particle board capacity is expected to start commercial production by Q4FY2024. Over 3-4 years, when it reaches full capacity utilisation, it can generate EBITDA margins of 25%. The project would have lower working capital cycle of 45 days. The particle board industry has two organized players having a total 15-20% share, and imports share is 15-20% while the balance is unorganised.
- ◆ **Q2FY2023:** The net revenues were up 14% y-o-y to Rs. 518 crore, gross margins improved 110bps y-o-y to 44.6%, OPM were up 30bps y-o-y to 10.4%. Operating profit was up 17% y-o-y to Rs. 53.7 crores. Net profit was up 25% y-o-y to Rs. 29.2 crores. The company faced currency fluctuations in certain emerging export markets leading to lower volumes. The Q2FY2023 also had stabilization losses for its Gujarat factory, which is expected in Q3FY2023 but the quantum would be minimal.
- ◆ **Price hikes:** It did not take any price hike in laminates in Q2FY2023 and is not looking at price hike in near future. It took some price increases in Veneer and flooring business.
- ◆ **Raw materials:** The prices of deco paper, craft paper, Veneer and Plywood had gone up in Q2FY2023 however chemical prices softened a bit.
- ◆ **Q2FY2023 laminates:** The laminate revenues were up 13.7% y-o-y to Rs. 471 crores. Overall laminate volumes declined by 10.2% y-o-y to 4.26 mn sheets. Domestic revenues reported value growth of 15.8% y-o-y while volumes declined by 8.5% y-o-y. Exports grew by 11.5% y-o-y on value terms while volumes declined by 12% y-o-y. Overall, laminate OPM was up 60bps y-o-y to 12.1%. It operated at 99% capacity utilisation. The laminate per sheet realisation was Rs. 1059.
- ◆ **Q2FY2023 Decorative Veneers:** The segment revenues grew by 18% y-o-y to Rs. 29.17 crores led by volume growth of 11.8% y-o-y to 0.39 mn sq mtr. Capacity utilisation was 37% with a realisation of Rs. 746.
- ◆ **Engineered woods & flooring:** Revenues grew by 47% y-o-y to Rs. 11.8 crore. Capacity utilisation was 11%.
- ◆ **Engineered doors:** It reported revenue decline of 16.6% y-o-y to Rs. 5.3 crore. Capacity utilization stood at 17%.
- ◆ **Net debt and working capital days:** Net debt stood at Rs. 75.5 crores owing to Rs. 195 crore preferential issue. Working capital days was 69 days. It would have peak debt at Rs. 800-850 crores by FY2024 end.

Results (Consolidated)

Particulars	Rs cr				
	Q2FY2023	Q2FY2022	Y-o-Y %	Q1FY2023	Q-o-Q %
<b>Net sales</b>	<b>518.0</b>	<b>454.2</b>	<b>14.1%</b>	<b>470.6</b>	<b>10.1%</b>
Other income	5.2	2.1	144.2%	2.4	115.2%
Total income	523.2	456.3	14.7%	473.0	10.6%
Total expenses	469.5	410.4	14.4%	422.7	11.1%
<b>Operating profit</b>	<b>53.7</b>	<b>45.9</b>	<b>17.0%</b>	<b>50.4</b>	<b>6.6%</b>
Depreciation	15.4	14.5	6.8%	14.7	4.7%
Interest	5.7	3.3	72.1%	5.3	8.2%
Exceptional items	0.0	-2.6	-	0.0	-
<b>Profit Before Tax</b>	<b>37.7</b>	<b>27.7</b>	<b>36.4%</b>	<b>32.7</b>	<b>15.2%</b>
Taxes	8.6	7.0	22.7%	8.2	4.6%
Minority Interest	-0.1	-0.1	-	-0.1	-
PAT	29.2	20.8	40.7%	24.7	18.4%
<b>Adjusted PAT</b>	<b>29.2</b>	<b>23.4</b>	<b>25.1%</b>	<b>24.7</b>	<b>18.4%</b>
EPS (Rs.)	2.3	1.8	25.1%	1.9	18.4%
			<b>BPS</b>		<b>BPS</b>
OPM (%)	10.4%	10.1%	26	10.7%	-34
NPM (%)	5.6%	4.6%	107	5.2%	40
Tax rate (%)	22.7%	25.2%	-253	25.0%	-230

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Eyeing a rapid recovery

The building materials industry was severely affected by COVID-19-led lockdown during Q1FY2021, which 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, easing the lockdown domestically. The sector witnessed a resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. 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.

