

HOLD

TP: Rs 550 | ▼ 6%

GREENLAM INDUSTRIES | Building Materials

29 May 2024

Soft quarter; particleboard project cost revised up again

- Missed our EBITDA estimates by 4% for Q4FY24 on weak laminates demand from export market
- Management maintained revenue growth guidance at 20% YoY for FY25; EBITDA margin to be flat in FY25
- Maintain HOLD amid weak return ratio profile and expensive valuations; raise TP by 10% to Rs 550 due to valuation roll forward

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Misses estimates: GRLM missed our revenue/EBITDA estimates by 4.1%/3.8% for Q4FY24 due to lower-than-expected laminate revenue (+9.2% YoY vs +17.8% estimated). Overall, GRLM revenue/EBITDA grew by 16.9%/12.8% YoY, but APAT was down 2.7% YoY in Q4FY24 due to the higher capital charge related to the newly-commissioned laminate and plywood project.

Key highlights: Despite the start of a new greenfield laminate unit in Q2FY24, GRLM laminate volume grew at 11.6% YoY (5Y CAGR: +6.8%) in Q4FY24 due to weak demand from the export market. Laminate domestic volume grew by 15% YoY whereas exports volume grew by only 6.3% YoY in FY24. The Plywood segment reported operating loss for the fourth consecutive quarter due to the slow ramp-up of the plant (operated at 23% in Q4FY24). The particleboard project's cost has been raised again to Rs 8.75bn from Rs 7.75bn due to the increase in capacity (from 231,000 CBM to 292,380 CBM) and the delay in project completion timeline (from Q2FY25 to Q3FY25).

Outlook: GRLM has maintained its revenue growth guidance of 20% YoY in FY25. It expects EBITDA margin to be flat in FY25 and likely improve from FY26 with the ramp-up of new projects. Laminate volume is expected to grow at double-digit rate with EBITDA margin of 16% in FY25. GRLM believes the particleboard project will reach breakeven point in FY26. The company plans to spend Rs 3bn in FY25 (Rs 2.5bn for the particleboard project + Rs 0.5bn for maintenance) and Rs 0.5bn in FY26. It expects net debt to peak at Rs 9.25bn-9.5bn in FY25.

Maintain HOLD, raise TP by 10% to Rs 550: We maintain our HOLD rating on the stock due to its weak return ratio profile (ROE likely to be in the low double-digits in FY25E and FY26E) and expensive valuations (trades at 52.1x on 1Y forward P/E vs 5Y average of 31.9x). We have reduced our EPS estimates by 7.0%/8.6% for FY25/FY26 due to the weak Q4FY24 result and delay in the particleboard project, but we have increased our TP to Rs 550 (from Rs 500) due to the roll forward of our valuation multiple from Sep'25 to Mar'26. Our target P/E remains unchanged at 35x on Mar'26E EPS.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GRLM IN/Rs 588
Market cap	US\$ 912.9mn
Free float	49%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 662/Rs 356
Promoter/FPI/DII	51%/16%/1%

