

HOLD
 TP: Rs 500 | ▼ 4%

GREENLAM INDUSTRIES | Building Materials | 06 February 2024

Soft quarter on tepid demand environment

- Q3 PAT missed our estimate by 31% on weak laminate volumes and sharp increase in capital charge
- FY24 revenue growth guidance cut from 20% to 15% on weak domestic demand and logistical challenges for exports
- We lower our TP by 17% to Rs 500 (vs. Rs 600) on earnings downgrade; maintain HOLD amid high valuations

Utkarsh Nopany
 research@bobcaps.in

Miss on all fronts: GRLM fell short of our Q3FY24 revenue/EBITDA/adj. PAT estimates by 9%/3%/31% due to soft volumes for laminates (+9% YoY vs. +18% estimated) and a sharp sequential increase in depreciation (+26% QoQ) and interest expense (+54% QoQ). Overall, the company’s revenue/EBITDA grew by 12%/30% YoY, but adj. PAT fell 12%.

Key highlights: Despite higher capacity (+17% QoQ), laminate volumes slipped 6% QoQ in Q3 as a shortage of containers constrained exports. Laminate EBITDA margin dipped 55bps QoQ to 15.8% due to initial startup costs associated with the newly commissioned plant in Andhra Pradesh. Plywood segment operating loss reduced from Rs 100mn in Q2FY24 to Rs 80mn in Q3 and is guided to break even in FY25 as operations gain scale. Commencement of the greenfield particleboard project has been delayed from Q4FY24 to Q2FY25. Net debt rose from Rs 6.7bn in Sep’23 to Rs 8.5bn in Dec’23 due to debt availed for the particleboard project.

Outlook downgraded: GRLM has cut its FY24 revenue growth guidance from 20% to 15% (vs. 13% clocked in 9MFY24) due to weak domestic demand and logistical challenges for exports. The company aims to deliver revenue growth of 20% in FY25. Management does not anticipate any near-term market share loss in exports due to the Israel war and Red Sea conflict. Despite rising ocean freight rates and Kraft paper prices, management expects laminate EBITDA margins to remain relatively stable in the near term aided by a better product mix.

Maintain HOLD, TP cut to Rs 500: We maintain our HOLD rating on the stock due to current expensive valuations of 46.7x on 1Y forward P/E vs. the 5Y average of 30.7x. Our TP reduces to Rs 500 (from Rs 600) as we scale back our FY24/FY25/ FY26 EPS estimates by 10%/23%/10% based on the poor quarterly result and management’s weak near-term outlook. Our target P/E multiple remains unchanged at 35x on Sep’25E EPS – a 16% premium to the stock’s historical multiple on strong earnings prospects and rerating of valuation multiples in the building materials sector over the past few months.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GRLM IN/Rs 518
Market cap	US\$ 801.1mn
Free float	49%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 626/Rs 282
Promoter/FPI/DII	51%/16%/1%

