



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 | ■ | ↔ | ■ |

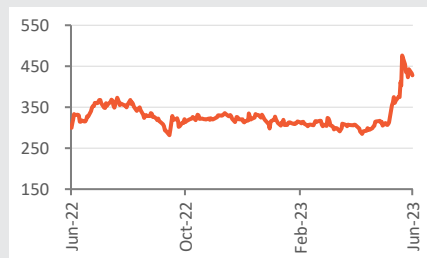
Company details

| | |
|-------------------------------|---------------|
| Market cap: | Rs. 5,432 cr |
| 52-week high/low: | Rs. 505 / 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 | 37.1 | 40.4 | 33.4 | 42.8 |
| Relative to Sensex | 34.9 | 30.5 | 30.7 | 20.1 |

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Growth to get a boost in favourable environment

| | | | |
|---------------------------|---------------------------------|---------------------|------------------------------|
| Building Materials | Sharekhan code: GREENLAM | | |
| Reco/View: Buy | ↔ | CMP: Rs. 428 | Price Target: Rs. 520 |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- We retain a Buy on Greenlam Industries Limited (Greenlam) with a revised PT of Rs. 520, rolling forward our valuation multiple to FY2025E earnings and considering its strong growth outlook over FY2023-FY2025E.
- The company is expected to benefit from sustained healthy demand environment in laminates post Q4FY2023 which would help achieve its realistic target of 10-12% y-o-y volume growth guidance for FY2024.
- Plywood units commence operations in June 2023 at an opportune time when Plywood prices recovering from H2FY2023. Plywood to add Rs. 200 crore and Rs. 400-450 crore revenues during FY2024 and FY2025.
- Management retained its consolidated revenue growth guidance of 20-25% y-o-y with OPM of 12-13%. Greenfield laminate and particle board capacities on track to start operations from Q2FY2024 and Q4FY2024.

We interacted with the management of Greenlam Industries Limited (Greenlam), which highlighted healthy demand environment in laminates post Q4FY2023 which would aid in achieving a realistic 10-12% y-o-y volume growth guidance for FY2024. India's laminate exports grew 9.6% y-o-y in April 2023 after registering a flattish y-o-y growth in Q4FY2023. Greenlam's consistent 37-38% market share in India's laminate exports in the past four years would aid a healthy growth in export revenues (50% revenue share in FY2023) going ahead. The company commenced operations at its 18.9 msm per annum Plywood unit w.e.f. June 9, 2023. The same comes at an opportune time with plywood prices recovering from trough seen in latter Q2FY2023 and early Q3FY2023 with April prices rising by 2% y-o-y (post y-o-y dip in FY2022 and FY2023). Plywood business is expected to generate Rs. 200 crore/ Rs. 400-450 crore revenues during FY2024/FY2025 while particleboard is expected to add Rs. 200-250 crore to revenues in FY2025. Overall, the management retained its revenue growth guidance of 20-25% y-o-y and 12-13% OPM for FY2024. Its greenfield laminate and particleboard capacities remain on track to start commercial operations from Q2FY2024 and Q4FY2024, respectively.

