



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	✓	↔	✓

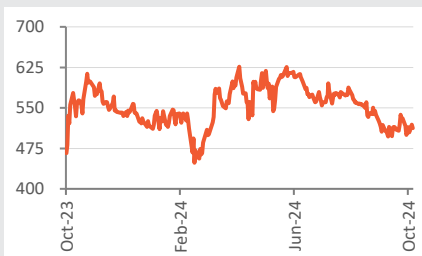
Company details

Market cap:	Rs. 6,539 cr
52-week high/low:	Rs. 662 / 431
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	1.7
DII	15.6
Others	31.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.9	-8.6	-18.2	10.0
Relative to Sensex	5.6	-7.4	-25.8	-15.4

Sharekhan Research, Bloomberg

Greenlam Industries Ltd

Healthy performance; Growth trajectory intact

Building Materials

Sharekhan code: GREENLAM

Reco/View: Buy



CMP: Rs. 513

Price Target: Rs. 670



Upgrade



Maintain



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 Q2FY2025, consolidated revenues largely stayed in line driven by strong revenue growth in domestic laminate business. OPM beat was led by q-o-q improvement in laminates OPM. Hence, PAT was 10% higher than estimate.
- Company retained an 18-20% y-o-y revenue growth guidance for FY2025 and 15-16% OPMs in laminates. Plywood unit to breakeven in FY2026 eyeing 40% capacity utilisation.
- Particleboard unit is on track to be commissioned in Q3FY2025 with rated capacity of 886 cbm per day.

Consolidated revenues broadly stayed in line with estimates, at Rs. 681 crore (up 12.8% y-o-y) aided by 12.4% y-o-y growth in laminates revenues (volume growth of 9.3% y-o-y) and contribution from plywood segment (Rs. 26 crores vs Rs. 15 crore in Q2FY2024). Domestic laminate revenues grew by 15.5% y-o-y (volume growth of 13.8% y-o-y) and export laminate revenues grew at 9.6% y-o-y (volumes up 3.9% y-o-y). Consolidated OPMs of 12% (down 57 bps y-o-y) came in better than our estimate of 11.5% (owing to over 100 bps q-o-q improvement in laminate OPM to 14.7%). Higher interest and depreciation expenses for new projects led to consolidated net profit decline of 11.3% y-o-y at Rs. 34.6 crore (although was 10% higher than our estimate). The management retained 18-20% y-o-y revenue growth guidance for FY2025 and 15-16% OPM in laminates. The particleboard project remains on track to commission in Q3FY2025.

Key positives

- Laminate production volumes, sales volume and sales value were at a record high. Domestic volumes grew by 13.8% y-o-y.
- Consolidated OPM at 12% beat our estimate of 11.5% led by over 100 bps q-o-q improvement in laminate OPMs. Further, consolidated net profit came in 10% higher than our estimate.

Key negatives

- Export laminate volumes grew at a slower pace of 3.9% y-o-y owing to disturbances at the Red Sea and excessive container demand in China.
- Plywood revenues declined by 5.9% q-o-q to Rs. 26 crore. Revenues from Veneer business declined by 20% y-o-y to Rs. 32 crore.

Management Commentary

- Company retained its guidance of 18-20% y-o-y consolidated revenue growth and 15-16% OPM for laminate for FY2025.
- It undertook a 2.5-3% price hike in laminates in domestic markets during mid-September while it did not take any price hike in export markets. In the plywood division, it had taken 3.5-4% price hike in July 2024.
- In plywood, it has been operating in five southern states and has now ventured into Maharashtra. It expects Plywood plant to operate at 40% capacity utilisation in FY2026 at which point it would achieve breakeven.

