



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. 7,190 cr
52-week high/low:	Rs. 662/389
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	1.8
DII	15.6
Others	31.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.4	-5.3	7.3	19.2
Relative to Sensex	-12.0	-13.8	-5.5	-1.5

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Mixed bag Q1; Growth trajectory intact

Building materials

Sharekhan code: GREENLAM

Reco/View: Buy



Upgrade



CMP: Rs. 564

Price Target: Rs. 670



Downgrade

Summary

- ♦ We retain a Buy on Greenlam Industries Limited with an unchanged PT of Rs. 670, considering its strong earnings growth trajectory over FY2024-FY2026E.
- ♦ In Q1FY2025, consolidated revenues were in line with estimates although consolidated OPM disappointed due to weak margins in laminates business and higher timber costs for Plywood.
- ♦ Company targets 18-20% y-o-y revenue growth for FY2025 and guides for 15-16% OPMs in laminates. The focus would be to build upon domestic demand and increase market share in exports.
- ♦ Particleboard unit remain on track to commission in Q3FY2025 with rated capacity rising to 886 cbm per day.

Consolidated revenues were in line with estimates, at Rs. 605 crore (up 17.4% y-o-y) aided by 13% y-o-y growth in laminates revenues (volume growth of 12% y-o-y) and contribution from plywood segment (Rs. 28 crores vs Rs. 1 crore in Q1FY2024). Export laminate revenues grew at 22% y-o-y (it may have been better but was affected by container availability and a global freight rate rise) while domestic stayed soft at 4.5% y-o-y growth (election period). However, consolidated OPMs at 10.6% (down 190 bps y-o-y) disappointed owing to increased costs in laminates and higher timber prices in Plywood. Consequently, operating profit (flat y-o-y at Rs. 64 crore) and net profit (down 38% y-o-y) materially lagged our estimates. The management targets a 18-20% y-o-y revenue growth for FY2025 and guides for 15-16% OPMs in laminates. The focus would be to build upon domestic demand and increase market share in exports. The particleboard project remain on track to commission by Q3FY2025.

Key positives

- ♦ Laminate volumes rose 12% y-o-y and reported a 13% y-o-y revenue growth; segment's
- ♦ Laminate exports revenues grew by 22% y-o-y aided by both volume growth (up 14% y-o-y) and realization growth.

Key negatives

- ♦ Consolidated OPM disappointed due to weak OPMs of laminate business.
- ♦ Plywood business was affected by weak demand and higher timber costs.

Management Commentary

- ♦ Company has guided for 18-20% y-o-y consolidated revenue growth and 15-16% OPM for laminate for FY2025. Plywood capacity utilization is expected to be 40% in FY2025. With Particle Board operating at above 90% utilization around FY2028 at current price realisations, overall consolidated revenues would reach Rs. 4000-4200 crore.
- ♦ Greenlam hiked plywood prices by 4% in July 2024. It is yet to decide upon price increase in laminate business. It is reviewing domestic market price hike while it may not be able to take price hike in exports.
- ♦ Tamil Nadu Plywood factory operations streamlined during Q1. Andhra Pradesh laminate plant saw improvement in utilization in Q1. The Particle board unit is expected to commence operations in Q3FY2025. Gujarat plant is running well at full capacity utilization.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Maintain Buy with an unchanged 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 particleboard 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 42x/30x its FY2025E/FY2026E earnings, which we believe provides further room for an upside, considering a 32% net earnings CAGR over FY2024-FY2026E. Hence, we retain a Buy rating with an unchanged price target (PT) of Rs. 670, led by its strong earnings growth trajectory.

Key Risks

Weak macroeconomic environment dragging industry growth trends.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	2,025.9	2,306.3	2,872.2	3,508.6
OPM (%)	11.5	12.8	12.7	13.3
Adjusted PAT	128.4	138.4	171.2	240.0
% Y-o-Y growth	37.6	7.8	23.7	40.1
Adjusted EPS (Rs.)	10.1	10.8	13.4	18.8
P/E (x)	55.8	52.0	42.0	30.0
P/B (x)	7.3	6.6	5.8	5.0
EV/EBIDTA (x)	33.2	26.2	21.2	16.5
RoNW (%)	15.8	13.5	14.9	18.1
RoCE (%)	11.5	9.4	9.7	11.8

Source: Company Data; Sharekhan Research

Weak OPMs dents net earnings

Greenlam Industries reported a 17.4% y-o-y rise (down 3.1% q-o-q) in consolidated revenues at Rs. 605 crore which was in-line with our estimate. Laminate division's revenues were up 13.2% y-o-y, Veneers & allied segment revenues were up 1% y-o-y and Plywood were up 5.1% q-o-q. Consolidated OPM lagged estimates, at 10.6% (down 190 bps y-o-y, down 280 bps q-o-q) as against our estimate of 12.9%. Higher employee expense (up 28% y-o-y) led to lower OPMs while gross margins were up 62 bps y-o-y. Overall, consolidated operating profit was down 0.5% y-o-y (down 23.4% q-o-q) at Rs. 64 crore, which was 18% lower than our estimate. Weak OPMs along with higher depreciation (up 51.2% y-o-y) and higher interest expenses (up 89.1% y-o-y) led to consolidated adjusted net profit decline of 38.4% y-o-y (down 50.5% q-o-q) at Rs. 20.3 crore, which was 37% lower than our estimate.