- Laminate export demand rises y-o-y in April:** India's decorative laminate exports were up 9.6% y-o-y during April 2023 post registering a flattish y-o-y growth during Q4FY2023. As per Greenlam's management, demand environment remained descent post Q4FY2023, in-line to help achieve its overall (exports + domestic) laminate volume growth guidance of 10-12% y-o-y for FY2024. The company has been able to outpace industry exports growth during two out of four trailing fiscals helping it to revive its market share to 38% in FY2023 from the trough of 33% in FY2019.
- Greenfield Ply unit commence operations at opportune time:** Greenlam commenced commercial production of its greenfield plywood unit (housed under its subsidiary HG Industries) at Tindivanam, Tamil Nadu, having installed capacity of 18.9 million square meter per annum with effect from June 9, 2023. As per management, the plywood business is expected to contribute ~Rs. 200 crore in FY2024 and Rs. 400-450 crore in FY2025. Plywood prices have seen prices recovering from the trough seen in the latter part of Q2FY2023 and early Q3FY2023 with April prices rising by 2% y-o-y (y-o-y dip during FY2022 and FY2023).
- Growth guidance retained:** The management retained its consolidated revenue growth guidance of 20-25% y-o-y and OPM of 12-13% for FY2024. The strong growth would be aided by a realistic 10-12% y-o-y volume growth in laminates and ~Rs. 200 crore contribution from newly commenced Plywood unit. The company's greenfield laminates and particleboard capacities additions remain on track to commence operations in Q2FY2024 and Q4FY2024 respectively. plywood and particleboard segments are expected to contribute ~Rs. 400-450 crore and ~Rs. 200-250 crore revenues during FY2025.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 520: Greenlam is on a strong growth trajectory led by healthy domestic and export demand in laminates. The capacity additions in laminates and incremental revenues from Plywood and Particle boards is expected to drive growth in the next three years. Strong cash flow generation and tight working capital management is expected to restrict leverage at manageable levels. The stock has appreciated 20% since our last report dated May 29, 2023 and is currently trading at a P/E of 20.5x its 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. 520 rolling forward our valuation multiple to FY2025E earnings.

Key Risks

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

Valuation (Consolidated)

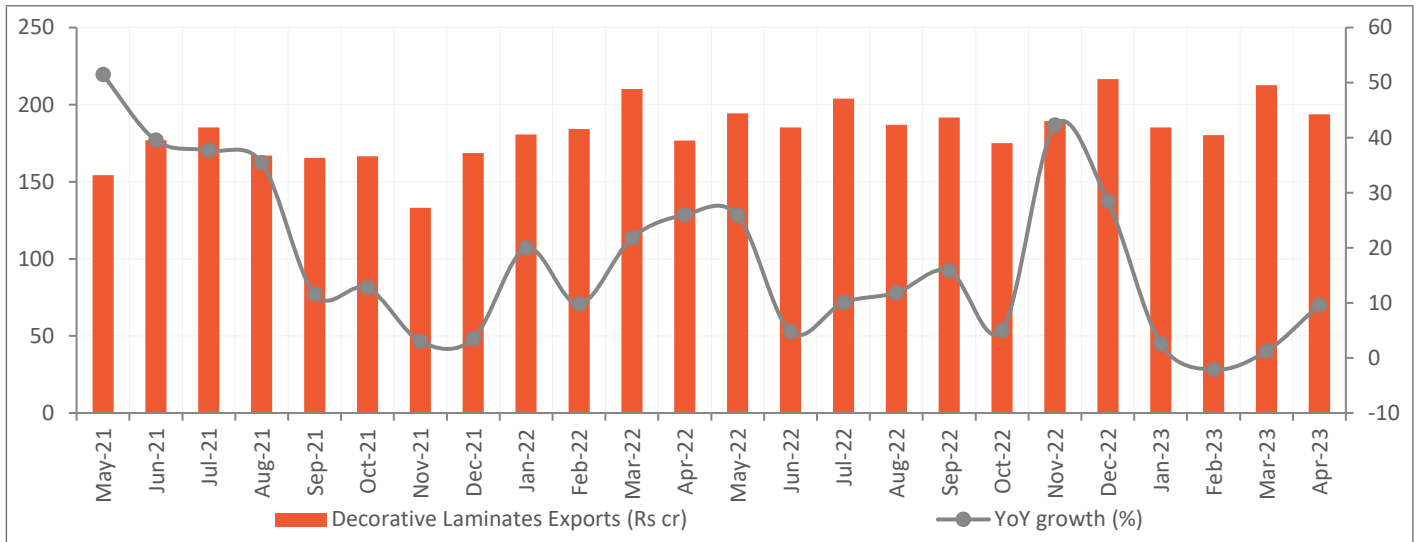
| Particulars | FY22 | FY23 | FY24E | FY25E |
|--------------------|---------|---------|---------|---------|
| Revenue | 1,703.4 | 2,025.9 | 2,608.5 | 3,357.1 |
| OPM (%) | 11.0 | 11.5 | 12.2 | 13.1 |
| Adjusted PAT | 93.3 | 128.4 | 172.8 | 265.3 |
| % Y-o-Y growth | 8.3 | 37.6 | 34.6 | 53.6 |
| Adjusted EPS (Rs.) | 7.7 | 10.1 | 13.6 | 20.9 |
| P/E (x) | 55.3 | 42.3 | 31.4 | 20.5 |
| P/B (x) | 7.7 | 5.5 | 4.8 | 3.9 |
| EV/EBIDTA (x) | 28.5 | 22.9 | 16.8 | 12.1 |
| RoNW (%) | 15.2 | 15.8 | 16.5 | 21.3 |
| RoCE (%) | 11.4 | 11.5 | 11.4 | 13.9 |