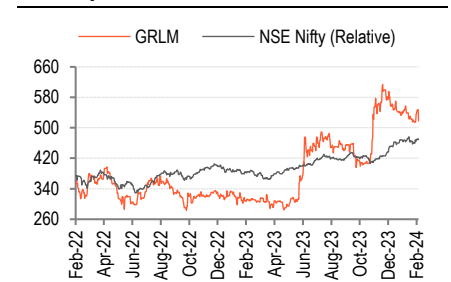
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,260	23,136	27,581
EBITDA (Rs mn)	2,333	2,895	3,463
Adj. net profit (Rs mn)	1,224	1,281	1,421
Adj. EPS (Rs)	9.6	10.1	11.2
Consensus EPS (Rs)	9.6	12.6	15.3
Adj. ROAE (%)	15.1	12.5	12.5
Adj. P/E (x)	53.8	51.4	46.3
EV/EBITDA (x)	27.6	21.9	17.5
Adj. EPS growth (%)	23.6	4.7	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	5,634	5,035	11.9	6,036	(6.7)	16,823	14,921	12.7
Raw-Material expense	2,548	2,602	(2.1)	2,933	(13.1)	7,940	8,061	(1.5)
Gross Profit	3,086	2,433	26.8	3,103	(0.6)	8,882	6,861	29.5
Employee expense	1,085	798	36.0	1,077	0.8	3,123	2,283	36.8
Other expense	1,289	1,087	18.6	1,271	1.5	3,648	2,990	22.0
EBITDA	711	548	29.8	756	(5.9)	2,111	1,589	32.9
D&A	245	162	51.2	195	25.8	613	464	32.3
EBIT	467	386	20.8	562	(16.9)	1,498	1,125	33.1
Interest cost	143	60	137.4	93	54.1	309	170	81.6
Non-operating expense/(income)	(31)	(59)	(47.3)	(58)	(46.7)	(129)	(135)	(4.2)
PBT	354	385	(7.9)	527	(32.7)	1,318	1,090	21.0
Tax	102	99	3.3	137	(25.7)	353	266	32.9
Reported PAT	253	286	(11.8)	390	(35.2)	965	824	17.1
Adjusted PAT	253	286	(11.8)	390	(35.2)	965	824	17.1
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	54.8	48.3	644	51.4	336	52.8	46.0	682
Employee cost	19.3	15.8	341	17.8	142	18.6	15.3	327
Other cost	22.9	21.6	129	21.0	184	21.7	20.0	165
EBITDA margin	12.6	10.9	174	12.5	10	12.5	10.6	190
Tax rate	28.7	25.6	312	26.0	271	26.8	24.4	241
APAT margin	4.5	5.7	(120)	6.5	(197)	5.7	5.5	21

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

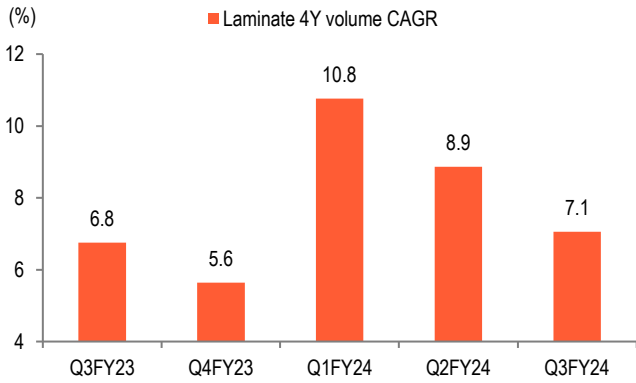
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Segment Revenue (Rs mn)								
Laminate	4,998	4,591	8.8	5,312	(5.9)	15,029	13,607	10.5
Veneer	477	444	7.4	575	(17.2)	1,477	1,315	12.3
Plywood	160	0	NM	149	6.9	317	0	NM
Total	5,634	5,035	11.9	6,036	(6.7)	16,823	14,921	12.7
Segment Volume								
Laminate (mn sheets)	4.7	4.3	9.2	4.9	(5.7)	13.8	12.6	8.8
Decorative veneer (mn sqm)	0.3	0.2	34.8	0.4	(20.5)	1.0	0.9	4.3
Plywood (mn sqm)	0.7	0.0	NM	0.6	15.9	1.4	0.0	NM
Segment Realisation								
Laminate (Rs/sheet)	1,075	1,078	(0.3)	1,077	(0.2)	1,093	1,076	1.5
Decorative veneer (Rs/sqm)	868	1928	(55.0)	917	(5.3)	1,523	1,414	7.7
Plywood (Rs/sqm)	219	0	NM	237	(7.3)	228	-	NM
Segment EBITDA (Rs mn)								
Laminate	792	571	38.7	871	(9.1)	2,362	1,677	40.8
Veneer	3	(16)	(118.8)	(14)	(121.4)	(27)	(73)	(63.0)
Plywood	(83)	0	NM	(101)	(17.8)	(224)	0	NM
Total	711	548	29.8	756	(5.9)	2,111	1,589	32.9
Segment EBITDA margin (%)			bps		bps			bps
Laminate	15.8	12.4	341	16.4	(55)	15.7	12.3	339
Veneer	0.6	(3.6)	424	(2.4)	306	(1.8)	(5.6)	372
Plywood	(52.0)	-	NM	(67.6)	1564	(70.7)	-	NM
Total	12.6	10.9	174	12.5	10	12.5	10.6	190

