

HOLD
 TP: Rs 560 | ▼ 0%

GREENLAM INDUSTRIES | Building Materials

24 July 2024

Soft quarter; margin pressure to persist in near future

- **Weak Q1** on sharp margin compression in laminate segment and slow ramp-up of plywood and veneer segments
- **Maintained laminate EBITDAM guidance of 16% for FY25**, which is at a risk on steep rise in raw materials and ocean freight rate and weak Q1
- **Maintain HOLD on expensive valuations (trades at 46.6x on 1Y forward P/E vs 5Y average of 32.9x); raise TP by 2% to Rs 560**

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Weak Q1: GRLM slightly beats our topline estimate by 2.6% for Q1FY25 due to better-than-expected laminates realisation, but it misses our EBITDA/APAT estimates sharply by 15.7%/37.9% due to margin compression (-190bps YoY to 10.6% vs 12.9% estimate). Overall, GRLM revenue grew by 17.4% YoY, but EBITDA/APAT was down 0.5%/38.3% YoY in Q1FY25 due to margin pressure and higher capital charge related to newly commissioned laminate and plywood plant.

Key highlights: Laminates volume grew at 12.0% YoY in Q1FY25 driven by higher exports. On a 2Y CAGR basis, laminates volume grew at a nominal 6.4% rate vs 25% growth in capacity due to subdued demand in the domestic as well as exports market. Laminates EBITDA margin declined by 297bps QoQ to 13.6% in Q1FY25. Plywood segment reported operating loss for the fifth consecutive quarter due to the slow ramp-up of the plant (operated at 25% in Q1FY25). The veneer segment again posted an operating loss in Q1FY25. Net debt rose from Rs 8.3bn in Mar'24 to Rs 9.2bn in Jun'24 and expected to peak out at Rs 9.25bn-9.5bn in FY25.

Outlook: GRLM has broadly maintained its revenue growth guidance of 18-20% (20% earlier). It has also maintained its guidance for the laminate segment of double-digit volume growth with EBITDA margin of 16% for FY25. Management expects its plywood segment to reach EBITDA breakeven by H2FY25. The particleboard project (292,380 CBM) is on track to become operational in Q3FY25 at a cost of Rs 8.75bn. The company expects to operate its particleboard project at ROCE of 15-18% on the assumption that the plant operates at full capacity (which is expected to happen in FY28) and generate 20-24% EBITDA margin.

Maintain HOLD, raise TP by 2% to Rs 560: We maintain our HOLD rating on the stock on expensive valuations (trades at 46.6x on 1Y forward P/E vs 5Y average of 32.9x). We have tweaked our EPS estimates (-1.5%/-0.1% for FY25E/FY26E) based on the Q1 result. We cut our target P/E from 35x to 33x (in line with 5Y average multiple) as we expect inferior ROCE for its particleboard project at least for the next two to three years. However, we have slightly raised our TP to Rs 560 (from Rs 550) as we roll forward our valuation multiple from Mar'26 to Jun'26.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GRLM IN/Rs 562
Market cap	US\$ 857.1mn
Free float	49%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 662/Rs 388
Promoter/FPI/DII	51%/2%/16%