Source: Company; Sharekhan estimates

Laminate exports demand improve y-o-y in April

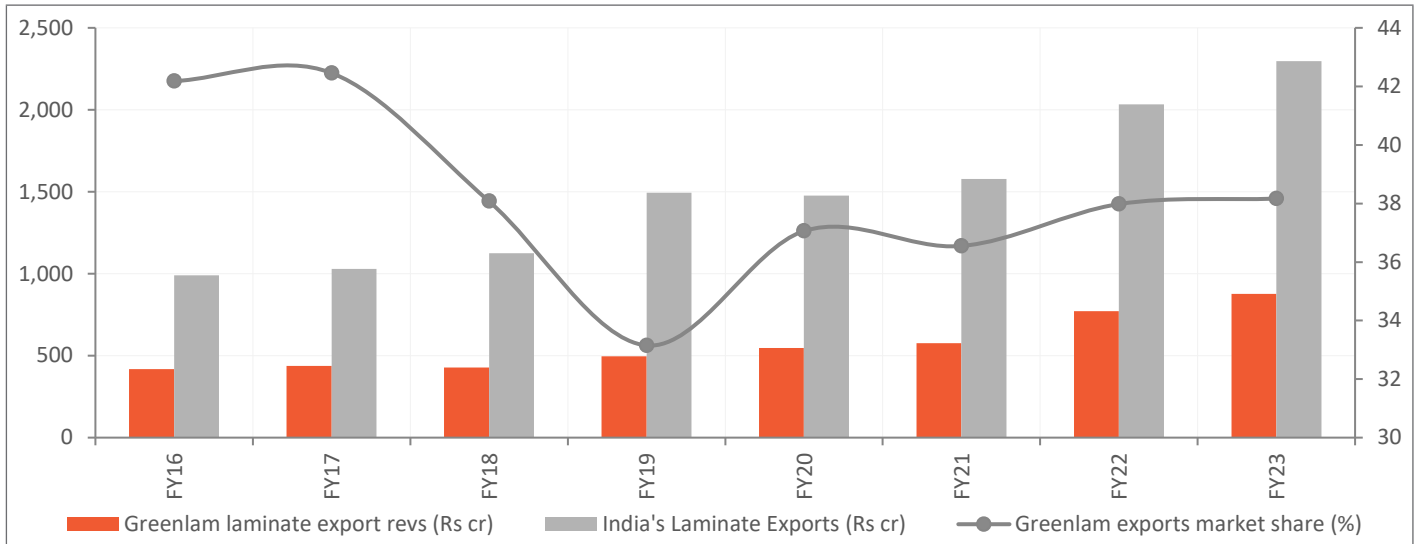
India's decorative laminate exports were up 9.6% y-o-y during April 2023 post registering a flattish y-o-y growth during Q4FY2023. The management stated that the demand environment remained descent post Q4FY2023, in-line to help achieve its overall (exports + domestic) laminate volume growth guidance of 10-12% y-o-y for FY2024. The company has been able to outpace industry exports growth during two out of four past fiscal years helping it to revive its market share to 38% in FY2023 from the trough of 33% in FY2019.

