



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	✓	↔	✓

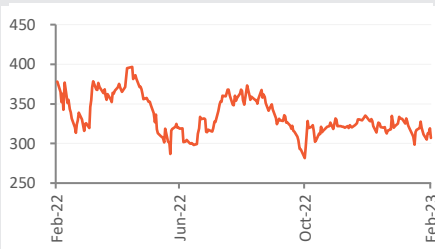
Company details

Market cap:	Rs. 3,899 cr
52-week high/low:	Rs. 416/280
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	13.1
Others	34.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.5	-4.6	-13.4	-18.8
Relative to Sensex	-7.8	-4.4	-17.7	-22.5

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

In-line Q3

Building materials

Sharekhan code: GREENLAM

Reco/View: Buy



CMP: Rs. 307

Price Target: Rs. 385



Upgrade



Maintain



Downgrade

Summary

- We retain a Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 385, factoring lowered estimates and considering its strong growth outlook over FY2023-FY2025E.
- For Q3FY2023, the company reported broadly in-line performance with a marginal miss on OPM. Consolidated revenues/operating profit/net profit were up 12%/2.7%/5.1% y-o-y respectively.
- Company targets revenue growth of 20% y-o-y and 20-25% y-o-y for FY2023 and FY2024 respectively. Net debt inches up with new project led borrowings.
- The company's Rs. 950 crore capex plans for laminates, particleboard, and plywood businesses remain on track.

Greenlam Industries Limited (Greenlam) reported broadly in-line performance barring a marginal miss on OPM for Q3FY2023. Consolidated revenues at Rs. 503.5 crores (up 12% y-o-y, down 2.8% q-o-q) led by 7% y-o-y rise in laminate volumes (led by domestic volume growth of 19% y-o-y) while the laminate division's average realization were up 5.1% y-o-y. The OPM at 10.9% (down 98 bps y-o-y) was tad lower than our expectation mainly on account of absence of price hikes in laminates. Veneers & allied segment reported a 7% y-o-y growth in revenues at Rs. 44 crores although continued to report operating loss, which stood at Rs. 1.6 crore. Overall, consolidated operating profit/net profit were up 2.7% y-o-y/5.1% y-o-y at Rs. 54.8 crore/Rs. 28.3 crore. Management targets revenue growth of 20% y-o-y and 20-25% y-o-y for FY2023 and FY2024 respectively. The company's new projects (laminate, plywood and particle board) remain on track.

Key positives

- Domestic and export laminate revenues were up 13.3% y-o-y and 11.7% y-o-y.
- Veneer average realisations rose 31% y-o-y at Rs. 1063/sq mt.

Key negatives

- Export volumes fell 6.8% y-o-y leading to overall miss on volume growth in laminates.
- OPM at 10.9% marginally lagged our expectation because of absence of price hikes and higher raw material costs y-o-y.

Management Commentary

- It expects Rs. 550 crore in revenues for Q4FY2023 and 20% y-o-y revenue growth for FY2023. OPM for Q4FY2023 is expected to remain as Q3FY2023. It expects a revenue growth of 20-25% for FY2024 while OPM guidance is difficult due to two new projects getting commissioned.
- The third line at Prantij, Gujarat is expected to be operational in Q4FY2023. The plywood project in Tamil Nadu will start by Q4FY2023. The laminate project in Andhra Pradesh is expected by Q1FY2024 while particleboard project at Andhra Pradesh is expected by Q4FY2024.
- It did not undertake price hikes in Q3 and is not expected to take up in Q4. However, some product categories can see correction.

Revision in estimates – We have lowered our net earnings estimates by 6% each for FY2024-FY2025, factoring lower OPM in laminates.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 385: Greenlam, with its dominant industry position in laminates, is expected to benefit from a healthy demand environment in domestic market although export markets are expected to improve gradually. Good domestic demand, capacity additions and market share gains from unorganised players would drive volumes over the next 2-3 years. Expansions in laminates, plywood and particle board is expected to provide the next leg of growth with manageable leverage on the balance sheet. 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 42% net earnings CAGR over FY2023E-FY2025E. Hence, we retain our Buy rating with a revised price target (PT) of Rs. 385 factoring downwardly revised estimates.