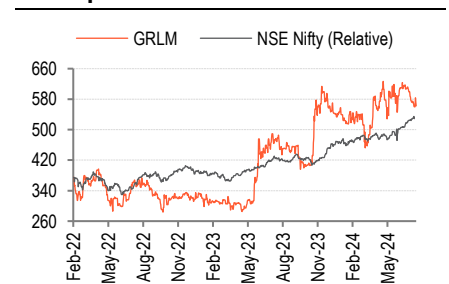
Source: NSE | Price as of 24 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,063	28,699	34,786
EBITDA (Rs mn)	2,974	3,365	4,431
Adj. net profit (Rs mn)	1,383	1,308	2,002
Adj. EPS (Rs)	10.8	10.3	15.7
Consensus EPS (Rs)	10.8	13.4	19.5
Adj. ROAE (%)	13.6	11.6	15.7
Adj. P/E (x)	51.9	54.9	35.8
EV/EBITDA (x)	23.3	19.6	14.2
Adj. EPS growth (%)	12.5	(5.4)	53.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	6,047	5,152	17.4	6,241	(3.1)
Raw-Material expense	2,901	2,459	17.9	2,935	(1.2)
Gross Profit	3,147	2,693	16.8	3,306	(4.8)
Employee expense	1,229	962	27.8	1,133	8.4
Other expense	1,278	1,088	17.4	1,338	(4.5)
EBITDA	640	644	(0.5)	835	(23.4)
D&A	263	174	51.2	258	2.1
EBIT	377	470	(19.7)	578	(34.7)
Interest cost	138	73	89.1	134	3.1
Non-operating expense/(income)	(31)	(40)	(22.0)	(87)	(64.2)
PBT	270	437	(38.1)	531	(49.1)
Tax	72	114	(37.4)	124	(42.1)
Reported PAT	199	322	(38.3)	408	(51.3)
Adjusted PAT	199	322	(38.3)	387	(48.6)
As % of net revenues			(bps)		(bps)
Gross margin	52.0	52.3	(24)	53.0	(94)
Employee cost	20.3	18.7	166	18.2	216
Other cost	21.1	21.1	1	21.4	(30)
EBITDA margin	10.6	12.5	(190)	13.4	(280)
Tax rate	26.5	26.2	30	23.2	323
APAT margin	3.3	6.3	(297)	6.2	(291)

Source: Company, BOBCAPS Research

Fig 2 – Segment Performance

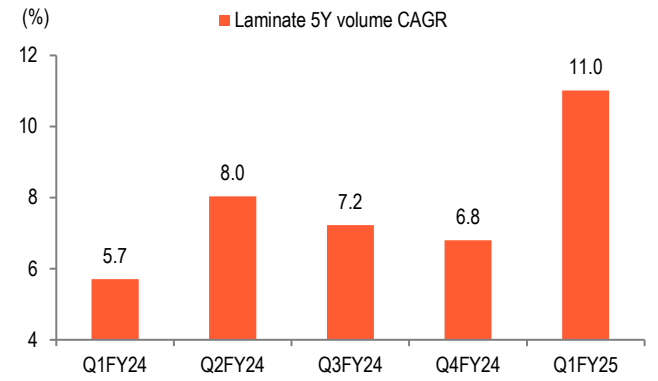
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Segment Revenue (Rs mn)					
Laminate	5,343	4,720	13.2	5,368	(0.5)
Veneer	428	425	0.7	610	(29.9)
Plywood	276	8	NM	263	5.1
Total	6,047	5,152	17.4	6,241	(3.1)
Segment Volume					
Laminate (mn sheets)	4.7	4.2	12.0	5.2	(10.4)
Decorative veneer (msm)	0.2	0.3	(25.9)	0.4	(52.4)
Plywood (msm)	1.1	0.0	NM	1.0	9.6
Segment Realisation					
Laminate (Rs/sheet)	1,144	1,132	1.1	1,030	11.0
Decorative veneer (Rs/msm)	960	916	4.8	862	11.4
Plywood (Rs/msm)	242	250	(3.0)	253	(4.1)
Segment EBITDA (Rs mn)					
Laminate	729	699	4.3	892	(18.3)
Veneer	(27)	(16)	68.8	20	(235.0)
Plywood	(61)	(40)	52.5	(76)	(19.7)
Total	640	644	(0.5)	835	(23.4)
Segment EBITDA margin (%)					
Laminate	13.6	14.8	(117)	16.6	(297)
Veneer	(6.3)	(3.8)	(255)	3.3	(959)
Plywood	(22.1)	NM	NM	(28.9)	684
Total	10.6	12.5	(190)	13.4	(280)

