

RESEARCH
GREENLAM INDUSTRIES | TARGET: Rs 500 | -7% | HOLD

Management meet: Topline to strengthen post capex drive

Daily macro indicators

Indicator	22-Feb	23-Feb	Chg (%)
US 10Y yield (%)	4.32	4.25	(7bps)
India 10Y yield (%)	7.07	7.08	1bps
USD/INR	82.85	82.95	(0.1)
Brent Crude (US\$/bbl)	83.7	81.6	(2.5)
Dow	39,069	39,132	0.2
Hang Seng	16,743	16,726	(0.1)
Sensex	73,158	73,143	0.0
India FII (US\$ mn)	21-Feb	22-Feb	Chg (\$ mn)
FII-D	(59.9)	59.9	119.8
FII-E	47.5	(22.7)	(70.2)

Source: Bank of Baroda Economics Research

SUMMARY
GREENLAM INDUSTRIES

- Greenfield laminate plant in Andhra Pradesh to aid market share gains for GRLM in both export and domestic markets
- Plywood plant profitability guided to stabilise in FY26; we expect particleboard plant to suppress return ratios for next two years at least
- Maintain HOLD with unchanged TP of Rs 500 on expensive valuations and weak return profile

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HOLD

TP: Rs 500 | ▼ 7%

GREENLAM INDUSTRIES

Building Materials

26 February 2024

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Key takeaways from our meeting with Ashok Sharma, CFO of GRLM:

Laminate industry demand to grow at 6-7%: GRLM's management expects the laminate industry to grow at 6-7% over the medium term driven by interior applications (for plywood and plain MDF) and exterior applications (for bathroom cubicles and exterior grade wall cladding). GRLM expects its volumes to grow at 10% CAGR over the medium term, with market share gains in domestic and exports.

Laminate exports likely to gather pace: GRLM's laminate export volumes inched up 2.6% in 9MFY24 over a weak base (-9% YoY in FY23). Management anticipates a pickup in coming quarters due to the contribution from its newly commissioned greenfield plant in Andhra Pradesh. Roughly 90% of GRLM's laminate exports are labelled as product sales and earn higher margins than domestic sales on the back of better realisations.

Plywood segment to stabilise in FY26: Management anticipates EBITDA breakeven in H2FY25 and expects to deliver an operating margin of 10-12% on a sustainable basis with the gradual ramp-up of capacity utilisation (from 14% in Q3FY24 to 50% in FY25 and 70% in FY26).

Particleboard plant to reach full capacity in four years: The particleboard plant is expected to commence production in Q2FY25 and reach full utilisation within four years. Despite a sharp upward revision in project cost from Rs 6bn to Rs 7.8bn, management expects to generate ROCE of 18-20% once the plant operates at full capacity.

Our view: We maintain our HOLD rating on GRLM with an unchanged TP of Rs 500 due to expensive valuations (trading at 47.5x on 1Y forward P/E vs. 5Y average of 30.7x) and a weak return ratio profile. We expect ROE to moderate from pre-Covid levels of 17-18% to ~12% over FY24-FY25 owing to a drag from the upcoming particleboard plant amid a sharp upward revision in project cost and unfavourable industry dynamics.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GRLM IN/Rs 540
Market cap	US\$ 834.2mn
Free float	49%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 626/Rs 282
Promoter/FPI/DII	51%/16%/1%

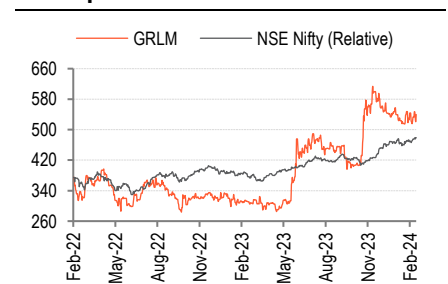
Source: NSE | Price as of 23 Feb 2024

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	10.7	13.9
Adj. ROAE (%)	15.1	12.5	12.5
Adj. P/E (x)	56.0	53.5	48.2
EV/EBITDA (x)	28.8	22.8	18.3
Adj. EPS growth (%)	23.6	4.7	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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

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