Key Risks

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

Valuation (Consolidated)

	Rs cr			
Particulars	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 12% y-o-y rise (-2.8% q-o-q) in consolidated revenues at Rs. 504 crore which was tad below our estimate. The laminates & allied segments revenues (91% revenue share) grew by 12.5% y-o-y (-2.6% q-o-q) at Rs. 459 crore driven by 6.7% y-o-y rise (+0.9% q-o-q) in realizations while laminate volumes rose by 7% y-o-y (flat q-o-q). Consolidated gross margins were up 400bps y-o-y (+376 bps q-o-q) at 48.3%. Consolidated OPM at 10.9% (-98bps y-o-y, +52bps q-o-q) came in tad below our estimate of 11.3%. Consolidated operating profit grew by 2.7% y-o-y (+2% q-o-q) to Rs. 54.8 crore which was 6% lower than our estimate. Higher other income (up 4x y-o-y) offset rise in interest expense (up 49% y-o-y). Consolidated adjusted net profit grew by 5.1% y-o-y (-3.1% q-o-q) at Rs. 28.3 crore (in-line with our estimate). Its net debt for the quarter stood at Rs. 147.5 crore, increase of Rs. 71.9 crore on q-o-q basis primarily on account of debt being drawn for new projects.

Key Conference call takeaways

- ♦ **Guidance:** It expects Rs. 550 crore in revenues for Q4FY2023 and 20% y-o-y revenue growth for FY2023. OPM for Q4FY2023 is expected to remain as Q3FY2023. It expects revenue growth of 20-25% for FY2024 while OPM guidance is difficult due to two new projects getting commissioned.
- ♦ **Expansion:** The third line at Prantij, Gujarat is expected to be operational in Q4FY2023. The plywood project in Tamil Nadu will start by Q4FY2023. The laminate project in Andhra Pradesh is expected by Q1FY2024 while particle board project at Andhra Pradesh is expected by Q4FY2024.
- ♦ **Q3FY2023 performance:** Consolidated revenues were up 12% y-o-y at Rs. 503 crore, gross margins improved 400 bps y-o-y to 48.3%, gross margins in value terms rose 22.1% y-o-y to Rs. 243 crore, OPM declined 100 bps y-o-y to 10.9%, EBITDA was up 2.7% y-o-y at 54.8 crores and net profit stood at Rs. 28.2 crores versus Rs. 26.9 crore in Q3FY2022.
- ♦ **Segment-wise Q3FY2023 performance:** laminate revenues were up 12.5% y-o-y at Rs. 459 crore with sales volumes growth of 7.1% y-o-y. Domestic laminate revenues were up 13.3% y-o-y with sales volume growth of 19.1% y-o-y. Export laminate revenues grew by 11.7% y-o-y while sales volume declined by 6.8% y-o-y. Laminate OPM declined by 90 bps y-o-y to 12.4%. The capacity utilization was 91% and average realization of Rs. 1030 per sheet. Decorative Veneer revenues were flat y-o-y with volume decline of 22% y-o-y. The capacity utilization was 26% and average realization of Rs. 1042 per sqm. Engineered wood flooring revenues were up 1.3% y-o-y at Rs. 10.9 crore with 11% capacity utilization. Engineered wooden doors reported 37% y-o-y revenue growth at Rs. 9 crore with a 21% capacity utilization.
- ♦ **Pricing scenario:** It did not take price hike in Q3 and is not expected to take up in Q4. However, some product categories can see correction.
- ♦ **Net debt:** Net debt stood at Rs. 147 crore versus Rs. 75 crore in Q2FY2023 led by borrowings for new projects.
- ♦ **Capex:** It has spent Rs. 325 crore on new projects so far out of the Rs. 950 crore total capex.

