Greenlam Industries

Gross margin improves further to a multi-quarter high

We maintain our REDUCE rating on Greenlam Industries, with a revised target price of INR 425/share (16/33x its Mar'25E consolidated EBITDA/APAT) owing to expensive valuation and overhang to ramp-up plants in new segments. In Q1FY24, it reported strong 10/28/33% YoY growth in consolidated revenue/EBITDA/APAT respectively. Higher value-added sales led to improvement in laminate NSR by 8% QoQ; gross margin expanded by 730/350bps YoY/QoQ (consol level) to 52.3% (multi-quarter high). Employee/ other expenses rose by 32/23% YoY due to the ramp of Prantij and entry in the ply segment. Thus, laminates unitary EBITDA rose 24/2% YoY/QoQ to INR 168 per sheet. Consolidated EBITDA margin improved by 180bps YoY to 12.5% (down 140 bps QoQ).

- **Q1FY24 performance:** Greenlam's revenue grew 10% YoY, driven by both volume and realisation (higher value-added sales) gains. Laminates' volume rose 6% YoY on a strong 18% rise in the domestic market, while exports volume fell 8% YoY (the cyclone impacted exports from the port). Realisation rose 4/8% YoY/QoQ on improvement in sales mix. Gross margin expanded by 720bps (partially offset by higher fixed expenses), thus driving up EBITDA by 28% YoY. Employee/other expenses rose by 32/23% YoY due to the ramp of Prantij and entry in the ply segment. As Greenlam's 18.9mn SQM plywood capacity got commissioned on 9 June 2023, this segment just recorded INR 8 mn revenue and incurred a 40mn loss at the EBITDA level. Consolidated EBITDA margin improved 180bps YoY to 12.5% (down 140 bps QoQ).
- **Expansion update**: Greenlam upgraded Prantij (Gujarat) capacity by 2mn sheets in mid-May-23 to 5.4mn sheets, leading to an overall capacity of 21mn sheets. The greenfield laminates plant in Andhra Pradesh is expected to commence commercial production in Q2FY24 (3.5mn sheets - INR 2.25bn Capex) and the greenfield particleboard capacity in AP is expected to commence by Q4FY24 (231K CBM - INR 6bn Capex). It targets 50% CU in FY25 for particleboard. It expects to achieve EBITDA breakeven in the first year for particleboard operations, and PBT profit from the second year.
- **Outlook:** We expect it will take at least three years to fully ramp up its ply and particleboard segments. We estimate the upcoming laminate expansions and entry in new segments will drive a healthy 25% revenue CAGR FY23-25E (laminates division 18% CAGR). However, huge Capex should keep net debt to EBITDA elevated at ~2-3x during FY23-25E. So, owing to its expensive valuation and overhang to ramp up plants in new segments, we maintain our REDUCE rating with TP INR 425/sh.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY24	Q1 FY23	*YoY (%)*	Q4 FY23	*QoQ (%)*	FY21	FY22	FY23	FY24E	FY24E
Net Sales	5,152	4,706	*9.5*	5,338	*(3.5)*	11,996	17,034	20,260	25,252	31,441
EBITDA	644	504	*27.8*	741	*(13.1)*	1,733	1,870	2,329	3,143	3,850
EBITDAM (%)	*12.5*	*10.7*		*13.9*		*14.4*	*11.0*	*11.5*	*12.4*	*12.2*
APAT	316	244	*33.3*	460	*(28.7)*	862	933	1,284	1,616	1,612
AEPS (INR)	2.6	2.0	*26.7*	3.6	*(28.7)*	7.1	7.7	10.1	12.7	12.7
EV/EBITDA (x)						35.9	33.5	26.9	21.0	17.7
P/E (x)						70.2	64.8	47.1	37.4	37.5
RoE (%)						*16.0*	15.2	15.8	*15.5*	*13.6*

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2023)*	**INR 479**
Target Price	**INR 425**
NIFTY	**19,646**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 395	INR 425
EBITDA revision %	FY24E *10.9*	FY25E *6.7*

KEY STOCK DATA	
Bloomberg code	GRLM IN
No. of Shares (mn)	127
MCap (INR bn) / ($ mn)	61/743
6m avg traded value (INR mn)	36
52 Week high / low	INR 519/282

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	65.0	55.1	35.8
Relative (%)	56.7	43.6	19.4

SHAREHOLDING PATTERN (%)	**Mar-23**	**Jun-23**
Promoters	51.22	51.22
FIs & Local MFs	15.70	15.61
FPIs	1.44	1.46
Public & Others	31.64	31.72
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Disclosure:
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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com