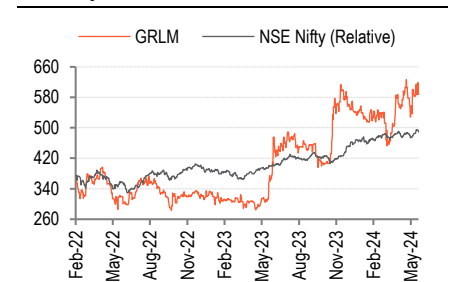
Source: NSE | Price as of 29 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,063	26,900	32,886
EBITDA (Rs mn)	2,947	3,475	4,520
Adj. net profit (Rs mn)	1,363	1,327	2,004
Adj. EPS (Rs)	10.7	10.4	15.7
Consensus EPS (Rs)	10.7	13.9	20.8
Adj. ROAE (%)	13.3	11.7	15.7
Adj. P/E (x)	55.0	56.5	37.4
EV/EBITDA (x)	24.6	20.0	14.7
Adj. EPS growth (%)	10.9	(2.6)	51.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total operating income	6,241	5,338	16.9	5,634	10.8	23,063	20,260	13.8
Raw-Material expense	2,935	2,732	7.4	2,548	15.2	10,875	10,793	0.8
Gross Profit	3,306	2,606	26.9	3,086	7.2	12,189	9,467	28.8
Employee expense	1,133	856	32.4	1,085	4.5	4,257	3,139	35.6
Other expense	1,338	1,009	32.6	1,289	3.7	4,986	3,999	24.7
EBITDA	835	741	12.8	711	17.4	2,946	2,329	26.5
D&A	258	168	52.9	245	5.2	871	632	37.8
EBIT	578	572	1.0	467	23.8	2,075	1,697	22.3
Interest cost	134	65	107.0	143	(6.6)	443	235	88.6
Non-operating expense/(income)	(87)	(44)	97.6	(31)	182.1	(217)	(179)	21.0
PBT	531	552	(3.7)	354	50.0	1,849	1,641	12.7
Tax	124	91	36.2	102	21.3	477	357	33.7
Reported PAT	408	461	(11.5)	253	61.5	1,373	1,285	6.8
Adjusted PAT	387	397	(2.7)	253	53.1	1,351	1,221	10.7
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	53.0	48.8	416	54.8	(179)	52.8	46.7	612
Employee cost	18.2	16.0	212	19.3	(110)	18.5	15.5	297
Other cost	21.4	18.9	253	22.9	(145)	21.6	19.7	188
EBITDA margin	13.4	13.9	(49)	12.6	76	12.8	11.5	128
Tax rate	23.2	16.4	681	28.7	(549)	25.8	21.7	406
APAT margin	6.2	7.4	(125)	4.5	171	5.9	6.0	(17)

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

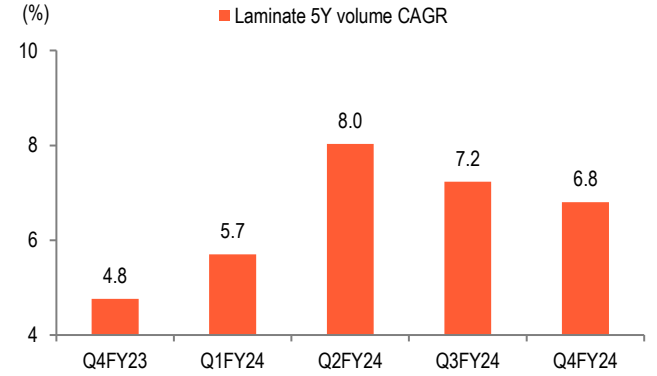
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (Rs mn)								
Laminate	5,368	4,916	9.2	4,998	7.4	20,397	18,523	10.1
Veneer	610	422	44.7	477	28.0	2,087	1,736	20.2
Plywood	263	-	-	160	64.6	579	-	-
Total	6,241	5,338	16.9	5,634	10.8	23,063	20,260	13.8
Volume								
Laminate (mn sheets)	5.2	4.7	11.6	4.7	12.0	19.0	17.3	9.5
Decorative veneer (msm)	0.4	0.3	31.3	0.3	35.5	1.4	1.3	11.2
Plywood (msm)	1.0	-	-	0.7	42.5	2.4	-	-
Realisation								
Laminate (Rs/sheet)	1,030	1,053	(2.1)	1,075	(4.1)	1,076	1,070	0.5
Decorative veneer (Rs/msm)	862	1,319	(34.6)	868	(0.7)	1,502	1,389	8.1
Plywood (Rs/msm)	253	-	-	219	15.4	238	-	-
EBITDA (Rs mn)								
Laminate	892	767	16.3	792	12.6	3,254	2,444	33.1
Veneer	20	(16)	(225.0)	3	566.7	(7)	(89)	(92.1)
Plywood	(76)	-	-	(83)	(8.4)	(300)	-	-
Total	835	741	12.8	711	17.4	2,946	2,329	26.5
EBITDA margin (%)								
Laminate	16.6	15.6	102bps	15.8	77bps	16.0	13.2	276bps
Veneer	3.3	(3.8)	707bps	0.6	265bps	(0.3)	(5.1)	479bps
Plywood	(28.9)	-	-	(52.0)	2,308bps	(51.8)	-	-
Total	13.4	13.9	(49bps)	12.6	76bps	12.8	11.5	128bps

