

**HOLD**

TP: Rs 530 | ▲ 4%

**GREENLAM INDUSTRIES** | Building Materials

30 October 2024

**Weak quarter; quick ramp up of new projects a key monitorable**

- Weak Q2 on lower-than-expected laminate volume and slow ramp-up of plywood segment
- Maintained revenue growth guidance of 18-20% for FY25; plywood to reach breakeven point over the next one year (H2FY25 earlier)
- Maintain HOLD on weak ROCE for its particleboard project and expensive valuations; TP cut by 5% to Rs 530

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**Weak Q2:** GRLM missed our estimates for Q2FY25 (Revenue/EBITDA/APAT: -9%/-11%/-16%) mainly due to lower-than-expected laminates sales volume (+9.3% YoY vs +13.7% estimated) and slow ramp up of plywood segment. Overall, GRLM's revenue/EBITDA grew by 12.8%/7.7% YoY, but APAT was down 11.6% YoY in Q2FY25 due to higher capital charge related to newly commissioned projects.

**Key highlights:** On a 3Y CAGR basis, GRLM laminates volume grew at a nominal 4.4% rate vs 16% growth in its capacity due to difficult market conditions, but it still managed to gain market share in both domestic as well as export market. Laminate EBITDA was relatively flat (+0.7% YoY) in Q2FY25 as the impact of higher volumes was offset by margin contraction (-171bps YoY to 14.7%). Plywood segment reported operating loss for the sixth consecutive quarter due to the slow ramp-up of the plant (operated at 23% in Q2FY25 vs 25% in Q1FY25). Veneer segment again reported muted operating performance (breakeven at EBITDA level) in Q2FY25. Net debt has gone up from Rs 9.2bn in Jun'24 to Rs 9.9bn in Sep'24.

**Outlook:** GRLM has maintained its revenue growth guidance of 18-20% for FY25. The company has hiked prices by 2.5-3.0% for its laminate segment in the domestic market, which is expected to mitigate the impact of raw-material cost inflation in the near future. Management expects its plywood segment to reach EBITDA breakeven over the next one year (H2FY25 earlier). The particleboard project (292,380 CBM) is on track to become operational in Q3FY25 at a cost of Rs 8.75bn.

**Maintain HOLD, TP cut by 5% to Rs 530:** We maintain our HOLD rating on the stock on (a) weak ROCE projected for its particleboard project at least for the next two to three years due to sharp upward revision in project cost, and (b) expensive valuations (trades at 45.7x on 1Y forward P/E vs 5Y average of 35.1x). We have cut our TP to Rs 530 (Rs 560 earlier) due to downward revision in our EPS estimates (-10.0%/-19.7%/-14.4% for FY25E/FY26E/FY27E) based on the weak Q2 result. Our target P/E has been raised from 33x to 35x (in line with the 5Y average multiple) on Sep'26 estimates (Jun'26 earlier).

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	GRLM IN/Rs 511
Market cap	US\$ 775.8mn
Free float	49%
3M ADV	US\$ 0.2mn
52wk high/low	Rs 662/Rs 431
Promoter/FPI/DII	51%/2%/16%