Results (Consolidated)

					Rs cr
Particulars	Q3FY2023	Q3FY2022	y-o-y%	Q2FY2023	q-o-q%
Net sales	503.5	449.7	12.0%	518.0	-2.8%
Other income	5.9	2.0	200.3%	5.2	14.1%
Total income	509.4	451.7	12.8%	523.2	-2.6%
Total expenses	454.6	398.3	14.1%	469.5	-3.2%
Operating profit	54.8	53.4	2.7%	53.7	2.0%
Depreciation	16.2	15.3	5.9%	15.4	5.1%
Interest	6.0	4.1	48.8%	5.7	5.7%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	38.5	36.0	6.9%	37.7	1.9%
Taxes	10.3	9.1	13.3%	8.6	20.1%
Minority Interest	-0.1	-0.1		-0.1	
PAT	28.3	26.9	5.1%	29.2	-3.1%
Adjusted PAT	28.3	26.9	5.1%	29.2	-3.1%
EPS (Rs.)	2.2	2.1	5.1%	2.3	-3.1%
OPM (%)	10.9%	11.9%	-98 bps	10.4%	52 bps
NPM (%)	5.6%	6.0%	-37 bps	5.6%	-2 bps
Tax rate (%)	26.7%	25.2%	150 bps	22.7%	405 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 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.

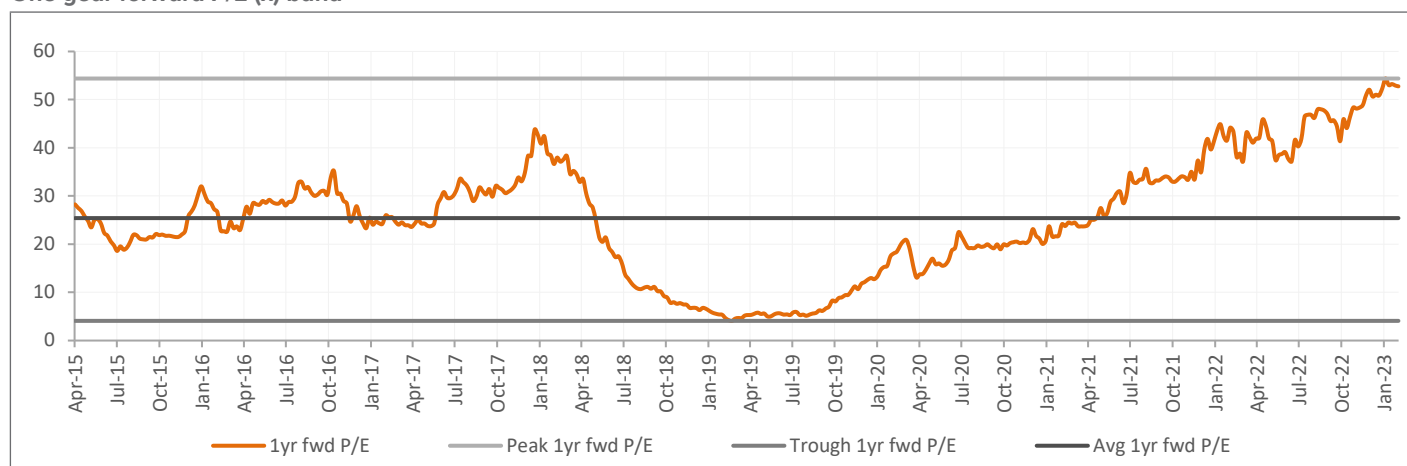
■ Company Outlook – Multiple growth levers for sustainable growth

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. 1,000 crore over 2-3 years, which would provide it with the next leg of growth.

■ Valuation – Maintain Buy with a revised PT of Rs. 385

Greenlam, with its dominant industry position in laminates, is expected to benefit from a healthy demand environment in domestic market although export markets are expected to improve gradually. Good domestic demand, capacity additions and market share gains from unorganised players would drive volumes over the next 2-3 years. Expansions in laminates, plywood and particle board is expected to provide the next leg of growth with manageable leverage on the balance sheet. 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 42% net earnings CAGR over FY2023E-FY2025E. Hence, we retain our Buy rating with a revised price target (PT) of Rs. 385 factoring downwardly revised estimates.

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	34.8	24.9	18.0	12.5	4.1	3.6	14.0	15.5
Century Plyboards	30.5	24.6	20.2	15.8	5.9	4.8	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

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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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