



**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	■	↔	■

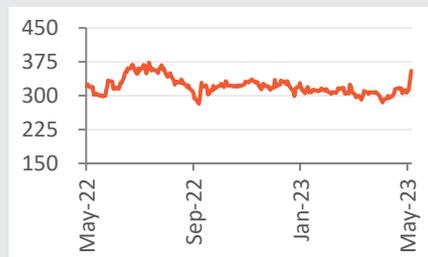
**Company details**

Market cap:	Rs. 4,504 cr
52-week high/low:	Rs. 380 / 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	15.7
Others	31.6

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	21.0	15.6	7.1	10.4
Relative to Sensex	18.6	9.8	6.9	-2.0

Sharekhan Research, Bloomberg

**Greenlam Industries Ltd**  
**Stellar performance; Retain Buy**

Building Materials	Sharekhan code: GREENLAM		
Reco/View: Buy	↔	CMP: Rs. 355	Price Target: Rs. 410 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- We retain a Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 410, factoring upwardly revised estimates and strong growth outlook over FY2023-FY2025E.
- For Q4FY2023, the company reported strong beat on consolidated net profit led by positive surprise in OPM that was aided by softening input costs and absence of Ad expenses.
- Company retained revenue growth guidance of 20-25% y-o-y for FY2024 which would be aided by a 10-12% y-o-y volume growth in laminates and revenue contribution from the Plywood venture.
- Greenfield laminate and particle board capacities are expected to start commercial operations from Q2FY2024 and Q4FY2024 respectively.

Greenlam Industries Limited (Greenlam) reported a strong beat on consolidated net profit led by positive surprise in OPMs in Q4FY2023. Consolidated revenues at Rs. 534 crore (up 15% y-o-y, up 6% q-o-q) was led by 16% y-o-y rise in laminate volumes (domestic and exports volume growth of 27% y-o-y and 5% y-o-y) while the laminate division's average realization were marginally lower y-o-y (down 0.7% y-o-y). OPM at 13.9% (up 318 bps y-o-y and 299 bps q-o-q) was much higher than our expectation of 10.9%. Higher OPMs were led by the absence of advertising expenses during the quarter which will be booked in Q1FY2024. Veneers & allied segment reported a 7% y-o-y growth in revenues at Rs. 42 crore although continued to report operating loss, which stood at Rs. 1.6 crore. Overall, consolidated operating profit/net profit were up 49% y-o-y/81% y-o-y at Rs. 74.1 crore/Rs. 46.2 crore, which were much higher than our estimates. The management retained its revenue growth guidance of 20-25% y-o-y for FY2024 which would be aided by 10-12% y-o-y volume growth in laminates and revenue contribution from the Plywood business that is expected to commence operations from June 2023. Apart from the plywood capacity addition, its greenfield laminate and particleboard capacities are expected to start commercial operations from Q2FY2024 and Q4FY2024, respectively.

**Key positives**

- OPM expanded by 318 bps y-o-y and 299 bps q-o-q to 13.9% supported by nil advertising expense.
- Working capital cycle improved by 2 days sequentially to 66 days.

**Key negatives**

- Laminate realisations fell marginally q-o-q owing to lower realisations from the Prantij, Gujarat facility.
- Veneer & allied segment continued to report operating losses in Q4FY2023.

**Management Commentary**

- The management retained its revenue growth target of 20-25% for FY2024 led by at least 10-12% y-o-y growth in laminates and upcoming capacities of the plywood segment in June 2023. It does not see uptick in laminate and Veneer prices in FY2024 but commissioning of bigger size sheets would help improve realisations.
- It has spent Rs. 450 crore on Plywood, laminate and particle board projects till now. It would incur another Rs. 500 crore in FY2024 and remaining in FY2025.
- Current net debt stands at Rs. 312 crore which by the end of FY2024 is expected at Rs. 700-750 crore.

**Revision in estimates** – We have increased our net earnings estimates for FY2024-FY2025, factoring higher OPM in laminates due to softening of raw material prices and sea freight costs.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 410:** Greenlam is on a strong growth trajectory led by healthy demand in laminates and softening of input costs. Export markets are expected to improve gradually. The capacity additions in laminates and venture into Plywood and Particle boards is expected to drive growth over the next three years. Strong cash flow generation and tight working capital management is expected to restrict leverage at manageable levels. Greenlam is currently trading at a P/E of 26x/17x its FY2024E/FY2025E earnings, which we believe provides further room for an upside, considering over 40% net earnings CAGR over FY2023-FY2025E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 410 factoring upwardly revised estimates and considering strong earnings growth outlook.