Source: Company, BOBCAPS Research

Earnings call highlights

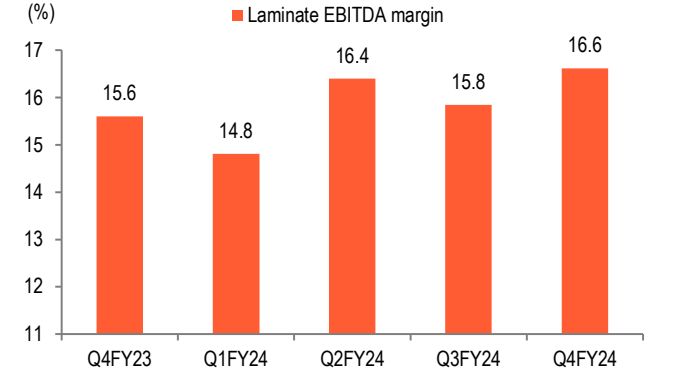
- **Laminate performance:** Laminate segment EBITDA grew by 16.3% YoY in Q4FY24 driven by higher volumes (+11.6% YoY; 5Y CAGR: +6.8%) and margin improvement (+102bps YoY to 16.6%). Going ahead, the company expects laminate segment volume to grow at double-digits for the next few years. Segment gross margin is expected to be 54-55% and EBITDA margin around 16% in FY25. The Naidupeta plant operated at 42% in Q4FY24 and became EBITDA positive in Q4FY24. No price hike is planned for laminates in the near future due to stable raw material prices.
- **Plywood:** The segment's revenue grew by 65% QoQ, but reported operating loss of Rs 76mn in Q4FY24 (vs loss of Rs 83mn in Q3FY24). The company operated at a low rate of 23% in Q4FY24 as it operates only in the premium segment at the moment. It plans to hike plywood prices in the near future due to rising timber prices.
- **Veneer:** The segment's revenue grew sharply by 45% YoY in Q4FY24. The segment reported operating profit of Rs 20mn in Q4FY24 vs loss of Rs 16mn in Q4FY23 due to operating leverage benefit.
- **Particleboard:** GRLM has raised its particleboard project cost from Rs 7.75bn to Rs 8.75bn due to the increase in capacity (to 292,380 CBM from 231,000 CBM) and the project is now expected to be completed by Q3FY25 (Q2FY25 earlier). The company expects to operate the plant at 50% in FY26 and 70-75% in FY27. The plant is expected to break even at EBITDA level by FY26.
- **Capex:** The company plans to spend Rs 3bn in FY25 (Rs 2.5bn for particleboard project + Rs 0.5bn for maintenance) and Rs 0.5bn in FY26 (for maintenance).
- **Net debt:** Net debt declined to Rs 8.34bn in Mar'24 from Rs 8.47bn in Dec'23. The company expects net debt to peak at Rs 9.25bn-9.5bn in FY25.

Fig 3 – GRLM’s laminate volumes grew at 11.6% YoY and 6.8% on a 5Y CAGR basis in Q4FY24



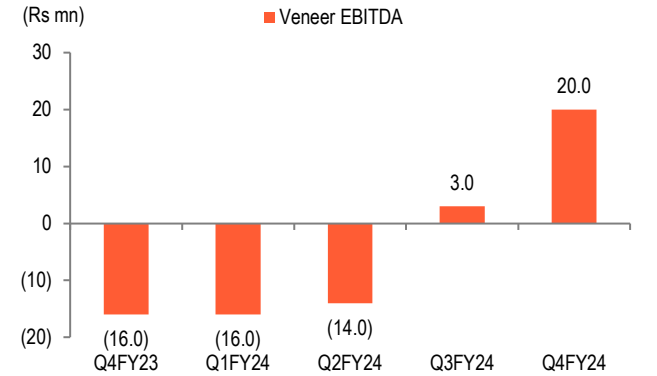
Source: Company, BOBCAPS Research

Fig 4 – Laminate EBITDA margin improved by 110bps YoY to 16.6% in Q4FY24



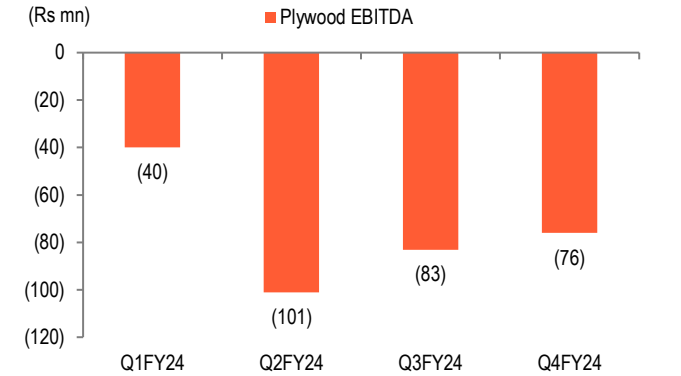
Source: Company, BOBCAPS Research

Fig 5 – Veneer segment posted positive EBITDA for the second consecutive quarter due to scale benefits