India's decorative laminates export trend



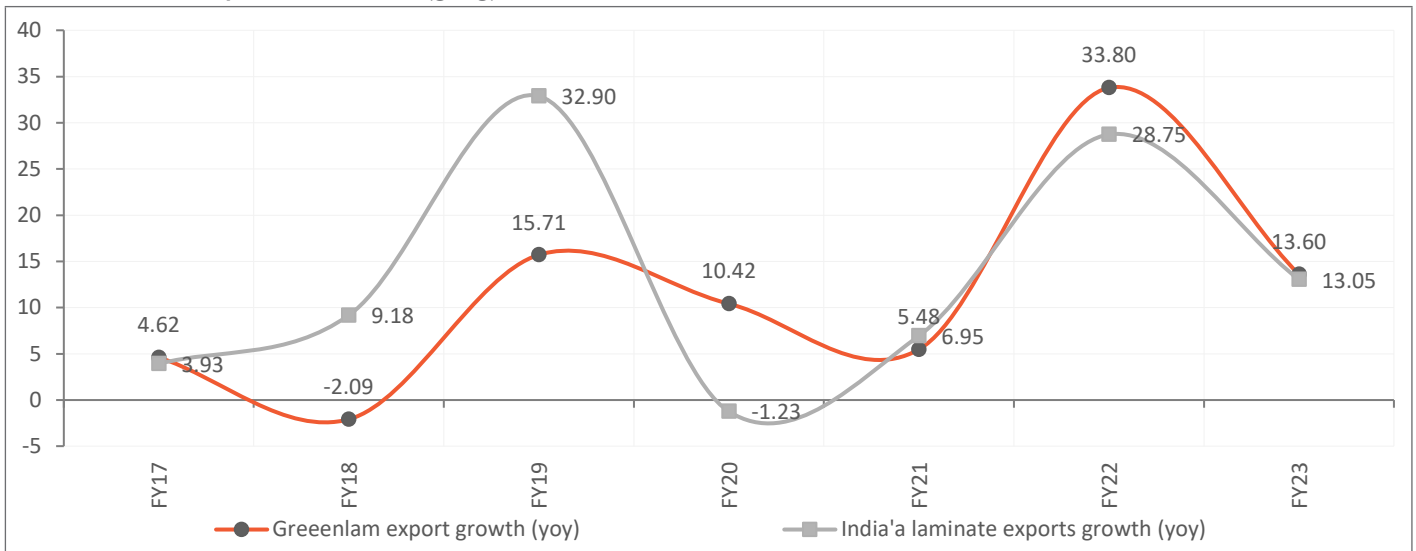
Source: Industry; Sharekhan Research

Greenlam export market share trend



Source: Industry; Sharekhan Research

Greenlam Vs Ind. Export Growth trend (y-o-y)