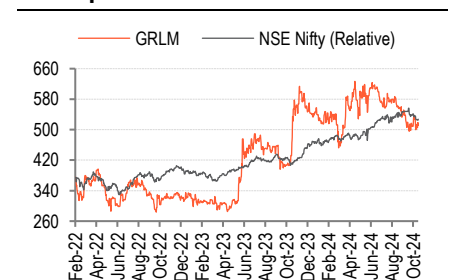
Source: NSE | Price as of 29 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,063	27,299	32,119
EBITDA (Rs mn)	2,974	3,112	3,865
Adj. net profit (Rs mn)	1,383	1,177	1,607
Adj. EPS (Rs)	10.8	9.2	12.6
Consensus EPS (Rs)	10.8	12.3	18.7
Adj. ROAE (%)	13.6	10.4	12.9
Adj. P/E (x)	47.2	55.4	40.6
EV/EBITDA (x)	21.1	19.1	14.6
Adj. EPS growth (%)	12.5	(14.9)	36.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
<b>Total operating income</b>	<b>6,808</b>	<b>6,036</b>	<b>12.8</b>	<b>6,047</b>	<b>12.6</b>	<b>12,855</b>	<b>11,189</b>	<b>14.9</b>	<b>7,453</b>	<b>(8.7)</b>
Raw-Material expense	3,293	2,933	12.3	2,901	13.5	6,193	5,392	14.9		
Gross Profit	3,515	3,103	13.3	3,147	11.7	6,662	5,797	14.9		
Employee expense	1,313	1,077	22.0	1,229	6.9	2,542	2,038	24.7		
Other expense	1,388	1,271	9.2	1,278	8.6	2,666	2,359	13.0		
<b>EBITDA</b>	<b>814</b>	<b>756</b>	<b>7.7</b>	<b>640</b>	<b>27.2</b>	<b>1,454</b>	<b>1,400</b>	<b>3.9</b>	<b>919</b>	<b>(11.4)</b>
D&A	268	195	37.8	263	1.9	531	369	44.1		
EBIT	546	562	(2.7)	377	44.9	923	1,031	(10.5)		
Interest cost	155	93	67.1	138	12.6	293	166	76.8		
Non-operating expense/(income)	(82)	(58)	40.2	(31)	160.7	(113)	(98)	14.8		
PBT	472	527	(10.3)	270	74.7	743	964	(22.9)		
Tax	128	137	(6.6)	72	78.8	200	251	(20.6)		
Reported PAT	344	390	(11.6)	199	73.3	543	712	(23.7)		
<b>Adjusted PAT</b>	<b>344</b>	<b>390</b>	<b>(11.6)</b>	<b>199</b>	<b>73.3</b>	<b>543</b>	<b>712</b>	<b>(23.7)</b>	<b>411</b>	<b>(16.2)</b>
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	51.6	51.4	22	52.0	(40)	51.8	51.8	2		
Employee cost	19.3	17.8	145	20.3	(103)	19.8	18.2	156		
Other cost	20.4	21.0	(66)	21.1	(74)	20.7	21.1	(35)		
EBITDA margin	12.0	12.5	(57)	10.6	138	11.3	12.5	(120)		
Tax rate	27.1	26.0	106	26.5	61	26.9	26.1	77		
APAT margin	5.1	6.5	(140)	3.3	177	4.2	6.4	(214)		