**Key Risks**

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

**Valuation (Consolidated)**

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,703.4	2,025.9	2,608.5	3,357.1
OPM (%)	11.0	11.5	12.2	13.1
Adjusted PAT	93.3	128.4	172.8	265.3
% Y-o-Y growth	8.3	37.6	34.6	53.6
Adjusted EPS (Rs.)	7.7	10.1	13.6	20.9
P/E (x)	45.9	35.1	26.1	17.0
P/B (x)	6.4	4.6	4.0	3.3
EV/EBIDTA (x)	23.8	19.1	14.0	10.1
RoNW (%)	15.2	15.8	16.5	21.3
RoCE (%)	11.4	11.5	11.4	13.9

Source: Company; Sharekhan estimates

## Stellar performance led by OPM beat

Greenlam Industries reported a 15% y-o-y rise (+6% q-o-q) in consolidated revenues at Rs. 534 crore which was 4% higher than our estimate. The laminates business witnessed overall value and volume growth of 16.0% and 16.8% respectively on y-o-y basis. Consolidated OPM surprised positively at 13.9% (up 318 bps y-o-y, up 299 bps q-o-q) as against our estimate of 10.9%. Softening in raw material, freight costs and higher revenues strongly drove up OPMs both y-o-y and q-o-q. Consequently, operating profit was up 49% y-o-y (up 35% q-o-q) at Rs. 74 crore, which was 32% higher than our estimate. Strong operational performance led to consolidated adjusted net profit growth of 81% y-o-y (up 63% q-o-q) at Rs. 46.2 crore, which was 54% higher than our estimate. Additionally, sequentially the working capital days declined by 2 days and stood at 66 days for the quarter. It commissioned the enhanced capacity of its Prantij, Gujarat plant in May and the total laminate capacity now stands at 21.02 million sheets. It expects to start the commercial production of greenfield plywood unit at Tindivanam, Tamil Nadu in June 2023. The greenfield laminate plant and particleboard plant at Naidupeta, Andhra Pradesh is expected to start production by Q2FY24 and Q4FY24 respectively.

## Key Conference Call Takeaways

- ◆ **Guidance:** The management retained its revenue growth target of 20-25% for FY2024 led by at least 10-12% y-o-y growth in laminates and upcoming capacities of Plywood in June 2023. It does not see uptick in laminate and Veneer prices in FY2024 but commissioning of bigger size sheets would help improve realisations. Domestic demand remained reasonable, while it would be adding more channel partners. Unorganised to organized demand shift continues. International demand is also reasonably good with intensity of currency fluctuations getting reduced. With Sea-freight normalizing, it would be looking at gaining market share in international markets.
- ◆ **Q4FY2023 performance:** Consolidated revenues were up 15% y-o-y at Rs. 534 crore, gross margins improved 390 bps y-o-y to 48.8%, EBITDA margins improved 320 bps y-o-y to 13.9%, EBITDA was up 49% y-o-y at 74 crore and net profit stood at Rs. 46 crore versus Rs. 26 crore in Q4FY2022. Ad and some other expense did not happen during Q4 which aided in higher margins while they would come up in Q1FY2024. However, overall margin trajectory is expected to remain higher than last year going ahead.
- ◆ **Segment-wise performance:** Laminate division's revenues were up 16% y-o-y at Rs. 492 crore with volume growth of 16.8% y-o-y. Domestic revenues and volumes were up 11% y-o-y and 26.7% y-o-y. International revenues and volumes were up 20.9% y-o-y and 5.3% y-o-y. Laminates EBITDA margins expanded by 270bps y-o-y to 15.6%. Sales volumes and average realization stood at 4.67 mn sheets and Rs. 1008/sheet respectively. Laminates operated at 96% capacity utilization. The Decorative Veneer revenues were up 6.8% y-o-y at Rs. 42 crore with volume growth of 8.4% y-o-y. It operated at 19% capacity utilization and had average realization of Rs. 859/sq mt. Engineering wood floors reported 20% y-o-y dip in revenues at Rs. 8.5 crore and operated at 8% capacity utilization. Engineered Doors reported 8% y-o-y dip in revenues at Rs. 6.4 crore and operated at 16% capacity utilization.
- ◆ **Expansion:** The capacity of Prantij, Gujarat plant has increased to 5.4 million sheets from 3.4 million sheets, increasing overall laminate capacity to 21.02 mn sheets. The plywood project in Tamil Nadu will start by June 2023. The laminate project in Andhra Pradesh is expected by Q2FY2024 while particle board project at Andhra Pradesh is expected by Q4FY2024.
- ◆ **Capex:** It has spent Rs. 450 crore on Plywood, laminate and particleboard projects till now. It would incur another Rs. 500 crore in FY2024 and remaining in FY2025.
- ◆ **Net Debt:** Current net debt stands at Rs. 312 crore which by the end of FY2024 is expected at Rs. 700-750 crore.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY2023	Q4FY2022	Y-o-Y %	Q3FY2023	Q-o-Q %
<b>Net sales</b>	<b>533.8</b>	<b>463.4</b>	<b>15.2%</b>	<b>503.5</b>	<b>6.0%</b>
Other income	4.4	1.3	235.3%	5.9	-25.3%
Total income	538.2	464.7	15.8%	509.4	5.7%
Total expenses	464.2	415.2	11.8%	454.6	2.1%
<b>Operating profit</b>	<b>74.1</b>	<b>49.6</b>	<b>49.4%</b>	<b>54.8</b>	<b>35.2%</b>
Depreciation	16.8	14.5	15.9%	16.2	3.9%
Interest	6.5	3.3	93.5%	6.0	7.1%
Exceptional items	0.0	0.0		0.0	
<b>Profit Before Tax</b>	<b>55.2</b>	<b>33.0</b>	<b>67.2%</b>	<b>38.5</b>	<b>43.5%</b>
Taxes	9.1	7.4	23.3%	10.3	-11.7%
Minority Interest	-0.1	0.1		-0.1	
PAT	46.2	25.6	80.6%	28.3	62.9%
<b>Adjusted PAT</b>	<b>46.2</b>	<b>25.6</b>	<b>80.6%</b>	<b>28.3</b>	<b>62.9%</b>
EPS (Rs.)	3.6	2.0	80.6%	2.2	62.9%
			<b>bps</b>		<b>bps</b>
OPM (%)	13.9%	10.7%	318	10.9%	299
NPM (%)	8.6%	5.5%	313	5.6%	302
Tax rate (%)	16.4%	22.3%	-584	26.7%	-1027