Source: Company, BOBCAPS Research

Earnings call highlights

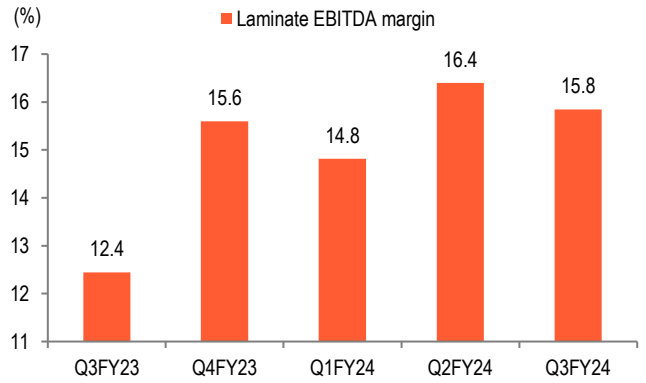
- **Outlook:** GRLM is observing slow growth in the domestic market and logistical challenges in export markets, but retains a positive medium-term outlook on expectations of (a) market share gains from unorganised players and international players, (b) uptick in India's real estate sector, (c) growing demand for readymade furniture in India, (d) implementation of BIS (Bureau of Indian Standards) this month that could reduce import pressure and increase costs for unorganised players.
- **Laminate performance:** Laminate volumes grew 9% YoY driven by domestic (+11%) as well as export (+6%) sales. A shortage of containers limited volume growth, but management indicated that container availability has now normalised. Segment EBITDA margin fell 55bps QoQ to 15.8% due to initial startup costs associated with the newly commissioned greenfield plant in Andhra Pradesh (incurred EBITDA loss of Rs 30mn-40mn as it operated at a low 20% rate in Q3). The plant is guided to break even by Q4FY24-Q1FY25.
- **Laminate outlook:** GRLM expects revenue from the laminate business to grow at 15% YoY in Q4FY24 and 20% YoY in FY25. Despite an increase in international ocean freight rate and Kraft paper prices, management expects EBITDA margins to remain relatively stable in the near term aided by a better product mix. The Andhra Pradesh plant should help the company gain share in the international market as it was earlier operating at full capacity.
- **Laminate exports:** Exports accounted for 47.5% of laminate revenue in Q3FY24. The company does not foresee any near-term market share loss in the export business due to the Israel war and Red Sea conflict.
- **Plywood:** Management anticipates EBITDA breakeven for the division at 50-60% capacity utilisation, which is likely by H2FY25. The company plans to ramp up to full utilisation by FY26 from 14% in Q3FY24. At present, it is operating in South India and plans to enter Maharashtra in FY25.
- **Veneer:** The performance of the veneer business is likely to improve further as operations gain scale.
- **Particleboard:** Commencement of the greenfield particleboard project has been delayed from Q4FY24 to Q2FY25 due to delays in civil construction on account of excessive rains in Q3. As per management, pre-laminated particleboard is roughly 80% of the total particleboard market in India and demand for the same has moved to pre-laminated MDF due to the non-availability of good products in the domestic market. With the start of its unit, GRLM believes it can quickly capture the market as its product would be priced 20-25% lower than pre-laminated MDF.
- **Capex:** The company has purchased land in Sitapur, Uttar Pradesh, for future expansion.
- **Net debt:** Net debt has risen from Rs 6.7bn in Q2FY24 to Rs 8.5bn in Q3FY24. It is guided to be in the range of Rs 8.5bn-9bn by Mar'24 before coming down in FY25.