Source: Company, BOBCAPS Research

**Fig 2 – Segment Performance**

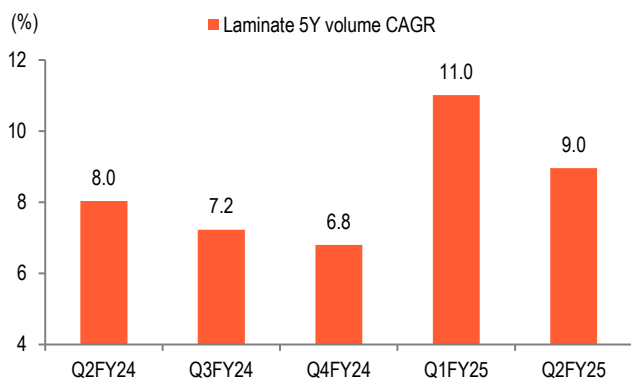
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
<b>Segment Revenue (Rs mn)</b>								
Laminate	5,969	5,312	12.4	5,343	11.7	11,313	10,031	12.8
Veneer	579	575	0.6	428	35.3	1,007	1,000	0.6
Plywood	260	149	73.9	276	(5.9)	536	157	241.0
<b>Total</b>	<b>6,808</b>	<b>6,036</b>	<b>12.8</b>	<b>6,047</b>	<b>12.6</b>	<b>12,855</b>	<b>11,189</b>	<b>14.9</b>
<b>Segment Volume</b>								
Laminate (mn sheets)	5.4	4.9	9.3	4.7	15.4	10.1	9.1	10.5
Decorative veneer (msm)	0.4	0.4	(10.3)	0.2	75.0	0.6	0.7	(16.7)
Plywood (msm)	1.0	0.6	61.9	1.1	(10.5)	2.2	0.7	226.6
<b>Segment Realisation</b>								
Laminate (Rs/sheet)	1,107	1,077	2.8	1,144	(3.2)	1,125	1,102	2.0
Decorative veneer (Rs/msm)	929	917	1.3	960	(3.2)	1,831	1,516	20.8
Plywood (Rs/msm)	255	237	7.4	242	5.1	248	238	4.4
<b>Segment EBITDA (Rs mn)</b>								
Laminate	877	871	0.7	729	20.3	1,606	1,570	2.3
Veneer	5	(14)	NM	(27)	NM	(22)	(30)	(26.7)
Plywood	(67)	(101)	(33.7)	(61)	9.8	(128)	(141)	(9.2)
<b>Total</b>	<b>814</b>	<b>756</b>	<b>7.7</b>	<b>640</b>	<b>27.2</b>	<b>1,454</b>	<b>1,400</b>	<b>3.9</b>
<b>Segment EBITDA margin (%)</b>								
Laminate	14.7	16.4	(171bps)	13.6	105bps	14.2	15.7	(145bps)
Veneer	0.9	(2.4)	330bps	(6.3)	717bps	(2.2)	(3.0)	81bps
Plywood	(25.8)	(67.6)	NM	(22.1)	(371bps)	(23.9)	(89.7)	NM
<b>Total</b>	<b>12.0</b>	<b>12.5</b>	<b>(57bps)</b>	<b>10.6</b>	<b>138bps</b>	<b>11.3</b>	<b>12.5</b>	<b>(120bps)</b>

Source: Company, BOBCAPS Research

### Earnings call highlights

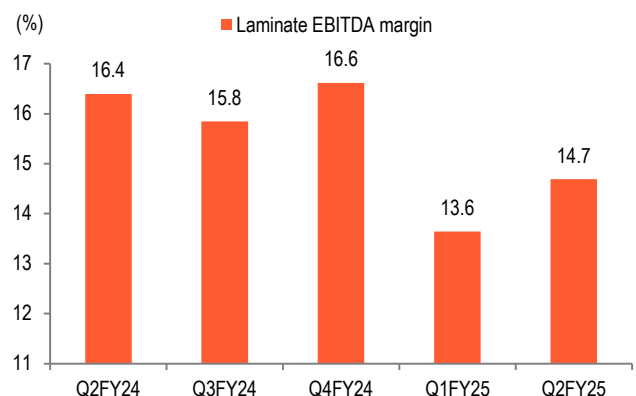
- Guidance:** GRLM has maintained its revenue growth guidance of 18-20% for FY25.
- Laminate:** Segment revenue grew by 12.4% YoY in Q2FY25 driven by higher volume (+9.3%) as well as improved realisation (+2.8%). Laminates domestic/export revenue grew by 15.5%/9.6% YoY in Q2FY25 and volume grew by 13.8%/3.9% YoY in Q2FY25. As per management, the company has gained market share in both domestic as well as export markets. Segment EBITDA grew marginally by 0.7% YoY in Q2FY25 due to margin contraction (-171bps YoY to 14.7%) because of operational costs for new plant commencement at the end of Sep'24. The company raised prices by 2.5-3.0% in mid Sep'24 in the domestic market, but prices for the export market remained stable in Q2FY25.
- Plywood:** Segment volume was down 10.5% QoQ in Q2FY25. The segment operating loss has gone up slightly from Rs 61mn in Q1FY25 to Rs 67mn in Q2FY25. The company operated at a low rate of 23% in Q2FY25. The company raised prices by 3.5% in Jul'24 to mitigate the impact of rising timber prices. Management has guided that it is targeting the plywood segment to breakeven at a 40% utilisation level, which is expected to be achieved over the next one year.
- Veneer:** Segment revenue was relatively flat (+0.6% YoY) in Q2FY25. Segment reported operating profit of Rs 5mn (vs -Rs 14mn in Q2FY24).
- Particleboard:** Greenfield project (292,380 CBM) is on track to become operational in Q3FY25 at a cost of Rs 8.75bn. The company expects the plant to breakeven at 40-50% utilisation level by the end of FY26. Management expects ROCE of 18-20% from this project once the plant reaches optimum utilisation level and EBITDA margin of 20-24% when timber prices are stable.
- Net debt:** Net debt rose from Rs 9.2bn in Jun'24 to Rs 9.9bn in Sep'24 and is expected to peak out at Rs 10.0bn-10.5bn in FY25. Debt levels are expected to reduce from FY26.