Source: Company, BOBCAPS Research

Earnings call highlights

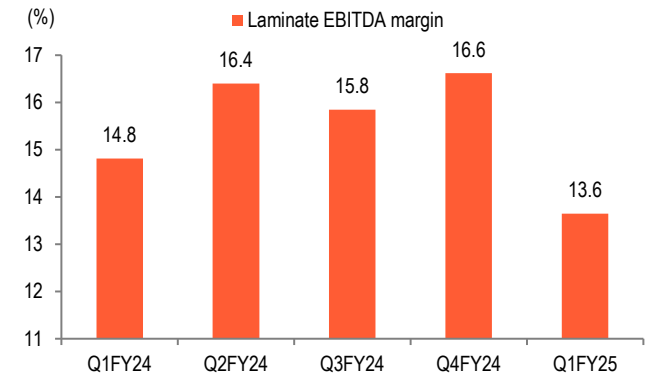
- **Laminate performance:** Segment volume grew by 12.0% YoY in Q1FY25 as higher exports (+13.8%) more than offset the impact of weak domestic demand (affected by harsh summer conditions and general elections). Segment EBITDA margin fell sharply by 117bps YoY/297bps QoQ to 13.6% due to the impact of higher raw material (RM), ocean freight and employee costs. Going ahead, the company plans to hike prices to mitigate the impact of higher RM and freight costs. GRLM has maintained its guidance for the laminate segment and expects volume to grow at double-digit rate and EBITDA margin at ~16% for FY25.
- **Plywood:** The segment reported operating loss of Rs 61mn in Q1FY25 (vs loss of Rs 76mn in Q4FY24) due to the slow ramp up of the plant and higher timber prices. The company operated at a low rate of 25% in Q1FY25 as it operates only in the premium segment. The company raised prices by 4% from Jul'24 to mitigate the impact of rising timber prices. Management aims to reach breakeven point in the segment by H2FY25 (which is expected to happen once the segment revenue crosses the Rs 400mn-mark vs Rs 276mn in Q1FY25).
- **Veneer:** The segment reported operating loss of Rs 27mn in Q1FY25 vs loss of Rs 16mn in Q1FY24.
- **Particleboard:** GRLM's particleboard project (of 292,380 CBM) is on track to commence production in Q3FY25 at a cost of Rs 8.75bn. The company expects to operate the plant at more than 90% by FY28. Management expects ROCE of 15-18% from this project once the plant is ramped up to its full level and generates 20-24% EBITDA margin.
- **Net debt:** Net debt rose from Rs 8.3bn in Mar'24 to Rs 9.2bn in Jun'24 and is expected to peak out at Rs 9.25bn-9.5bn in FY25.

Fig 3 – GRLM’s laminate volumes grew at 12.0% YoY and 11.0% on a 5Y CAGR basis in Q1FY25



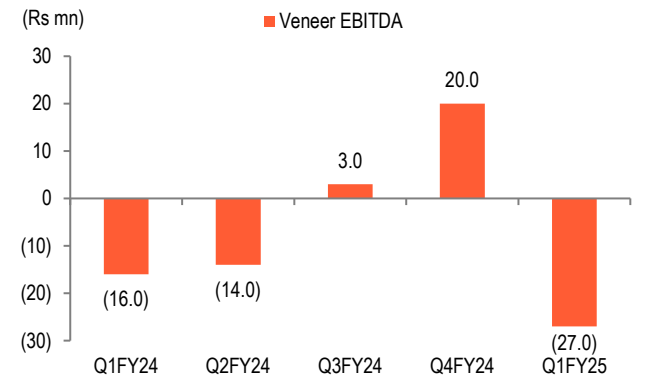
Source: Company, BOBCAPS Research

Fig 4 – Laminate EBITDA margin fell sharply in Q1FY25 on impact of higher RM and ocean freight rate



