



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. 7,482 cr
52-week high/low:	Rs. 662/355
NSE volume: (No of shares)	0.4 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	51.0
FII	1.4
DII	15.6
Others	32.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.4	9.1	2.4	65.4
Relative to Sensex	-6.2	6.3	-8.9	46.8

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Good Q4 in sluggish times; Retain Buy

Building materials

Sharekhan code: GREENLAM

Reco/View: Buy

CMP: Rs. 587

Price Target: Rs. 670



Upgrade



Maintain



Downgrade

Summary

- We retain a Buy on Greenlam Industries Limited with a revised PT of Rs. 670, assigning a higher valuation multiple considering its strong earnings growth trajectory over FY2024-FY2026E.
- For Q4FY2024, the company reported marginally higher consolidated revenues with higher than expected OPMs. Net earnings beat was further aided by lower other income and tax outgo.
- Company retained 20% consolidated revenue growth guidance for FY2025 while OPMs may remain flat to marginally higher.
- Particleboard unit is delayed by a quarter to Q3FY2025 with rated capacity rising to 886 cbm per day. However, capital outlay too sees upward revision by Rs. 100 crore to Rs. 875 crore.

Consolidated revenues were marginally higher at Rs. 624 crore (up 16.9% y-o-y). Laminate division reported 9.2% y-o-y rise in revenues at Rs. 537 crore led by 12% y-o-y volume growth. Consolidated OPM stood at 13.4% (down 49 bps y-o-y) came in higher than our estimate of 12.8% led by 100 bps y-o-y expansion in laminate OPMs to 16.6%. Consolidated net profit stood at Rs. 41 crore (down 11.2% y-o-y) beat estimates on account of higher OPMs, higher other income and lower than expected effective tax rate. The management retained a 20% y-o-y revenue growth guidance for FY2025 with double digit volume growth guidance for laminates. Consolidated OPMs may stay flat at 12.8% or rise in FY2025. The particle board project is expected to commission by Q3FY2025 versus earlier guidance of Q2FY2025 with rated capacity getting upgraded to 886 cbm per day from 700 cbm per day earlier. However, capital outlay from the project has seen upward revision to Rs. 875 crore from Rs. 775 crore due to cost overruns.

Key positives

- Laminate volumes rose 12% y-o-y and reported over 100 bps y-o-y expansion in OPMs.
- Working capital cycle improved by 12 days q-o-q to 60 days. Net earnings came much higher than estimate.

Key negatives

- Particleboard project commissioning delayed by a quarter to Q3FY2025 with increased capital outlay.
- Challenges on demand front remain for the near term.

Management Commentary

- Management retained a 20% y-o-y revenue growth guidance for FY2025. Gross margins are expected to be in the same range for laminates and Veneers. OPMs for laminates stood at ~16% should hold while overall consolidated OPMs would be stable at 12.8% for FY2025.
- Capex for FY2025 is estimated at Rs. 250-275 crore related to particle board project and additional Rs. 50 crore maintenance related capex. It expects net debt to peak out in FY2025 at Rs. 925-950 crore as against current net debt of Rs. 834 crore.
- It expects capacity utilization of 50% and 70-75% for the upcoming particleboard unit in the second and third year of operations. It expects to achieve 20-24% of OPMs in the fourth year of operations.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2026 factoring delay in particle board capacity commissioning and lower realisations in laminates & veneer.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 670: 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. Capacity additions in laminates and contribution from Plywood and Particle boards divisions is expected to drive growth over the next three years. Strong cash flow generation and tight working capital management is expected to keep leverage at manageable levels. Stock trades at a P/E of 45x/32x its FY2025E/FY2026E earnings, which we believe provides further room for an upside, considering its 31% net earnings CAGR over FY2024-FY2026E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 670, assigning a higher valuation multiple led by its strong earnings growth trajectory.

Key Risks

Weak macroeconomic environment dragging industry growth trends.

Valuation (Consolidated)

	Rs cr			
Particulars	FY23	FY24	FY25E	FY26E
Revenue	2,025.9	2,306.3	2,803.4	3,447.3
OPM (%)	11.5	12.8	12.8	13.5
Adjusted PAT	128.4	138.4	166.0	237.4
% Y-o-Y growth	37.6	7.8	20.0	43.0
Adjusted EPS (Rs.)	10.1	10.8	13.0	18.6
P/E (x)	58.0	54.1	45.1	31.5
P/B (x)	7.6	6.9	6.1	5.2
EV/EBIDTA (x)	31.1	24.6	20.2	15.6
RoNW (%)	15.8	13.5	14.5	18.0
RoCE (%)	11.5	9.4	9.4	11.8