Fig 3 – GRLM’s laminate volumes grew at 9.2% YoY and 7.1% on 4Y CAGR basis in Q3FY24



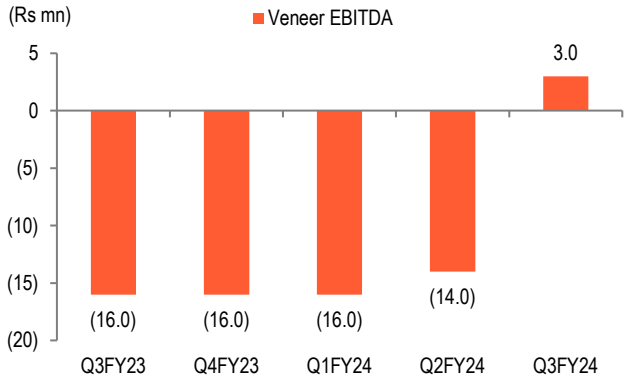
Source: Company, BOBCAPS Research

Fig 4 – Laminate EBITDA margin fell by 55bps QoQ to 15.8% on initial startup costs of AP plant



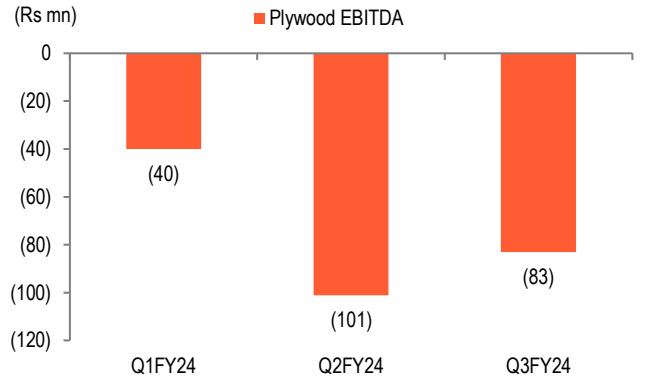
Source: Company, BOBCAPS Research

Fig 5 – Veneer segment posted positive EBITDA and should see an improving performance



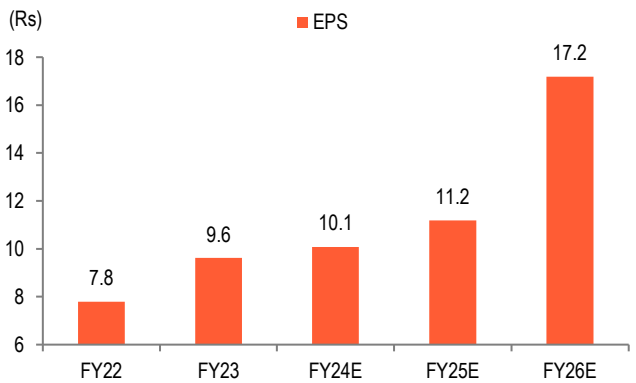
Source: Company, BOBCAPS Research

Fig 6 – Plywood segment operating loss reduced in Q3 and expected to break even in FY25



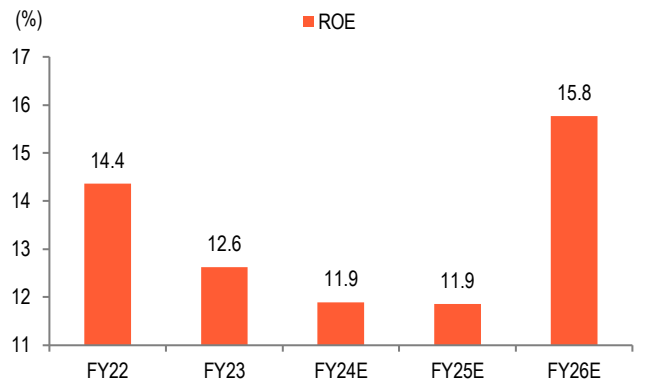
Source: Company, BOBCAPS Research

Fig 7 – GRLM’s EPS to grow at healthy 21% CAGR over FY23-FY26E on near-completion of large capex drive