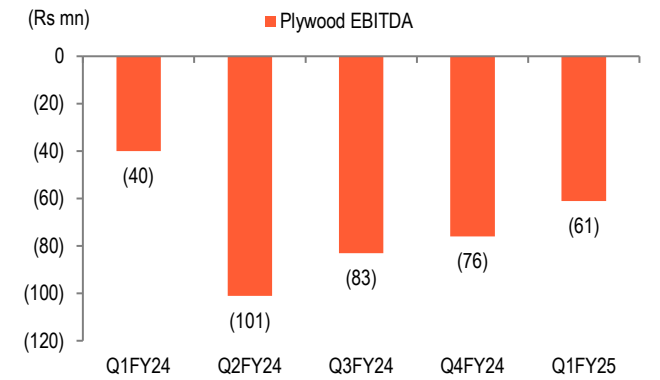
Source: Company, BOBCAPS Research

Fig 5 – Veneer segment again posted negative EBITDA in Q1FY25



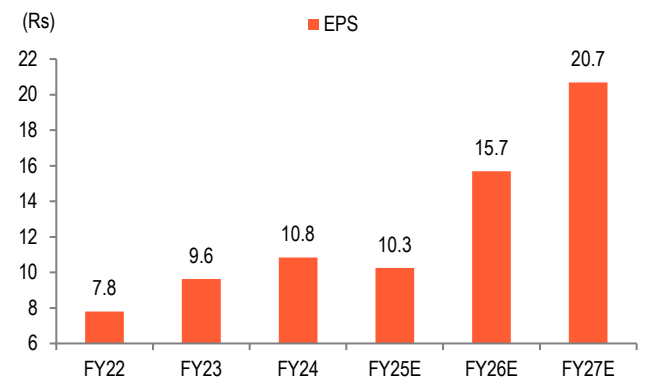
Source: Company, BOBCAPS Research

Fig 6 – Plywood segment reported operating loss for the fifth straight quarters due to slow ramp-up of the plant



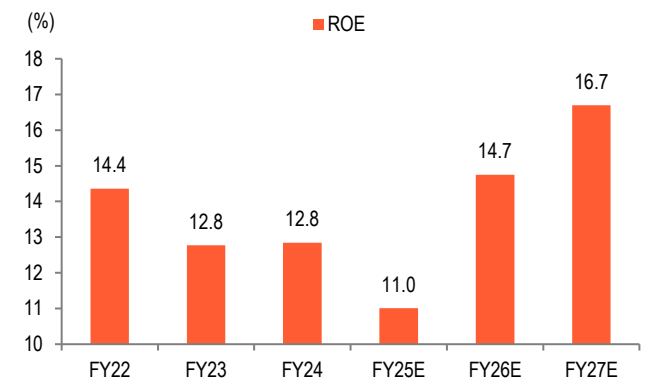
Source: Company, BOBCAPS Research

Fig 7 – GRLM’s EPS to grow at healthy 24% CAGR over FY24-FY27E on near completion of large capex drive



Source: Company, BOBCAPS Research

Fig 8 – ROE projected to improve from 12.8% in FY24 to 16.7% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our HOLD rating on the stock on expensive valuations (trades at 46.6x on 1Y forward P/E vs 5Y average of 32.9x). The company has maintained its margin guidance for the laminate segment at 16% for FY25 – which we believe is at risk based on a steep increase in raw material cost and ocean freight rate.

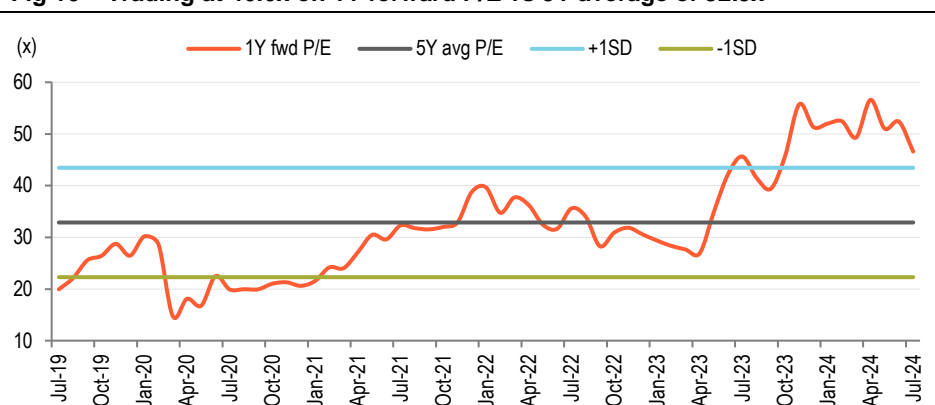
We have tweaked our EPS estimates (-1.5%/-0.1% for FY25E/FY26E) based on the Q1 result and introduce FY27 estimates. We cut our target P/E from 35x to 33x (in line with the 5Y average multiple) as we expect inferior ROCE for its particleboard project at least for the next two to three years. However, we have slightly raised our TP to Rs 560 (from Rs 550) as we roll forward our valuation multiple from Mar'26 to Jun'26.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	28.7	34.8	26.9	32.9	6.7	5.8
EBITDA	3.4	4.4	3.5	4.5	(3.2)	(2.0)
EBITDA Margin (%)	11.7	12.7	12.9	13.7	(119bps)	(101bps)
EPS (Rs)	10.3	15.7	10.4	15.7	(1.5)	(0.1)