Source: Company; Sharekhan estimates

Higher OPMs, other income and lower tax outgo leads to PAT beat

Greenlam Industries reported a 16.9% y-o-y rise (up 10.8% q-o-q) in consolidated revenues at Rs. 624 crore which was 2% higher than our estimate. Laminate revenues were up 9.2% y-o-y led by 12% y-o-y volume growth. Consolidated operating profit margins came in higher than estimates at 13.4% (down 49 bps y-o-y, up 76 bps q-o-q) as against our estimate of 12.8%. Laminates reported over 100 bps y-o-y rise in OPMs. Overall, consolidated operating profit was up 12.8% y-o-y (up 17.4% q-o-q) at Rs. 83.5 crore, which was 6% higher than our estimate. Higher depreciation (up 53% y-o-y), interest expense (up 107% y-o-y) and higher effective tax rate (23.2% vs 16.4% in Q4FY2023) led to consolidated adjusted net profit decline of 11.2% y-o-y (up 62% q-o-q) at Rs. 41 crore, which was 22% higher than our estimates. A rise in OPMs, higher other income and lower than expected tax rate led to strong beat on net earnings.

Key Conference Call Takeaways

- ♦ **Guidance:** The management retained a 20% y-o-y revenue growth guidance for FY2025. Gross margins are expected to be in the same range for laminates and veneers. OPMs for laminates around 16% should hold while overall consolidated OPMs to remain stable at 12.8% for FY2025. It expects net debt to peak out during FY2025 at Rs. 925-950 crore as against current net debt of Rs. 834 crore.
- ♦ **Particleboard project:** The commercial operation of the project is expected by Q3FY2025 from earlier guidance of Q2FY2025. It has seen a rise in capital outlay while rated capacity has also been upgraded to 886 cbm per day from earlier 700 cbm per day. It expects capacity utilisation of 50% and 70-75% for the unit in second and third year of operations. It expects to achieve 20-24% OPMs in the fourth year of operations.
- ♦ **Raw materials:** Timber cost is rising, which affects Plywood. For laminates & Veneer, raw materials have been stable. Laminates uses Decorative paper (imported), chemicals (half imported) and craft paper (mostly domestically sourced).
- ♦ **Price hike:** It has not planned any price hike for laminates and Veneers but it is expected for Plywood.
- ♦ **Capex:** Capex for FY2025 is estimated at Rs. 250-275 crore related to particleboard project and additional Rs. 50 crore maintenance related capex.
- ♦ **Brownfield expansion:** Company has adequate space for brownfield expansions where it can put up 6-8 lines on both the locations. For sheets, one line can have a 2-million sheet capacity. One line would require Rs. 40-50 crore capex which may increase on additions of incremental 1-2 lines.
- ♦ **Q4FY24 performance:** Consolidated revenues rose by 16.9% y-o-y to Rs. 624 crore, gross margins were up 420 bps y-o-y to 53%, gross profit was up 27% y-o-y to Rs. 331 crore, EBITDA margins were lower 50 bps y-o-y at 13.4%, EBITDA was up 12.8% y-o-y at Rs. 83.5 crore while net profit stood at Rs. 41 crore as against Rs. 46.2 crore in Q4FY2023. Gross margins in laminates declined q-o-q as it had received Time of Delivery (TOD) payments in Q3FY2024. Working capital days improved by 12 days q-o-q to 60 days. Net debt stood at Rs. 834 crore as against Rs. 847 crore in Q3FY2024.
- ♦ **Laminate segment performance:** Laminate revenues were up 9.2% y-o-y at Rs. 537 crore led by 11.9% y-o-y growth in sales volumes for Q4FY2024. OPM improved 100 bps y-o-y to 16.6%. The division operated at 85% capacity utilization. Laminate realization stood at Rs. 984 per sheet.
- ♦ **Decorative veneer & allied segments:** Decorative veneer revenues were up 35% y-o-y at Rs. 33.6 crore led by 37% y-o-y growth in volumes for Q4FY2024. It operated at a 40% capacity utilization. Engineered floors reported 68% y-o-y growth in revenues at Rs. 14.3 crore and operated at a 14% capacity utilization. Engineered doors reported 55% y-o-y growth in revenues at Rs. 10 crore and operated at an 18% capacity utilization.
- ♦ **Plywood segment performance:** Plywood revenues stood at Rs. 26 crore, volumes at 1.04 million square meter with an average realisation of Rs. 251 per square meter. It has added Maharashtra from April 2024 while it was catering to five southern states.

