

Greenlam Industries

Poised for growth; looking beyond laminates

We recently met with Greenlam Industries' CFO Mr Ashok Sharma and VP of Finance Mr Samarth Agarwal. Industry demand continues to stay sub-par; its revival will take at least a few quarters. Laminate input costs are expected to remain stable, so management is confident of maintaining a 15-16% EBITDA margin in this segment. The ply segment (new) is ramping up, which the management expects will break even in FY25. It also expects a low EBITDA margin for the ply segment in FY25, which may increase to 10-12% in FY26. The greenfield particle board (231K CBM) is expected to be commissioned by Q2FY25, costing INR 7.75bn. Management expects to ramp up this plant fully in the fourth year of commissioning. It expects 20-25% EBITDA margin at optimum utilisation. Veneer and door segment performance is expected to improve. The company believes the announced capex can generate INR 40-42bn revenue (2x FY23 revenue). We expect the company to outperform laminates industry growth and deliver strong margins in this segment. We expect a 13% revenue CAGR in the laminate segment during FY23-26E. Owing to entry in the new ply and particle board segments, we expect a strong 20% consolidated revenue CAGR during FY23-26E. We estimate 29/21% EBITDA/APAT CAGRs during this time. We like Greenlam for its leadership positioning in laminates. However, we are cautious of plant ramp-up in the new ply and particle board segments (large capacities added in a short period). We expect net debt/EBITDA to remain 2-3x during FY24/25E, which will cool off to 1.4x in FY26. We maintain our ADD rating on Greenlam, with a TP of INR 585/sh (33x Mar-26E EPS).

- **Laminate segment margin outlook looks healthy:** Indian real estate demand has been strong for the last two years. Once these buildings arrive at the possession stage, demand for the company's wood products will pick up. Management mentioned laminate plants are facing challenges in Europe and customers prefer to add another supplier from outside Europe, which augers well for the Indian laminate industry. Management guided its domestic and export laminate revenue split will remain similar. It expects laminate raw material costs to remain stable. It sees minimal impact on margin (10-20bps) owing to a rise in ocean freight rates, as these higher rates will be passed on. However, owing to the Red Sea issue, shipments are taking 2-3 weeks longer. Management is confident of maintaining a 15-16% EBITDA margin in the laminate segment. Its laminate facility can run at 110% capacity utilisation (crossed this level in FY14), so capacity constraints won't be an issue. In FY26, it will take up brownfield expansion either at Prantij, Gujarat, or Naidupeta, AP. Brownfield expansion work can be completed in three quarters. Return ratios are strong in the laminate business (45% pre-tax RoCE in 9MFY24).
- **Ply segment ramping up:** Greenlam entered the ply segment in Jun-23 with a capacity of 18.9mn SQM at Tamil Nadu (small 15-acre land) by incurring a capex of INR 1.3bn (revenue potential is INR 4bn). This plant will break even at 50% capacity utilisation; management expects it to break even in FY25. Hence, it expects a low EBITDA margin in FY25, which will increase to 10-12% in FY26. It expects to ramp up this plant to 70-80% capacity utilisation in FY26. It has different sales teams for the ply and laminate segments. In future, it plans to become a pan-India player in this segment.

ADD

| | |
|------------------------|---------|
| CMP (as on 4 Mar 2024) | INR 535 |
| Target Price | INR 585 |
| NIFTY | 22,406 |

| KEY CHANGES | OLD | NEW |
|--------------|---------|---------|
| Rating | ADD | ADD |
| Price Target | INR 575 | INR 585 |
| EPS | FY24E | FY25E |
| revision % | 0.0 | 0.4 |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | GRLM IN |
| No. of Shares (mn) | 128 |
| MCap (INR bn) / (\$ mn) | 68/835 |
| 6m avg traded value (INR mn) | 61 |
| 52 Week high / low | INR 626/282 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|--------|------|------|
| Absolute (%) | (10.1) | 17.9 | 74.2 |
| Relative (%) | (17.4) | 5.4 | 50.7 |

SHAREHOLDING PATTERN (%)

| | Sep-23 | Dec-23 |
|-----------------|--------|--------|
| Promoters | 51.22 | 50.98 |
| FIs & Local MFs | 15.58 | 15.54 |
| FPIs | 1.37 | 1.28 |
| Public & Others | 31.82 | 32.20 |

| | | |
|----------------|---|---|
| Pledged Shares | - | - |
|----------------|---|---|