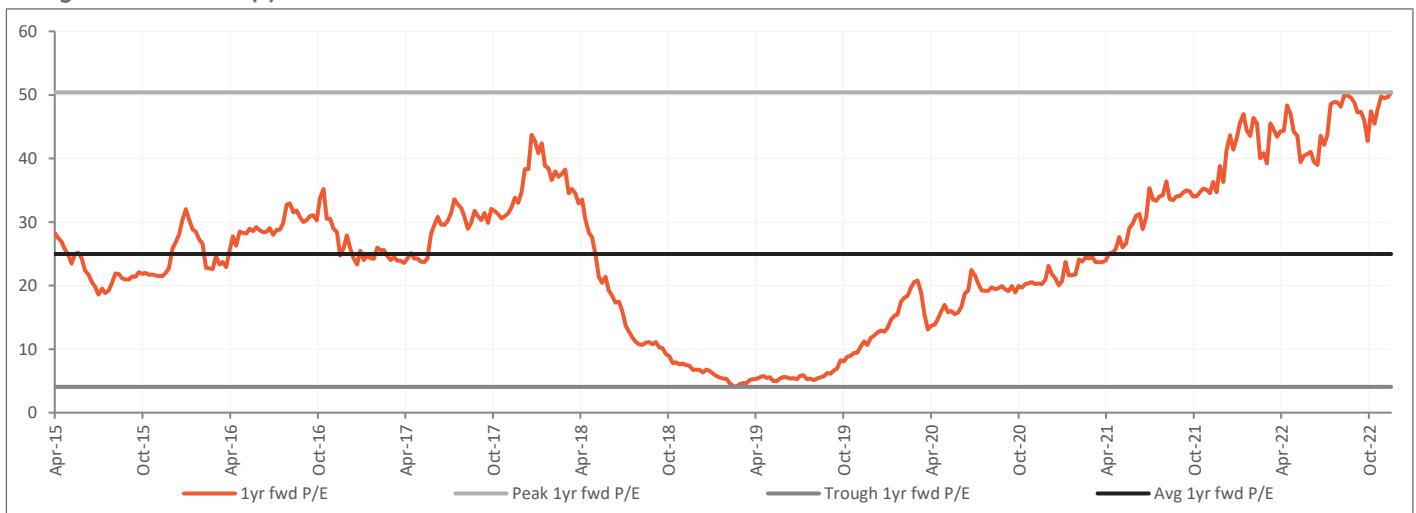
### ■ Company Outlook – Multiple growth levers for sustainable growth

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 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. Further, we expect Greenlam to grow faster, 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 laminates, particle board, and plywood capacities 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 an unchanged PT of Rs. 420

Greenlam, with its dominant industry position in laminates, is expected to benefit from a healthy demand environment both in domestic as well as export markets. Healthy demand, capacity additions and market share gains from unorganised players would drive volumes. Its expansions in laminates, plywood and particle board are expected to provide the next leg of growth with manageable leverage on the balance sheet. We introduce our FY2025E earnings in this note. Greenlam is currently trading at a P/E of 25x/17x its FY2024E/ FY2025E earnings, which we believe provides further room for an upside, considering a 37% net earnings CAGR over FY2022-FY2025E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 420.

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



Source: Company, 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	38.6	24.6	18.6	12.2	4.3	3.7	13.3	16.4
Greenpanel Industries	13.8	10.8	8.6	7.4	3.6	2.7	29.4	29.0
Century Plyboards	35.9	29.0	23.9	18.7	7.0	5.7	21.3	21.6

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: Ms. Binkle Oza; Tel: 022-61150000; 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.