Key Conference Call Takeaways

- ♦ **Guidance:** The company has guided for an 18-20% y-o-y consolidated revenue growth and 15-16% OPM for laminate for FY2025. The company is positive to build upon domestic market. It would focus on increasing market share in exports market. Plywood revenues need to hit Rs. 40 crore a quarter mark, to become EBITDA positive. Plywood capacity utilization is expected to be 40% in FY2025. With Particle Board operating at above 90% utilization around FY2028 at current price realisations, the overall consolidated revenues would reach Rs. 4000-4200 crore. The peak debt is expected at Rs. 925-950 crore this year.
- ♦ **Q1FY2025 performance:** Consolidated revenues were up 17.4% y-o-y at Rs. 605 crore, gross margins declined by 30 bps y-o-y to 52%, OPM contracted by 190 bps y-o-y to 10.6%, EBITDA stayed flat y-o-y at Rs. 64 crore, net profit stood at Rs. 19.9 crore as against Rs. 33 crore in Q1FY2024. Employee costs for Q1 has one-time annual expense and annual increment impact. Working capital days declined to 65 days from 72 days in Q1FY2024. Its net stands at Rs. 922 crore of which Rs. 465 crore is on account of the particleboard project.
- ♦ **Segment-wise Q1FY25 performance:** Laminate revenues were up 13.2% y-o-y at Rs. 534 crore with volume growth of 11.9% y-o-y. Domestic revenues grew by 4.5% y-o-y with volume growth of 10.6% y-o-y. International revenues grew 22.1% y-o-y with volume growth of 13.8% y-o-y. Decorative veneer & allied segment revenues were lower 24.1% y-o-y at Rs. 19.6 crore with volume decline of 26% y-o-y at 0.2 msm. It operated at 21% capacity utilization. Engineered wood flooring segment revenue grew 30% y-o-y to Rs. 13.4 crore and operated at 13% capacity utilization. Engineered wood doors revenues rose 40.7% y-o-y at Rs. 9.8 crore and operated at 21% capacity utilization. Plywood revenues stood at Rs. 27.6 crore with volume of 1.14 sq meter, capacity utilisation of 24% and average realization of Rs. 242/sq mtr.
- ♦ **Q1FY25 outlook:** Domestic demand was affected by election-related disruptions and heat issues while June month saw improvement. Domestic Veneer business was affected due to weak domestic demand. For exports, container availability challenges persisted which has been going on from last 9-12 months. It was not able to ship 1.5 lakh sheets in June although July has seen a bit improvement. However, the company was able to improve export realisations.
- ♦ **Raw materials:** Raw material costs increased due to increase in global freight rise, higher costs in laminates and increase in timber costs in Plywood.
- ♦ **Prices:** Company took 4% price increase in plywood in July 2024. It is yet to decide upon price increase in laminate business. It is reviewing domestic market price hike while it may not be able to take price hike in exports.
- ♦ **Expansion:** Tamil Nadu Plywood factory operations streamlined during Q1. A.P. laminate plant saw improvement in utilization in Q1. The Particle board unit is expected to commence operations in Q3FY2025. Gujarat plant is running well at full capacity utilization.

Results (Consolidated)

Rs cr

Particulars	Q1FY2025	Q1FY2024	y-o-y%	Q4FY2024	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 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 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 a net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

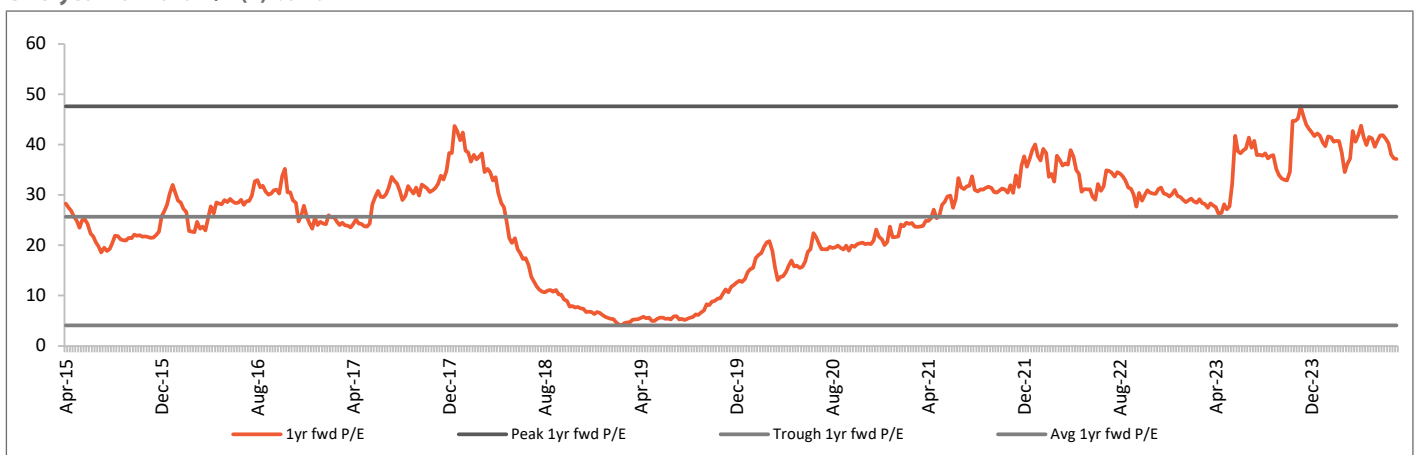
■ Company Outlook – Multiple growth levers for sustainable growth:

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 an unchanged 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 particleboard 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 42x/30x its FY2025E/FY2026E earnings, which we believe provides further room for an upside, considering a 32% net earnings CAGR over FY2024-FY2026E. Hence, we retain a Buy rating with an unchanged price target (PT) of Rs. 670, led by its strong earnings growth trajectory.

One-year forward P/E (x) band



Source: Company Data; 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	42.0	30.0	21.2	16.5	5.8	5.0	14.9	18.1
Century Plyboards	43.5	30.5	28.2	20.6	6.1	5.1	15.0	18.3

Source: Sharekhan Research

About the 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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200/022 - 33054600