**Fig 3 – GRLM’s laminate volumes grew by 9.3% YoY (5Y CAGR: +9.0%) in Q2FY25**



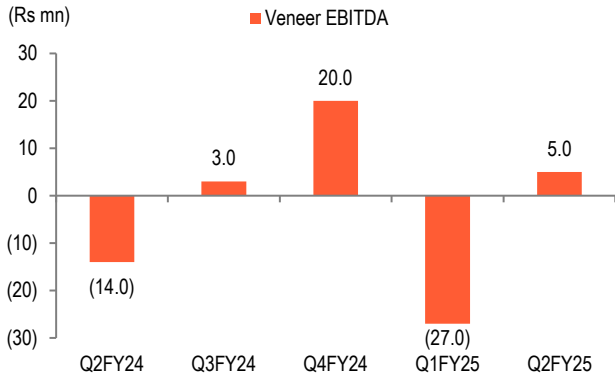
Source: Company, BOBCAPS Research

**Fig 4 – Laminate EBITDA margin was down 171bps YoY in Q2FY25 due to high RM cost and ocean freight rate**



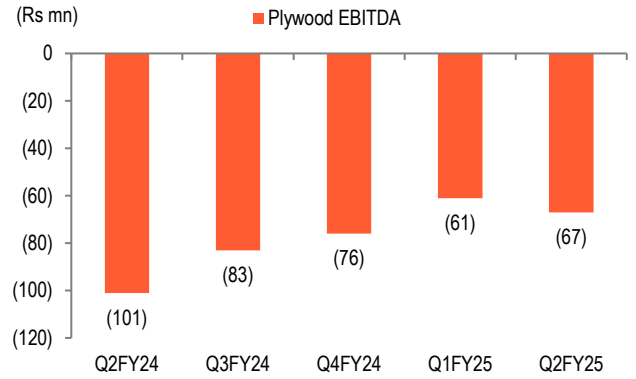
Source: Company, BOBCAPS Research

**Fig 5 – Veneer segment again reported muted operating performance in Q2FY25**



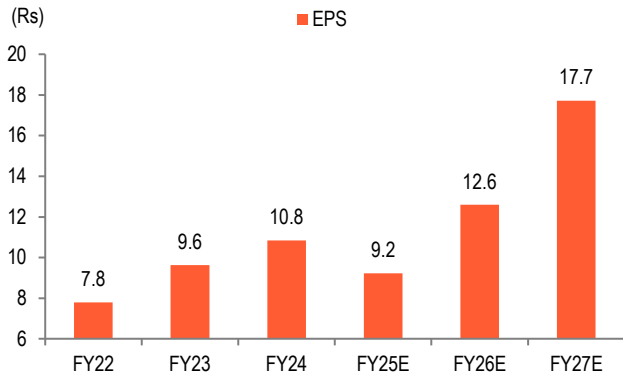
Source: Company, BOBCAPS Research

**Fig 6 – Plywood segment reported operating loss for the sixth straight quarter due to slow ramp-up of the plant**



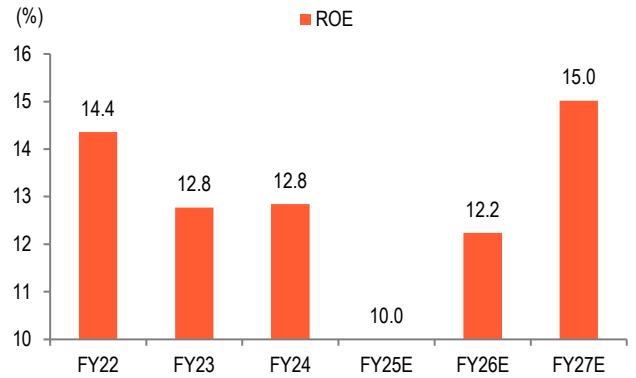
Source: Company, BOBCAPS Research

**Fig 7 – GRLM’s EPS to grow at healthy 17.8% 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 15.0% in FY27E**



Source: Company, BOBCAPS Research

### Valuation methodology

We maintain our HOLD rating on the stock on (a) weak ROCE projected for its particleboard project at least for the next two to three years due to sharp upward revision in project cost, and (b) expensive valuations (trades at 45.7x on 1Y forward P/E vs 5Y average of 35.1x).

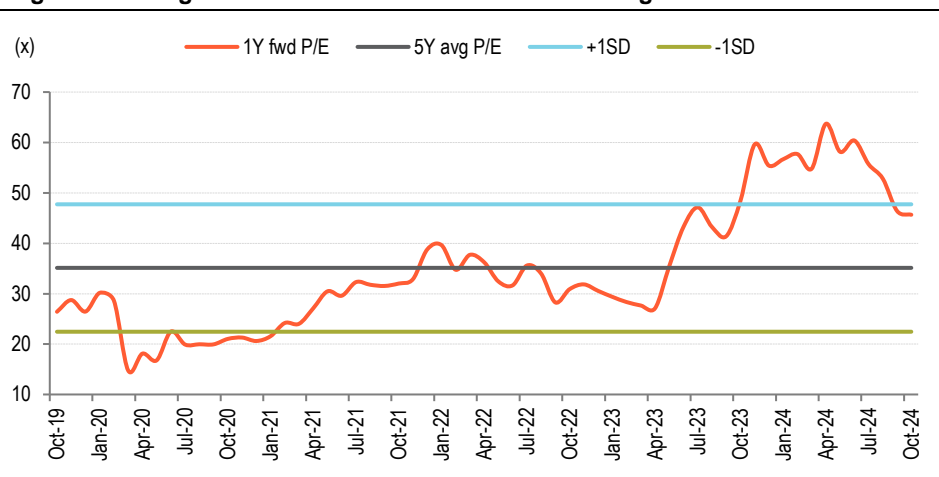