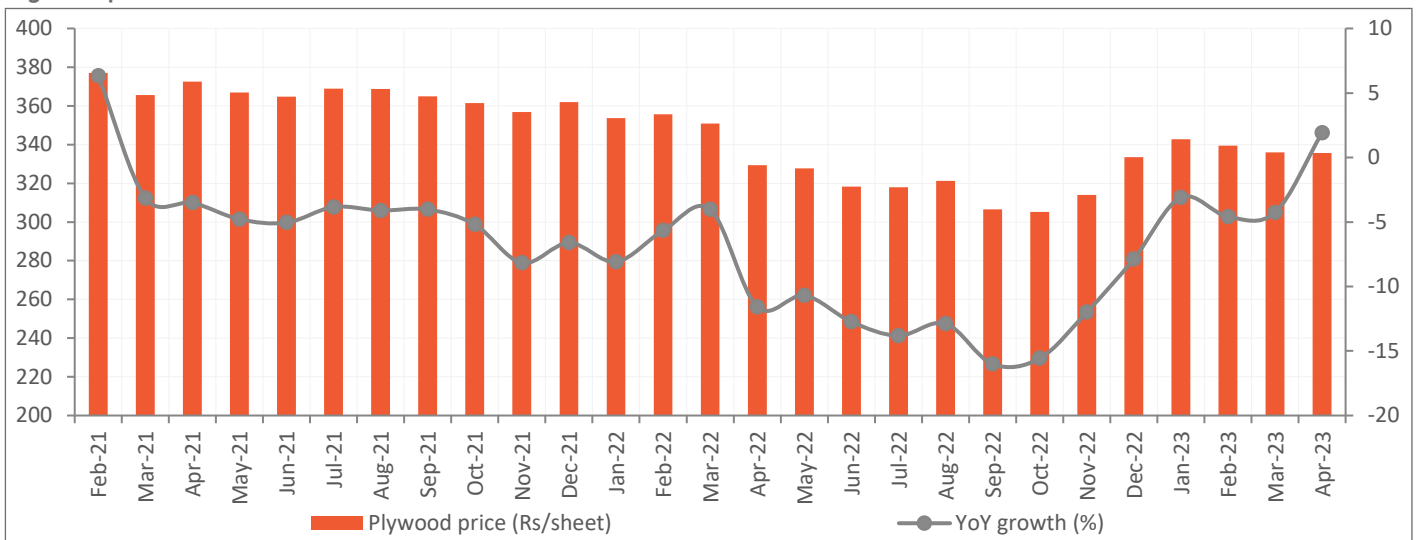


Source: Industry; Sharekhan Research

Plywood unit commences operations

Greenlam commenced commercial production of its greenfield plywood unit (housed under its subsidiary HG Industries) at Tindivanam, Tamil Nadu with an installed capacity of 18.9 million square meter per annum with effect from June 9, 2023. The plywood product will be marketed under the brand name MikasaPly. The company has incurred a total capex of Rs. 130 crores while it is estimated to generate revenue of Rs. 400 crore per annum on full capacity utilization. As per management, the Plywood business to contribute Rs. 200 crore in FY2024 and Rs. 400-450 crore in FY2025. Plywood prices have seen prices recovering from the trough seen in the latter part of Q2FY2023 and early Q3FY2023. Plywood prices were up 2% y-o-y in April 2023 after being lower y-o-y during FY2022 and FY2023. Greenlam's plywood capacity has come up at an opportune time when Plywood prices and may see upward trend from hereon.