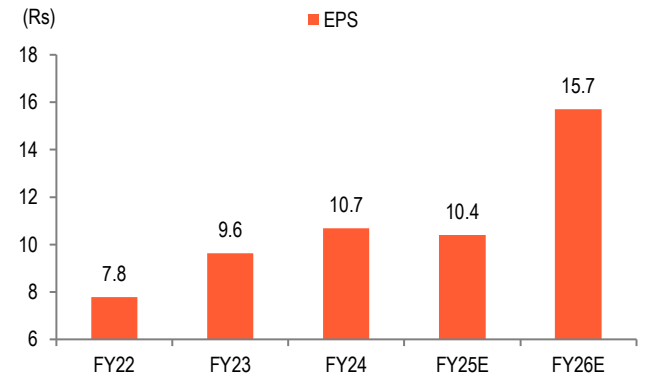
Source: Company, BOBCAPS Research

Fig 6 – Plywood segment operating loss reduced further in Q4FY24 due to rising scale of operations



Source: Company, BOBCAPS Research

Fig 7 – GRLM’s EPS to grow at healthy 21% CAGR over FY24-FY26E on near completion of large capex drive



Source: Company, BOBCAPS Research

Fig 8 – ROE projected to improve from 12.7% in FY24 to 14.7% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

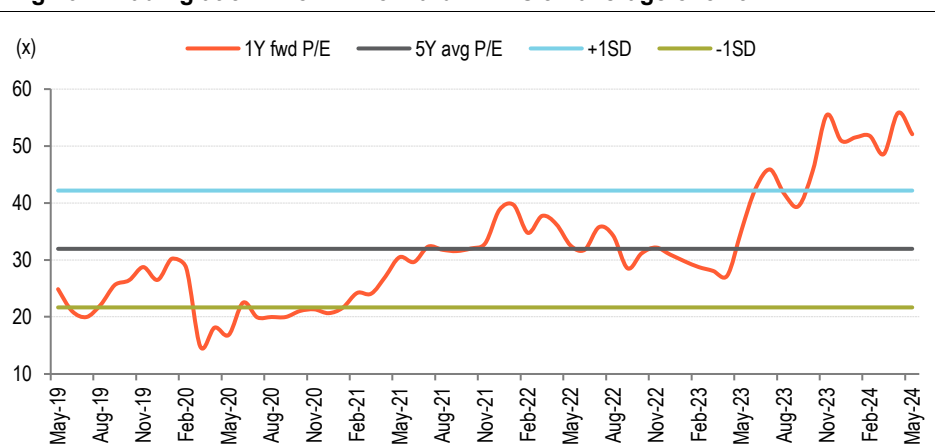
We maintain our HOLD rating on the stock due to GRLM's weak return ratio profile (ROE is expected to be in the low double-digits in FY25 and FY26) and expensive valuations (trades at 52.1x on 1Y forward P/E vs 5Y average of 31.9x). We have reduced our EPS estimates by 7.0%/8.6% for FY25/FY26 due to the weak Q4FY24 result and delay in particleboard project, but we have increased our TP to Rs 550 (Rs 500 earlier) due to the roll forward of our valuation multiple from Sep'25 to Mar'26. Our target P/E remains unchanged at 35x on Mar'26E EPS.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	26.9	32.9	27.6	33.2	(2.5)	(1.0)
EBITDA	3.5	4.5	3.5	4.6	0.4	(2.1)
EBITDA Margin (%)	12.9	13.7	12.6	13.9	36bps	(16bps)
EPS (Rs)	10.4	15.7	11.2	17.2	(7.0)	(8.6)