We have cut our TP to Rs 530 (Rs 560 earlier) due to the downward revision of our EPS estimates (-10.0%/-19.7%/-14.4% for FY25E/FY26E/FY27E) based on the weak Q2 result. Our target P/E has been raised from 33x to 35x (in line with the 5Y average multiple) on Sep'26 estimates (Jun'26 earlier).

**Fig 9 – Revised Estimates**

Particulars Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	27.3	32.1	37.7	28.7	34.8	39.7	(4.9)	(7.7)	(4.9)
EBITDA	3.1	3.9	4.8	3.4	4.4	5.3	(7.5)	(12.8)	(9.1)
EBITDA Margin (%)	11.4	12.0	12.7	11.7	12.7	13.3	(33bps)	(71bps)	(59bps)
Adjusted PAT	1.2	1.6	2.3	1.3	2.0	2.6	(10.0)	(19.7)	(14.4)
EPS (Rs)	9.2	12.6	17.7	10.3	15.7	20.7	(10.0)	(19.7)	(14.4)

Source: BOBCAPS Research

**Fig 10 – Trading at 45.7x on 1Y forward P/E vs 5Y average of 35.1x**



Source: Bloomberg, BOBCAPS Research

**Fig 11 – Key assumptions**

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue mix</b>						
Laminates	91.4	91.4	88.4	86.0	80.4	76.7
Veneer	8.6	8.6	9.0	8.1	7.5	7.1
Plywood	-	-	2.5	4.1	5.4	8.1
Particleboard	-	-	-	1.9	6.6	8.1
<b>Sales volume growth</b>						
Laminates	22.5	4.7	9.5	11.0	10.0	10.0
Plywood	-	-	-	81.8	55.0	75.9
Particleboard	-	-	-	-	314.3	44.8
<b>EBITDA margin</b>						
Laminates	12.7	13.2	16.0	14.6	15.0	15.0
Veneer	(6.2)	(5.1)	(0.3)	(0.4)	(1.1)	(1.5)
Plywood	-	-	(51.8)	(22.0)	(6.5)	2.3
Particleboard	-	-	-	(12.4)	6.1	13.5