Source: Company, BOBCAPS Research

Fig 8 – ROE projected to improve from 12.6% in FY23 to 15.8% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our HOLD rating on the stock due to current expensive valuations of 46.7x on one-year forward P/E vs. the five-year average of 30.7x. Our TP reduces to Rs 500 (from Rs 600) as we scale back our FY24/FY25/FY26 EPS estimates by 10%/23%/10% based on the poor quarterly result and management’s weak near-term outlook.

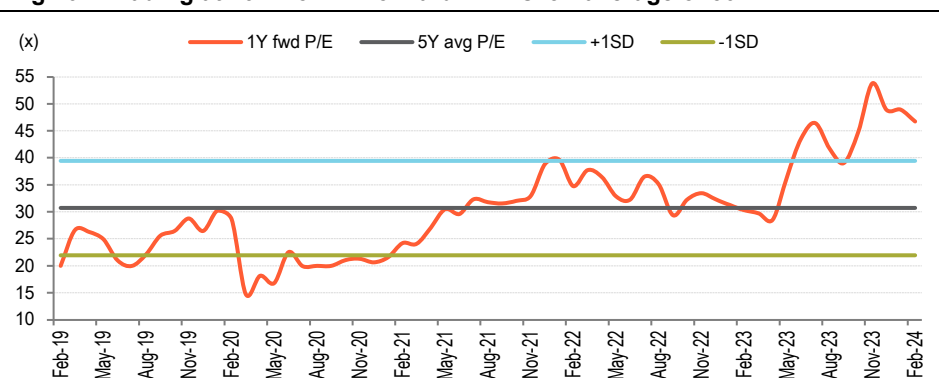
Our target P/E multiple remains unchanged at 35x on Sep’25E EPS – a 16% premium to the stock’s historical multiple on strong earnings prospects and rerating of valuation multiples in the building materials sector over the past few months. For a detailed sector view, see our report of 17 January: [Strong foundations](#).

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total operating income	23.1	27.6	33.2	24.2	31.4	35.6	(4.4)	(12.1)	(6.8)
EBITDA	2.9	3.5	4.6	3.0	4.0	4.8	(2.4)	(13.2)	(3.3)
EBITDA Margin (%)	12.5	12.6	13.9	12.3	12.7	13.4	26bps	(16bps)	49bps
Adjusted PAT	1.3	1.4	2.2	1.4	1.8	2.4	(10.1)	(23.1)	(9.5)
EPS (Rs)	10.1	11.2	17.2	11.2	14.5	19.0	(10.1)	(23.1)	(9.5)

Source: Company, BOBCAPS Research

Fig 10 – Trading at 46.7x on 1Y forward P/E vs. 5Y average of 30.7x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Laminates	88.8	91.4	91.4	89.3	83.7	78.0
Veneer	11.2	8.6	8.6	8.4	7.7	7.1
Plywood	NA	NA	NA	2.3	5.4	7.8
Particleboard	NA	NA	NA	-	3.1	7.1
Sales volume growth						
Laminates	1.4	22.5	4.7	9.8	13.0	12.2
Plywood	NA	NA	NA	NM	193.3	72.4
Particleboard	NA	NA	NA	NA	NM	173.3
EBITDA margin						
Laminates	16.7	12.7	13.2	15.5	15.1	15.3
Veneer	(3.6)	(6.2)	(5.1)	(1.3)	0.7	0.7
Plywood	NA	NA	NA	(55.0)	1.2	14.7
Particleboard	NA	NA	NA	NA	(7.0)	11.2