Source: BOBCAPS Research

Fig 10 – Trading at 52.1x on 1Y forward P/E vs 5Y average of 31.9x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue mix						
Laminates	88.8	91.4	91.4	88.4	83.1	74.8
Veneer	11.2	8.6	8.6	9.0	8.5	7.7
Plywood	NA	NA	NA	2.5	6.4	9.1
Particleboard	NA	NA	NA	-	1.9	8.4
Sales volume growth						
Laminates	1.4	22.5	4.7	9.5	14.5	10.0
Plywood	NA	NA	NA	NM	181.8	72.4
Particleboard	NA	NA	NA	NA	NM	442.9
EBITDA margin						
Laminates	16.7	12.7	13.2	16.0	16.0	16.0
Veneer	(3.6)	(6.2)	(5.1)	(0.3)	2.8	2.6
Plywood	NA	NA	NA	(51.7)	(2.4)	11.5
Particleboard	NA	NA	NA	NA	(24.3)	6.3

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	659	650	HOLD
Astral	ASTRA IN	6.9	2,114	2,200	HOLD
Century Plyboards	CPBI IN	1.8	660	700	HOLD
Cera Sanitaryware	CRS IN	1.1	7,068	7,700	HOLD
Finolex Industries	FNXP IN	2.4	322	265	HOLD
Greenlam Industries	GRLM IN	0.9	588	550	HOLD
Greenpanel Industries	GREENP IN	0.4	297	340	HOLD
Greenply Industries	MTLM IN	0.4	257	320	BUY
Hindware Home Innovation	HINDWARE IN	0.3	397	600	BUY
Kajaria Ceramics	KJC IN	2.5	1,270	1,400	BUY
Prince Pipes & Fittings	PRINCP IN	0.8	614	750	HOLD
Somany Ceramics	SOMC IN	0.4	719	900	BUY
Supreme Industries	SI IN	8.5	5,516	4,650	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	17,034	20,260	23,063	26,900	32,886
EBITDA	1,879	2,333	2,947	3,475	4,520
Depreciation	585	632	871	1,192	1,367
EBIT	1,294	1,701	2,076	2,284	3,153
Net interest inc./(exp.)	(141)	(235)	(443)	(682)	(647)
Other inc./(exp.)	73	180	217	172	172
Exceptional items	9	4	0	0	0
EBT	1,217	1,641	1,849	1,774	2,678
Income taxes	286	361	469	446	674
Extraordinary items	26	0	0	0	0
Min. int./Inc. from assoc.	2	4	4	0	0
Reported net profit	907	1,284	1,384	1,327	2,004
Adjustments	33	(61)	(21)	0	0
Adjusted net profit	941	1,224	1,363	1,327	2,004

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	2,558	2,697	3,479	4,058	4,961
Other current liabilities	594	1,713	1,914	1,914	1,914
Provisions	30	35	48	56	69
Debt funds	3,453	5,699	9,988	9,488	8,988
Other liabilities	657	693	1,160	1,160	1,160
Equity capital	121	127	128	128	128
Reserves & surplus	6,423	9,559	10,644	11,770	13,469
Shareholders' fund	6,551	9,690	10,769	11,894	13,593
Total liab. and equities	13,842	20,526	27,358	28,570	30,685
Cash and cash eq.	1,765	2,583	1,803	508	203
Accounts receivables	1,301	1,443	1,521	1,774	2,169
Inventories	5,034	5,135	6,091	6,301	8,323
Other current assets	468	946	1,426	1,663	2,033
Investments	0	0	0	0	0
Net fixed assets	4,572	5,028	9,725	17,534	17,166
CWIP	75	3,802	6,110	110	110
Intangible assets	118	145	137	137	137
Deferred tax assets, net	81	63	99	99	99
Other assets	427	1,381	445	445	445
Total assets	13,842	20,526	27,358	28,570	30,685

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	611	2,550	2,334	2,916	1,975
Capital expenditures	(867)	(5,774)	(6,871)	(3,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	38	175	217	172	172
Cash flow from investing	(829)	(5,598)	(6,654)	(2,828)	(828)
Equities issued/Others	0	6	1	0	0
Debt raised/repaid	969	2,246	4,289	(500)	(500)
Interest expenses	(141)	(235)	(443)	(682)	(647)
Dividends paid	(145)	(190)	(210)	(202)	(305)
Other financing cash flows	50	2,043	(91)	0	0
Cash flow from financing	733	3,870	3,545	(1,384)	(1,451)
Chg in cash & cash eq.	515	822	(775)	(1,296)	(305)
Closing cash & cash eq.	1,765	2,583	1,803	508	203