Source: BOBCAPS Research

Fig 10 – Trading at 46.6x on 1Y forward P/E vs 5Y average of 32.9x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix						
Laminates	91.4	91.4	88.4	84.6	77.7	76.3
Veneer	8.6	8.6	9.0	7.9	7.1	6.9
Plywood	-	-	2.5	5.7	8.2	8.0
Particleboard	-	-	-	1.8	6.9	8.8
Sales volume growth						
Laminates	22.5	4.7	9.5	11.1	10.2	10.0
Plywood	-	-	-	180.1	73.4	10.8
Particleboard	-	-	-	-	371.4	45.5
EBITDA margin						
Laminates	12.7	13.2	16.0	14.7	15.0	15.0
Veneer	(6.2)	(5.1)	(0.3)	(2.7)	(3.2)	(4.0)
Plywood	-	-	(51.8)	(1.4)	13.2	12.7
Particleboard	-	-	-	(23.5)	3.2	12.4

Source: Company, BOBCAPS Research

Key risks

- Quick ramp-up of new facilities and a sharp recovery in global laminates 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	626	650	HOLD
Astral	ASTRA IN	7.1	2,200	2,200	HOLD
Century Plyboards	CPBI IN	1.9	700	700	HOLD
Cera Sanitaryware	CRS IN	1.4	8,893	7,700	HOLD
Finolex Industries	FNXP IN	2.4	321	265	HOLD
Greenlam Industries	GRLM IN	0.9	562	560	HOLD
Greenpanel Industries	GREENP IN	0.5	318	340	HOLD
Greenply Industries	MTLM IN	0.5	317	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	447	600	BUY
Kajaria Ceramics	KJC IN	2.8	1,469	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	677	750	HOLD
Somany Ceramics	SOMC IN	0.4	764	900	BUY
Supreme Industries	SI IN	8.1	5,359	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 24 Jul 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	20,260	23,063	28,699	34,786	39,672
EBITDA	2,333	2,974	3,365	4,431	5,267
Depreciation	632	871	1,181	1,370	1,413
EBIT	1,701	2,103	2,184	3,061	3,854
Net interest inc./(exp.)	(235)	(443)	(557)	(511)	(451)
Other inc./(exp.)	180	217	125	125	125
Exceptional items	4	27	0	0	0
EBT	1,641	1,849	1,753	2,675	3,528
Income taxes	361	469	445	673	888
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	4	0	0	0
Reported net profit	1,284	1,384	1,308	2,002	2,640
Adjustments	(61)	(1)	0	0	0
Adjusted net profit	1,224	1,383	1,308	2,002	2,640

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,753	3,479	4,443	5,386	6,142
Other current liabilities	1,653	1,914	1,914	1,914	1,914
Provisions	35	48	61	74	85
Debt funds	5,699	9,988	8,572	7,155	5,739
Other liabilities	692	1,160	1,160	1,160	1,160
Equity capital	127	128	128	128	128
Reserves & surplus	9,455	10,644	11,753	13,450	15,689
Shareholders' fund	9,582	10,769	11,877	13,575	15,813
Total liab. and equities	20,414	27,358	28,028	29,265	30,854
Cash and cash eq.	2,580	1,803	(1,212)	(2,472)	(2,823)
Accounts receivables	1,440	1,521	1,892	2,294	2,616
Inventories	5,135	6,091	7,191	9,271	10,991
Other current assets	952	1,426	1,820	2,207	2,517
Investments	0	0	0	0	0
Net fixed assets	4,916	9,725	17,544	17,174	16,762
CWIP	3,801	6,110	110	110	110
Intangible assets	145	137	137	137	137
Deferred tax assets, net	62	99	99	99	99
Other assets	1,381	445	445	445	445
Total assets	20,414	27,358	28,028	29,265	30,854