Source: Company, BOBCAPS Research

Key risks

- Quick ramp-up of new facilities and recovery in global housing demand are the key upside risks to our estimates.
- Market share loss in the laminate division and weak demand sentiments in the domestic market are key downside risks

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	672	600	SELL
Astral	ASTRA IN	6.1	1,875	2,000	HOLD
Century Plyboards	CPBI IN	2.0	748	700	HOLD
Cera Sanitaryware	CRS IN	1.3	8,240	8,100	HOLD
Finolex Industries	FNXP IN	1.6	217	230	HOLD
Greenlam Industries	GRLM IN	0.8	518	500	HOLD
Greenpanel Industries	GREENP IN	0.6	383	400	HOLD
Greenply Industries	MTLM IN	0.4	237	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	463	700	BUY
Kajaria Ceramics	KJC IN	2.5	1,306	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	1.0	724	800	HOLD
Somany Ceramics	SOMC IN	0.4	727	900	BUY
Supreme Industries	SI IN	6.5	4,176	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	17,034	20,260	23,136	27,581	33,209
EBITDA	1,879	2,333	2,895	3,463	4,619
Depreciation	585	632	858	1,075	1,248
EBIT	1,294	1,701	2,037	2,388	3,371
Net interest inc./(exp.)	(141)	(235)	(456)	(613)	(578)
Other inc./(exp.)	73	180	160	124	124
Exceptional items	9	4	0	0	0
EBT	1,217	1,641	1,741	1,899	2,918
Income taxes	286	361	460	478	734
Extraordinary items	26	0	0	0	0
Min. int./Inc. from assoc.	2	4	0	0	0
Reported net profit	907	1,284	1,281	1,421	2,183
Adjustments	33	(61)	0	0	0
Adjusted net profit	941	1,224	1,281	1,421	2,183

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,558	2,697	3,161	3,769	4,538
Other current liabilities	594	1,713	1,284	1,284	1,284
Provisions	30	35	41	49	59
Debt funds	3,453	5,699	9,000	8,500	8,000
Other liabilities	657	693	845	845	845
Equity capital	121	127	127	127	127
Reserves & surplus	6,423	9,559	10,649	11,856	13,712
Shareholders' fund	6,551	9,690	10,779	11,987	13,843
Total liab. and equities	13,842	20,526	25,110	26,433	28,568
Cash and cash eq.	1,765	2,583	1,648	1,486	1,076
Accounts receivables	1,301	1,443	1,648	1,964	2,365
Inventories	5,034	5,135	5,920	6,908	8,976
Other current assets	468	946	1,330	1,586	1,910
Investments	0	0	0	0	0
Net fixed assets	4,572	5,028	7,169	13,594	13,347
CWIP	75	3,802	6,802	302	302
Intangible assets	118	145	145	145	145
Deferred tax assets, net	81	63	63	63	63
Other assets	427	1,381	383	383	383
Total assets	13,842	20,526	25,110	26,433	28,568

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	611	2,550	1,254	2,039	1,871
Capital expenditures	(867)	(5,774)	(5,002)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	38	175	160	124	124
Cash flow from investing	(829)	(5,598)	(4,842)	(876)	(876)
Equities issued/Others	0	6	0	0	0
Debt raised/repaid	969	2,246	3,301	(500)	(500)
Interest expenses	(141)	(235)	(456)	(613)	(578)
Dividends paid	(145)	(190)	(192)	(213)	(328)
Other financing cash flows	50	2,043	0	0	0
Cash flow from financing	733	3,870	2,653	(1,326)	(1,405)
Chg in cash & cash eq.	515	822	(934)	(162)	(410)
Closing cash & cash eq.	1,765	2,583	1,648	1,486	1,076