Results (Consolidated)

Rs cr

Particulars	Q4FY2024	Q4FY2023	Y-o-Y %	Q3FY2024	Q-o-Q %
Net sales	624.1	533.8	16.9%	563.4	10.8%
Other income	8.7	4.4	97.6%	3.1	182.1%
Total income	632.8	538.2	17.6%	566.5	11.7%
Total expenses	549.3	464.2	18.3%	495.3	10.9%
Operating profit	83.5	74.1	12.8%	71.1	17.4%
Depreciation	25.8	16.8	52.9%	24.5	5.2%
Interest	13.4	6.5	107.0%	14.3	-6.6%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	53.1	55.2	-3.7%	35.4	50.0%
Taxes	12.4	9.1	36.2%	10.2	21.3%
Minority Interest	-0.2	-0.1		0.0	
PAT	41.0	46.2	-11.2%	25.3	62.0%
Adjusted PAT	41.0	46.2	-11.2%	25.3	62.0%
EPS (Rs.)	3.2	3.6	-11.2%	2.0	62.0%
OPM (%)	13.4%	13.9%	-49 bps	12.6%	76 bps
NPM (%)	6.6%	8.6%	-208 bps	4.5%	207 bps
Tax rate (%)	23.2%	16.4%	681 bps	28.7%	-549 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 hit OPMs, dragging down net earnings. However, from June, the sector has been one of the fastest to recover, easing the lockdown domestically. The sector saw 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.

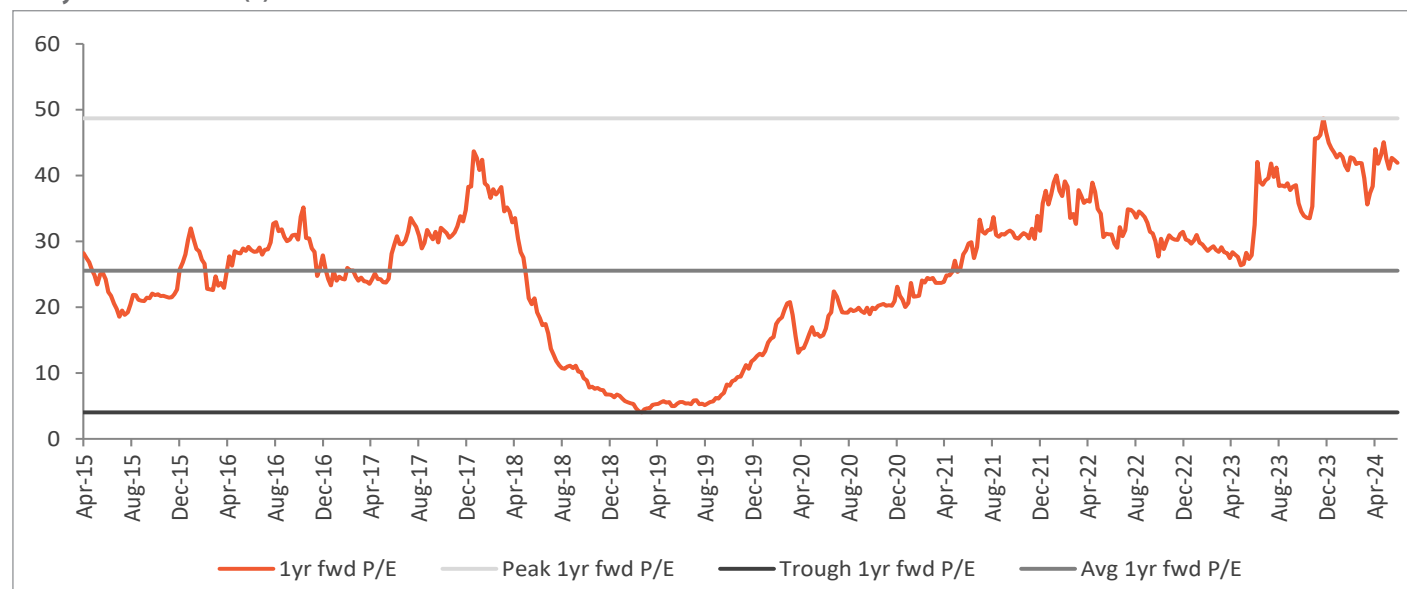
■ Company outlook - Multiple growth levers for sustainable growth

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. 670

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. Capacity additions in laminates and contribution from Plywood and Particle boards divisions is expected to drive growth over the next three years. Strong cash flow generation and tight working capital management is expected to keep leverage at manageable levels. Stock trades at a P/E of 45x/32x its FY2025E/FY2026E earnings, which we believe provides further room for an upside, considering its 31% net earnings CAGR over FY2024-FY2026E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 670, assigning a higher valuation multiple led by its strong earnings growth trajectory.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Greenlam Industries	45.1	31.5	20.2	15.6	6.1	5.2	14.5	18.0
Century Plyboards	40.9	28.7	26.6	19.4	5.8	4.8	15.0	18.3

Source: Company; 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

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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