Revision in estimates – We have retained 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 38x/27x 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)

	Rs cr			
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)	50.7	47.3	38.2	27.3
P/B (x)	6.6	6.0	5.3	4.5
EV/EBIDTA (x)	30.6	24.2	19.5	15.2
RoNW (%)	15.8	13.5	14.9	18.1
RoCE (%)	11.5	9.4	9.7	11.8

Source: Company; Sharekhan estimates

OPM and net profit beat estimates

Greenlam Industries reported a 12.8% y-o-y rise (up 12.6% q-o-q) in consolidated revenues at Rs. 681 crore which was broadly in-line with our estimates. Laminate revenues were up 12.4% y-o-y at Rs. 597 crore, Veneers & allied segment revenues were up 1% y-o-y at Rs. 58 crore and plywood were down 5.9% q-o-q. Consolidated operating profit margins came in higher than our estimate at 12% (down 57 bps y-o-y, up 138 bps q-o-q) as against our estimate of 11.5%. Lower than expected other expense led to higher than estimated OPMs while gross margins were down 314 bps y-o-y. Overall, consolidated operating profit was up 7.7% y-o-y (up 27.2% q-o-q) at Rs. 81.4 crore, which was 3% higher than our estimate. Lower OPMs y-o-y along with higher depreciation (up 37.8% y-o-y) and higher interest expense (up 67.1% y-o-y) led to consolidated adjusted net profit decline of 11.3% y-o-y (up 70.9% q-o-q) at Rs. 34.6 crore, which was 10% higher than our estimate.

Key Conference Call Takeaways

- ♦ **Guidance:** Company retained its guidance of 18-20% y-o-y consolidated revenue growth and 15-16% OPM for laminate for FY2025.
- ♦ **Q2FY2025 performance:** Consolidated revenues were up 12.8% y-o-y at Rs. 680 crore, gross margins improved by 20 bps y-o-y to 51.6%, OPM contracted by 50 bps y-o-y to 12%, EBITDA grew by 7.7% y-o-y to Rs. 81.4 crore, net profit stood at Rs. 34.6 crore as against Rs. 39 crore in Q2FY2024 due to higher interest and depreciation expense. Working capital days improved by one day to 59 days from 60 days in Q2FY2024. Its net debt stands at Rs. 992 crore of which Rs. 477 crore is on account of the particle board project.
- ♦ **Segment-wise Q2FY25 performance:** Laminate division's revenues were up 12.4% y-o-y at Rs. 597 crore with volume growth of 9.4% y-o-y. Domestic revenues grew by 15.5% y-o-y with volume growth of 13.8% y-o-y. International revenues grew 9.6% y-o-y with volume growth of 3.9% y-o-y. Laminate division's OPM contracted by 170 bps y-o-y to 14.7%. Laminate division operated at 92 capacity utilization. Decorative veneer & allied segment revenues were lower 10.1% y-o-y at Rs. 32.4 crore with volume decline of 11.7% y-o-y at 0.35 msm. It operated at a 39% capacity utilization. Engineered wood flooring segment revenue grew 41% y-o-y to Rs. 14.1 crore and operated at a 15% capacity utilization. Engineered wood doors revenues rose 63% y-o-y at Rs. 11.4 crore and operated at 23% capacity utilization. Plywood revenues stood at Rs. 26 crore with volume of 1.02 sq meter, capacity utilisation of 23% and average realization of Rs. 250/sq mtr.
- ♦ **Price hikes:** it undertook 2.5-3% price hike in laminates in domestic markets during mid-September while it did not take any price hike in export markets. In Plywood, it had taken 3.5-4% price hike in July 2024.
- ♦ **Plywood:** It has been operating in five southern states and has now ventured into Maharashtra. It expects Plywood to operate at 40% capacity utilisation in FY2026 at which point it would achieve breakeven.
- ♦ **Particle board:** It remains to track to commence the Andhra Pradesh plant in this quarter (Q3FY2025). It targets to achieve 40-50% capacity utilization in FY2026 and breakeven. Realisations for particleboard can vary from Rs. 25,000 to Rs. 30,000. EBITDA margin at optimum capacity can range from 22-24%. RoCE at stable timber prices can range from 16-20%.
- ♦ **Laminate expansion:** During H1, it operated at 87% capacity utilization while in the past it has achieved 110-115% capacity utilisation. Its two plants at Gujarat and A.P. have space for expansions and hence, it can increase laminate capacity in three quarters.
- ♦ **Raw materials:** In September, certain grade of craft paper had seen increase in prices and there was some price increase in deco paper and chemicals. It factors in minimum freight rate for exports and levies surcharge on incremental increase in freight rates.
- ♦ **Debt:** Net debt is expected to peak in FY2025 at Rs. 1000-1020 crore while it hopes to bring it down next year.