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	7.5	10.1	10.1	11.2	17.2
Adjusted EPS	7.8	9.6	10.1	11.2	17.2
Dividend per share	1.2	1.5	1.5	1.7	2.6
Book value per share	54.2	76.3	84.9	94.4	109.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.2	2.7	2.2	1.8
EV/EBITDA	34.0	27.6	21.9	17.5	12.7
Adjusted P/E	66.5	53.8	51.4	46.3	30.1
P/BV	9.6	6.8	6.1	5.5	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	77.3	74.6	73.6	74.8	74.8
Interest burden (PBT/EBIT)	94.1	96.5	85.5	79.5	86.6
EBIT margin (EBIT/Revenue)	7.6	8.4	8.8	8.7	10.2
Asset turnover (Rev./Avg TA)	123.1	98.7	92.1	104.3	116.2
Leverage (Avg TA/Avg Equity)	2.1	2.1	2.3	2.2	2.1
Adjusted ROAE	14.4	12.6	11.9	11.9	15.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	42.0	18.9	14.2	19.2	20.4
EBITDA	7.3	24.2	24.1	19.6	33.4
Adjusted EPS	15.9	23.6	4.7	10.9	53.6
Profitability & Return ratios (%)					
EBITDA margin	11.0	11.5	12.5	12.6	13.9
EBIT margin	7.6	8.4	8.8	8.7	10.2
Adjusted profit margin	5.5	6.0	5.5	5.2	6.6
Adjusted ROAE	15.3	15.1	12.5	12.5	16.9
ROCE	13.7	12.2	11.1	12.3	16.0
Working capital days (days)					
Receivables	28	26	26	26	26
Inventory	108	93	93	91	99
Payables	55	49	50	50	50
Ratios (x)					
Gross asset turnover	2.1	2.2	2.0	1.7	1.6
Current ratio	1.7	1.5	1.5	1.6	1.7
Net interest coverage ratio	9.2	7.2	4.5	3.9	5.8
Adjusted debt/equity	0.3	0.3	0.7	0.6	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

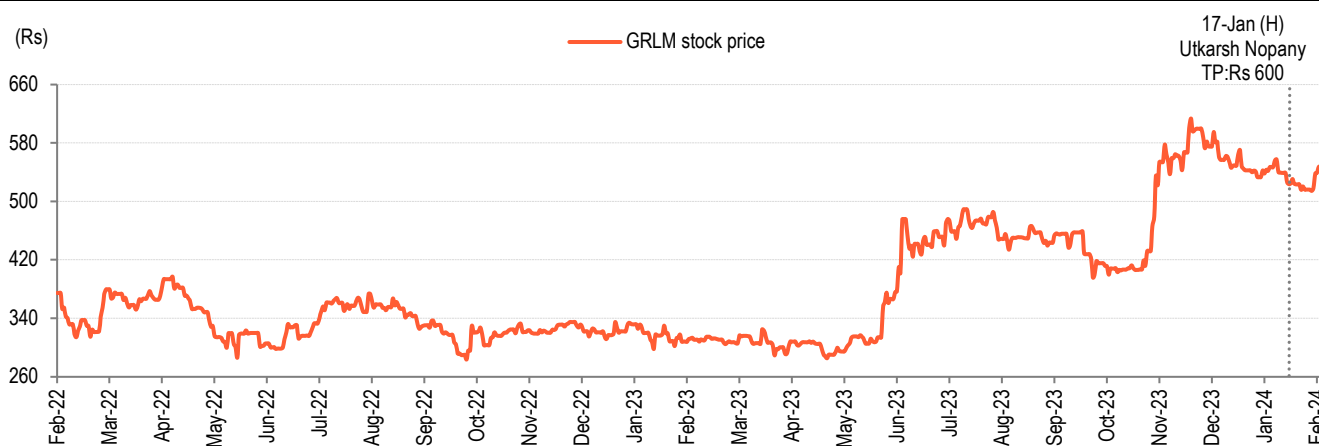
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): GREENLAM INDUSTRIES (GRLM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

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