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	2,541	2,371	2,031	1,846	2,793
Capital expenditures	(5,660)	(6,986)	(3,000)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	175	189	125	125	125
Cash flow from investing	(5,484)	(6,796)	(2,875)	(875)	(875)
Equities issued/Others	6	1	0	0	0
Debt raised/repaid	2,246	4,289	(1,416)	(1,416)	(1,416)
Interest expenses	(235)	(443)	(557)	(511)	(451)
Dividends paid	(190)	(210)	(199)	(304)	(402)
Other financing cash flows	1,936	16	0	0	0
Cash flow from financing	3,763	3,652	(2,172)	(2,232)	(2,269)
Chg in cash & cash eq.	819	(773)	(3,015)	(1,260)	(351)
Closing cash & cash eq.	2,580	1,803	(1,212)	(2,472)	(2,823)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	10.1	10.8	10.3	15.7	20.7
Adjusted EPS	9.6	10.8	10.3	15.7	20.7
Dividend per share	1.5	1.7	1.6	2.4	3.1
Book value per share	75.4	84.4	93.1	106.4	124.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.5	3.0	2.3	1.8	1.6
EV/EBITDA	30.1	23.3	19.6	14.2	11.8
Adjusted P/E	58.4	51.9	54.9	35.8	27.2
P/BV	7.5	6.7	6.0	5.3	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.6	74.8	74.6	74.8	74.8
Interest burden (PBT/EBIT)	96.5	87.9	80.2	87.4	91.5
EBIT margin (EBIT/Revenue)	8.4	9.1	7.6	8.8	9.7
Asset turnover (Rev./Avg TA)	99.2	84.3	102.4	118.9	128.6
Leverage (Avg TA/Avg Equity)	2.1	2.5	2.4	2.2	2.0
Adjusted ROAE	12.8	12.8	11.0	14.7	16.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.9	13.8	24.4	21.2	14.0
EBITDA	24.2	27.5	13.2	31.7	18.9
Adjusted EPS	23.6	12.5	(5.4)	53.1	31.9
Profitability & Return ratios (%)					
EBITDA margin	11.5	12.9	11.7	12.7	13.3
EBIT margin	8.4	9.1	7.6	8.8	9.7
Adjusted profit margin	6.0	6.0	4.6	5.8	6.7
Adjusted ROAE	15.2	13.6	11.6	15.7	18.0
ROCE	12.3	11.2	11.3	15.4	18.5
Working capital days (days)					
Receivables	26	24	24	24	24
Inventory	93	96	91	97	101
Payables	50	55	57	57	57
Ratios (x)					
Gross asset turnover	2.2	1.9	1.5	1.4	1.5
Current ratio	1.5	1.2	1.0	1.0	1.1
Net interest coverage ratio	7.2	4.7	3.9	6.0	8.5
Adjusted debt/equity	0.3	0.8	0.8	0.7	0.5

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

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BUY – Expected return >+15%

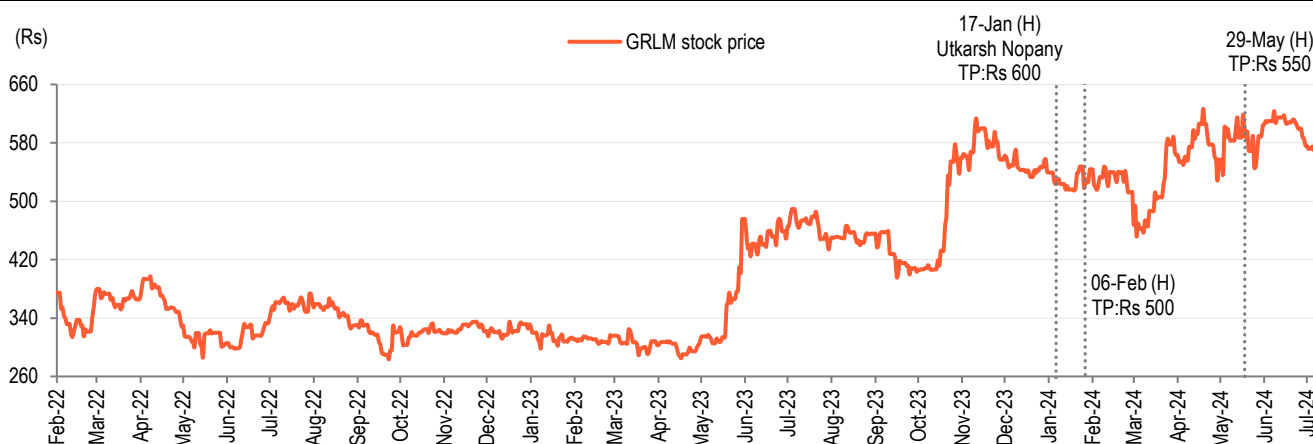
HOLD – Expected return from -6% to +15%

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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