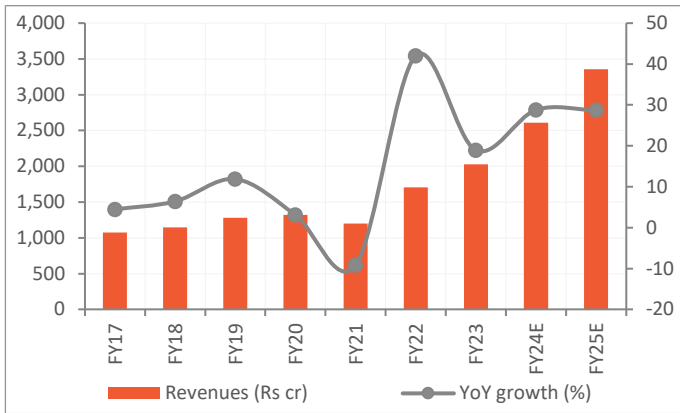
Plywood price trend



Source: Industry; Sharekhan Research

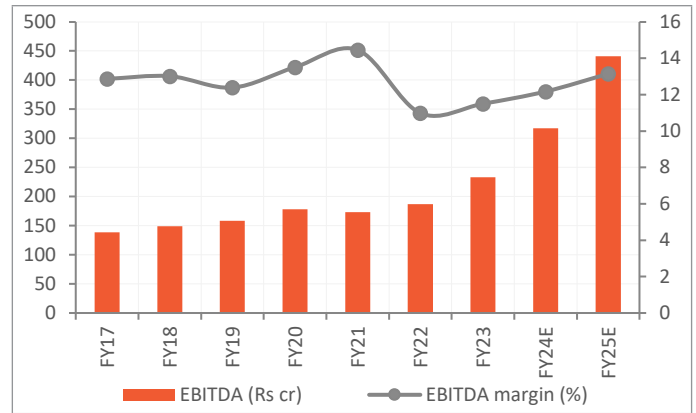
Financials in charts

Revenue trend



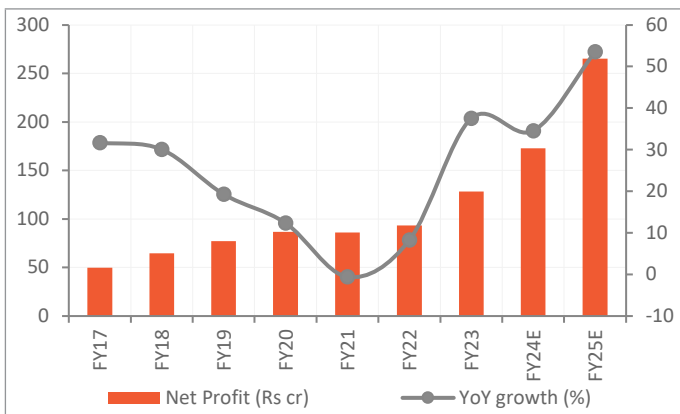
Source: Company, Sharekhan Research

EBITDA trend



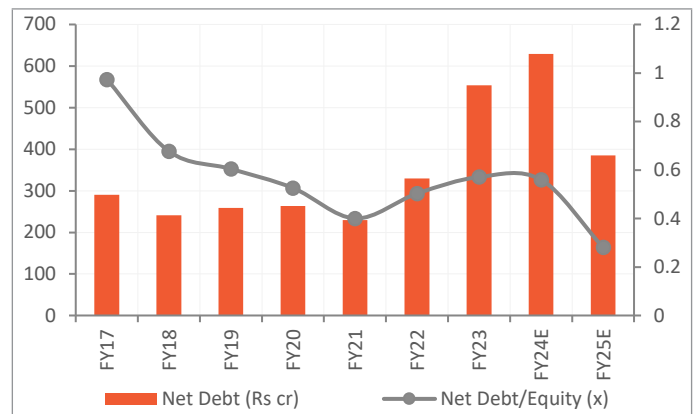
Source: Company, Sharekhan Research

Net Profit trend



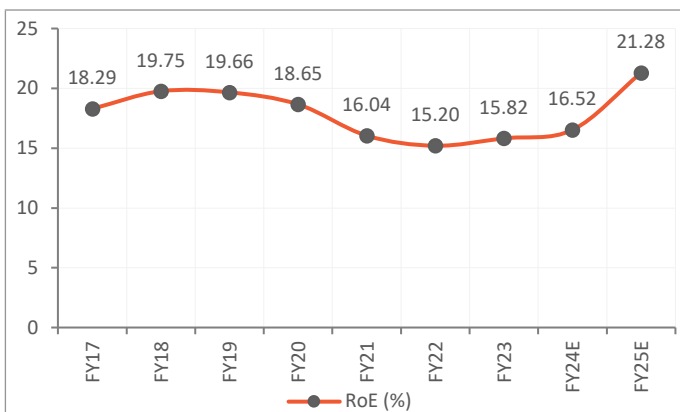
Source: Company, Sharekhan Research

Net Debt trend



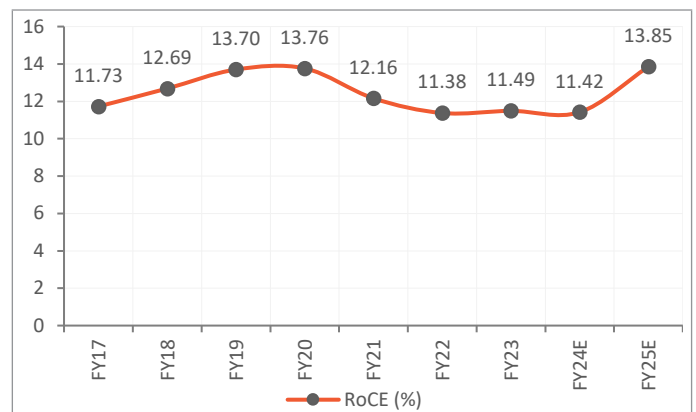
Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

ROCE trend



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.