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	0.2	510	550	HOLD
Astral	ASTRA IN	5.6	1,760	2,200	HOLD
Century Plyboards	CPBI IN	2.2	841	725	HOLD
Finolex Industries	FNXP IN	2.1	289	300	HOLD
Greenlam Industries	GRLM IN	0.8	511	530	HOLD
Greenpanel Industries	GREENP IN	0.5	375	365	HOLD
Greenply Industries	MTLM IN	0.5	355	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	301	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,209	1,450	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.6	482	750	BUY
Somany Ceramics	SOMC IN	0.3	653	850	BUY
Supreme Industries	SI IN	6.6	4,336	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Oct 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>20,260</b>	<b>23,063</b>	<b>27,299</b>	<b>32,119</b>	<b>37,727</b>
EBITDA	2,333	2,974	3,112	3,865	4,785
Depreciation	632	871	1,181	1,370	1,413
EBIT	1,701	2,103	1,931	2,495	3,372
Net interest inc./(exp.)	(235)	(443)	(617)	(674)	(679)
Other inc./(exp.)	180	217	276	326	326
Exceptional items	4	27	0	0	0
EBT	1,641	1,849	1,590	2,147	3,020
Income taxes	361	469	413	540	760
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	4	0	0	0
<b>Reported net profit</b>	<b>1,284</b>	<b>1,384</b>	<b>1,177</b>	<b>1,607</b>	<b>2,260</b>
Adjustments	(61)	(1)	0	0	0
<b>Adjusted net profit</b>	<b>1,224</b>	<b>1,383</b>	<b>1,177</b>	<b>1,607</b>	<b>2,260</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,753	3,479	4,227	4,973	5,841
Other current liabilities	1,653	1,914	1,914	1,914	1,914
Provisions	35	48	58	69	81
Debt funds	5,699	9,988	10,572	10,155	9,239
Other liabilities	692	1,160	1,160	1,160	1,160
Equity capital	127	128	128	128	128
Reserves & surplus	9,455	10,644	11,642	13,005	14,921
Shareholders' fund	9,582	10,769	11,767	13,129	15,045
<b>Total liab. and equities</b>	<b>20,414</b>	<b>27,358</b>	<b>29,697</b>	<b>31,400</b>	<b>33,280</b>
Cash and cash eq.	2,580	1,803	1,290	1,150	746
Accounts receivables	1,440	1,521	1,800	2,118	2,488
Inventories	5,135	6,091	6,540	8,129	10,100
Other current assets	952	1,426	1,732	2,037	2,393
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
<b>Total assets</b>	<b>20,414</b>	<b>27,358</b>	<b>29,697</b>	<b>31,400</b>	<b>33,280</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>2,537</b>	<b>2,368</b>	<b>2,422</b>	<b>1,868</b>	<b>2,209</b>
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	276	326	326
<b>Cash flow from investing</b>	<b>(5,484)</b>	<b>(6,796)</b>	<b>(2,724)</b>	<b>(674)</b>	<b>(674)</b>
Equities issued/Others	6	1	0	0	0
Debt raised/repaid	2,246	4,289	584	(416)	(916)
Interest expenses	(235)	(443)	(617)	(674)	(679)
Dividends paid	(190)	(210)	(179)	(244)	(344)
Other financing cash flows	1,936	16	0	0	0
<b>Cash flow from financing</b>	<b>3,763</b>	<b>3,652</b>	<b>(212)</b>	<b>(1,334)</b>	<b>(1,939)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>815</b>	<b>(777)</b>	<b>(514)</b>	<b>(140)</b>	<b>(404)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,580</b>	<b>1,803</b>	<b>1,290</b>	<b>1,150</b>	<b>746</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	10.1	10.8	9.2	12.6	17.7
Adjusted EPS	9.6	10.8	9.2	12.6	17.7
Dividend per share	1.5	1.7	1.4	1.9	2.7
Book value per share	75.4	84.4	92.3	102.9	118.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.1	2.7	2.2	1.8	1.5
EV/EBITDA	27.3	21.1	19.1	14.6	11.7
Adjusted P/E	53.0	47.2	55.4	40.6	28.9
P/BV	6.8	6.1	5.5	5.0	4.3