Results (Consolidated)

					Rs cr
Particulars	Q2FY2025	Q2FY2024	Y-o-Y (%)	Q1FY2025	Q-o-Q (%)
Net sales	680.8	603.6	12.8%	604.7	12.6%
Other income	8.2	5.8	40.2%	3.1	160.7%
Total income	689.0	609.5	13.0%	607.8	13.3%
Total expenses	607.5	533.9	13.8%	543.8	11.7%
Operating profit	81.4	75.6	7.7%	64.0	27.2%
Depreciation	26.8	19.5	37.8%	26.3	1.9%
Interest	15.5	9.3	67.1%	13.8	12.6%
Exceptional items	0.0	0.0	-	0.0	-
Profit Before Tax	47.2	52.7	-10.3%	27.0	74.7%
Taxes	12.8	13.7	-6.6%	7.2	78.8%
Minority Interest	-0.2	-0.1	-	-0.4	-
PAT	34.6	39.0	-11.3%	20.3	70.9%
Adjusted PAT	34.6	39.0	-11.3%	20.3	70.9%
EPS (Rs.)	2.7	3.1	-11.3%	1.6	70.9%
			BPS		BPS
OPM (%)	12.0%	12.5%	-57	10.6%	138
NPM (%)	5.1%	6.5%	-138	3.4%	174
Tax rate (%)	27.1%	26.0%	106	26.5%	61

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.

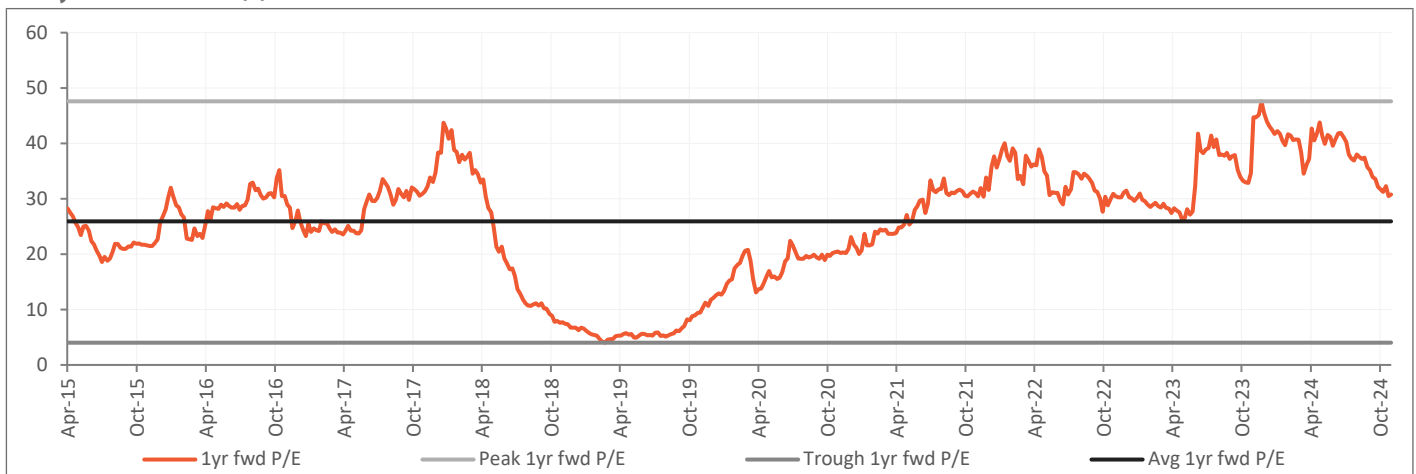
■ Company Outlook – Multiple growth levers for sustainable growth

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 laminate, 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 38x/27x 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: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Greenlam Industries	38.2	27.3	19.5	15.2	5.3	4.5	14.9	18.1
Century Plyboards	49.7	34.8	33.5	24.1	7.3	6.1	15.7	19.0

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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