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 revenues 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.

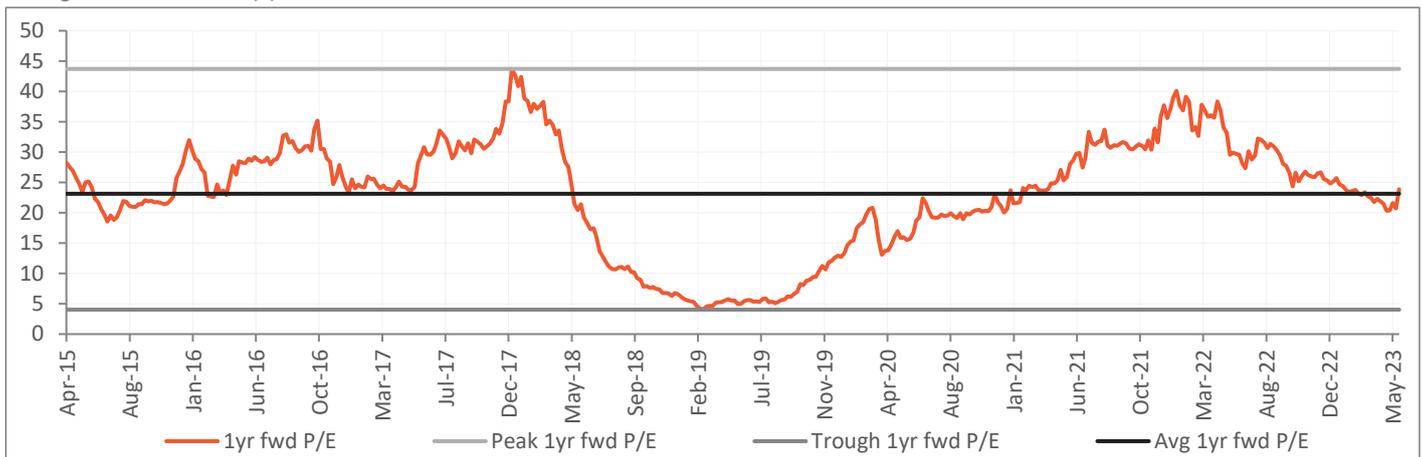
### ■ Company Outlook – Multiple growth levers for sustainable growth

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. 410

Greenlam is on a strong growth trajectory led by healthy demand in laminates and softening of input costs. Export markets are expected to improve gradually. The capacity additions in laminates and venture into Plywood and Particle boards is expected to drive growth over the next three years. Strong cash flow generation and tight working capital management is expected to restrict leverage at manageable levels. Greenlam is currently trading at a P/E of 26x/17x its FY2024E/FY2025E earnings, which we believe provides further room for an upside, considering over 40% net earnings CAGR over FY2023-FY2025E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 410 factoring upwardly revised estimates and considering strong earnings growth outlook.

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



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Greenlam Industries	26.1	17.0	14.0	10.1	4.0	3.3	16.5	21.3
Century Plyboards	29.5	24.7	19.3	16.3	5.5	4.5	20.4	20.1

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 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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