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.6	74.8	74.0	74.8	74.8
Interest burden (PBT/EBIT)	96.5	87.9	82.4	86.1	89.5
EBIT margin (EBIT/Revenue)	8.4	9.1	7.1	7.8	8.9
Asset turnover (Rev./Avg TA)	99.2	84.3	91.9	102.3	113.4
Leverage (Avg TA/Avg Equity)	2.1	2.5	2.5	2.4	2.2
Adjusted ROAE	12.8	12.8	10.0	12.2	15.0

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.9	13.8	18.4	17.7	17.5
EBITDA	24.2	27.5	4.6	24.2	23.8
Adjusted EPS	23.6	12.5	(14.9)	36.5	40.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.5	12.9	11.4	12.0	12.7
EBIT margin	8.4	9.1	7.1	7.8	8.9
Adjusted profit margin	6.0	6.0	4.3	5.0	6.0
Adjusted ROAE	15.2	13.6	10.4	12.9	16.0
ROCE	12.3	11.2	9.9	12.1	15.2
<b>Working capital days (days)</b>					
Receivables	26	24	24	24	24
Inventory	93	96	87	92	98
Payables	50	55	57	57	57
<b>Ratios (x)</b>					
Gross asset turnover	2.2	1.9	1.4	1.3	1.5
Current ratio	1.5	1.2	1.2	1.3	1.4
Net interest coverage ratio	7.2	4.7	3.1	3.7	5.0
Adjusted debt/equity	0.3	0.8	0.8	0.7	0.6

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%

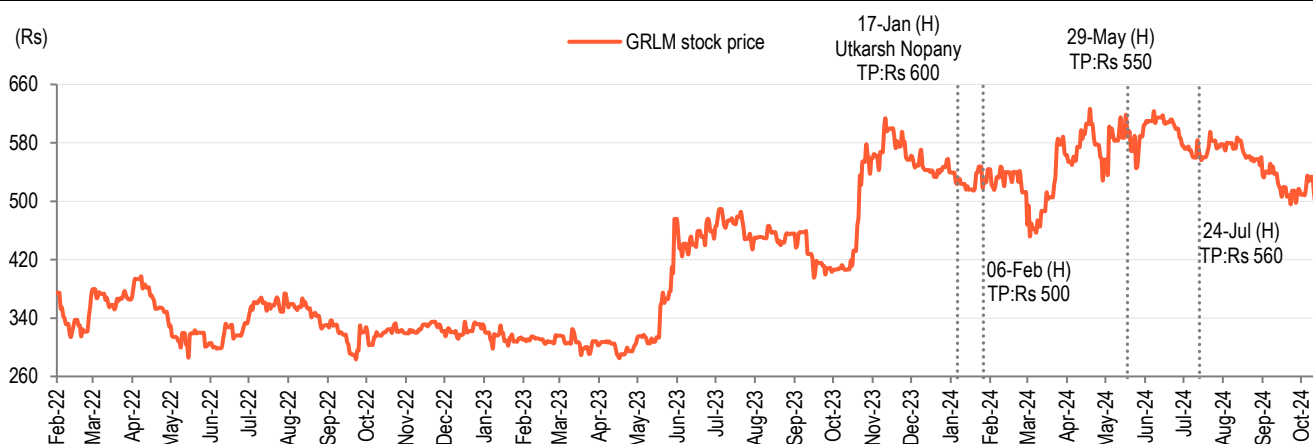
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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



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