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	7.5	10.1	10.8	10.4	15.7
Adjusted EPS	7.8	9.6	10.7	10.4	15.7
Dividend per share	1.2	1.5	1.7	1.6	2.4
Book value per share	54.2	76.3	84.4	93.3	106.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	4.3	3.6	3.1	2.6	2.0
EV/EBITDA	38.9	31.5	24.6	20.0	14.7
Adjusted P/E	75.4	61.0	55.0	56.5	37.4
P/BV	10.8	7.7	7.0	6.3	5.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	77.3	74.6	73.7	74.8	74.8
Interest burden (PBT/EBIT)	94.1	96.5	89.1	77.7	84.9
EBIT margin (EBIT/Revenue)	7.6	8.4	9.0	8.5	9.6
Asset turnover (Rev./Avg TA)	123.1	98.7	84.3	94.2	107.2
Leverage (Avg TA/Avg Equity)	2.1	2.1	2.5	2.4	2.3
Adjusted ROAE	14.4	12.6	12.7	11.2	14.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	42.0	18.9	13.8	16.6	22.3
EBITDA	7.3	24.2	26.3	17.9	30.1
Adjusted EPS	15.9	23.6	10.9	(2.6)	51.0
Profitability & Return ratios (%)					
EBITDA margin	11.0	11.5	12.8	12.9	13.7
EBIT margin	7.6	8.4	9.0	8.5	9.6
Adjusted profit margin	5.5	6.0	5.9	4.9	6.1
Adjusted ROAE	15.3	15.1	13.3	11.7	15.7
ROCE	13.7	12.2	11.0	11.5	14.7
Working capital days (days)					
Receivables	28	26	24	24	24
Inventory	108	93	96	85	92
Payables	55	49	55	55	55
Ratios (x)					
Gross asset turnover	2.1	2.2	1.8	1.4	1.3
Current ratio	1.7	1.5	1.2	1.1	1.2
Net interest coverage ratio	9.2	7.2	4.7	3.3	4.9
Adjusted debt/equity	0.3	0.3	0.8	0.8	0.6

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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

BUY – Expected return >+15%

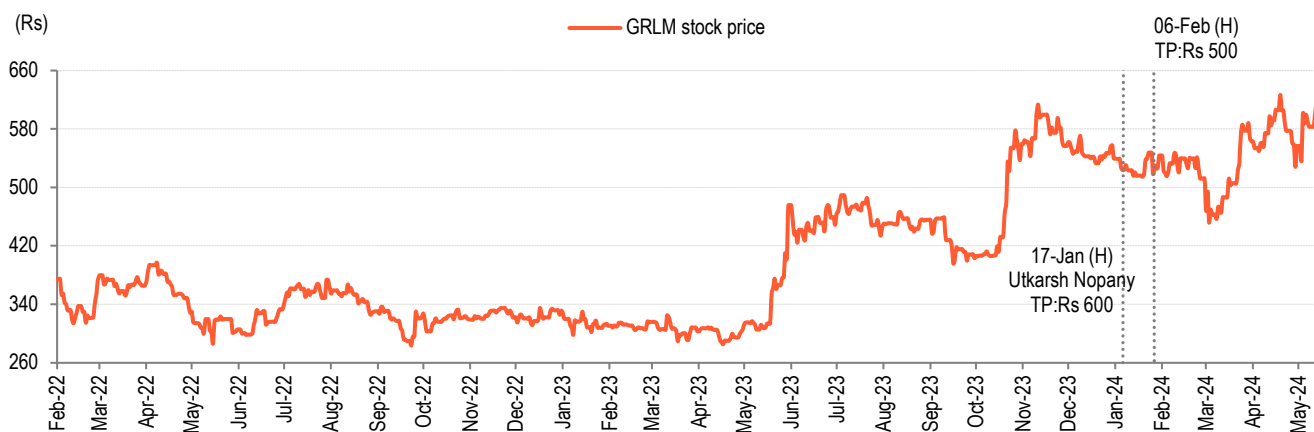
HOLD – Expected return from -6% to +15%

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

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