

HOLD

TP: Rs 500 | ▼ 7%

GREENLAM INDUSTRIES

Building Materials

26 February 2024

Management meet: Topline to strengthen post capex drive

- 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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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%

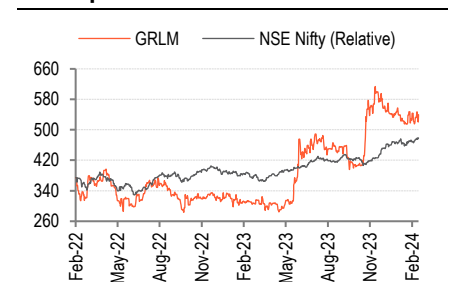
Source: NSE | Price as of 23 Feb 2024

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



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	3.9	3.3	2.9	2.3	1.8
EV/EBITDA	35.5	28.8	22.8	18.3	13.3
Adjusted P/E	69.2	56.0	53.5	48.2	31.4
P/BV	10.0	7.1	6.4	5.7	5.0

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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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

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