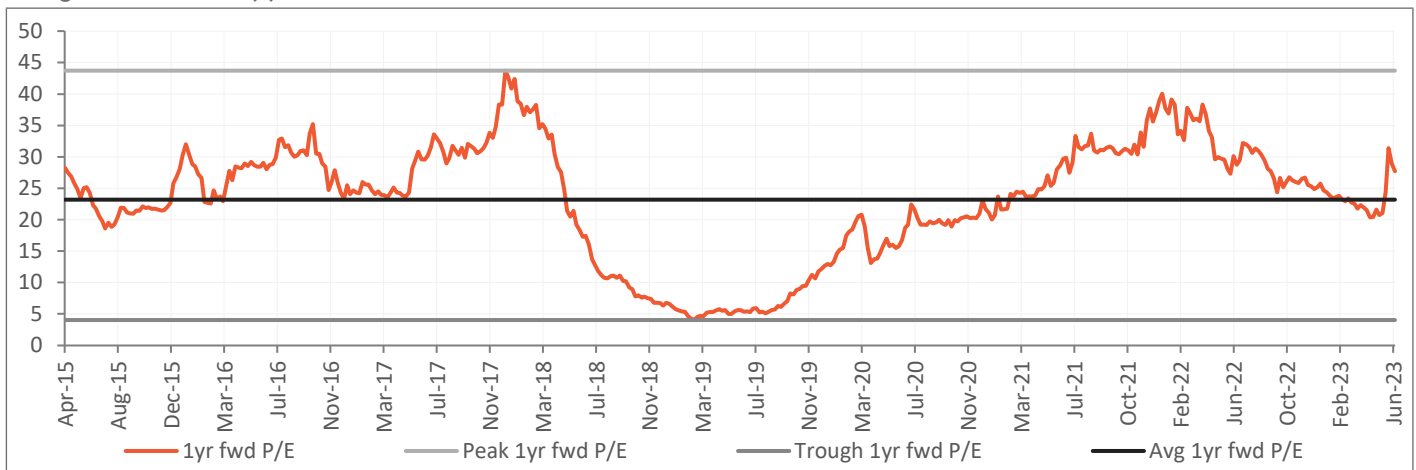
■ Company Outlook – Multiple growth levers for sustainable growth

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, particleboard 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. 520

Greenlam is on a strong growth trajectory led by healthy domestic and export demand in laminates. The capacity additions in laminates and incremental revenues from Plywood and Particle boards is expected to drive growth in the next three years. Strong cash flow generation and tight working capital management is expected to restrict leverage at manageable levels. The stock has appreciated 20% since our last report dated May 29, 2023 and is currently trading at a P/E of 20.5x its 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. 520 rolling forward our valuation multiple to FY2025E earnings.

One-year forward P/E (x) band



Source: Company, 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 | 31.4 | 20.5 | 16.8 | 12.1 | 4.8 | 3.9 | 16.5 | 21.3 |
| Century Plyboards | 32.5 | 27.2 | 21.3 | 17.9 | 6.0 | 5.0 | 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 Ltd | 37.95 |
| 2 | Mittal Saurabh | 9.17 |
| 3 | HDFC Asset Management Co Ltd | 8.33 |
| 4 | Blue Diamond Properties Pvt Ltd | 6.87 |
| 5 | Hydra Trading Pvt Ltd | 5.09 |
| 6 | Smiti Holdings & Trading Co Pvt Lt | 4.97 |
| 7 | Dhawan Ashish | 3.79 |
| 8 | DSP Investment Managers Pvt Ltd | 2.17 |
| 9 | Mittal Shiv Prakash | 1.99 |
| 10 | Mittal Parul | 1.89 |

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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