Source : BSE

Pledged shares as % of total shares

Keshav Lahoti

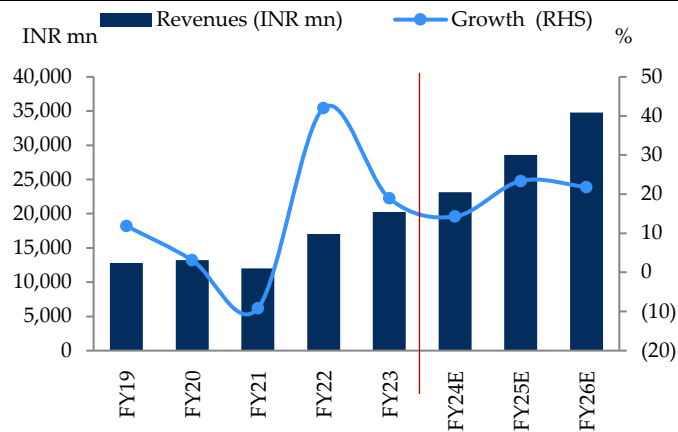
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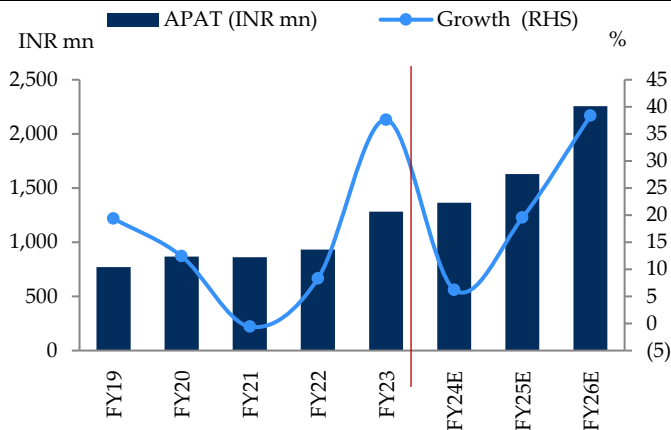
- **Entry in a new segment—particle board:** The greenfield particle board (231K CBM) is expected to be commissioned by Q2FY25, costing INR 7.75bn. This plant can achieve 1x asset turnover at 70-75% pre-lam board board mix. The company plans to maximise pre-lam board sales. At 60-65% capacity utilisation, this plant will hit PBT breakeven. Management expects to ramp up this plant fully in the fourth year of commissioning. It expects 20-25% EBITDA margin at optimum utilisation. We expect the particle board segment to speed up the company's growth rates. However, it can dilute its return ratios.
- **Veneer and door segment performance to improve:** Veneer is a niche segment and the company believes it gels well with its other products. Ply and veneer have similar distribution networks. This segment won't need additional capital infusion. The door is a large segment; however, so far, the company has not been able to crack it. Greenlam focus is only on the wooden engineered door. In Q3FY24, the door segment turned EBITDA positive.
- **Capex and debt:** The company believes announced capex can generate INR 40-42bn revenue (2x FY23 revenue). As the ply and particle board segments will take time to ramp up, no major capex is expected in these segments for the next two years. In the laminate segment, it has enough room to fulfil demand for at least four years through brownfield expansion. Recently, it has bought a large 90-acre land in UP for future expansion costing INR 0.25bn. This is agricultural land, and its conversion to industrial land will take time. In India, acquiring land is challenging, so keeping the future in mind, the company has acquired UP land. We expect net debt/ EBITDA to remain 2-3x during FY24/25E, which will cool off to 1.4x in FY26, owing to lower Capex and ramp-up of plants in new segments.
- **Laminate outlook positive, ply and particle board segments ramp-up remain key monitorable:** We expect the company to outperform laminates industry growth and deliver strong margin in this segment. We expect a 13% revenue CAGR in the laminate segment during FY23-26E. Owing to entry into the new ply and particle board segments, we expect a strong 20% revenue CAGR during FY23-26E at the company level. We estimate 29/21% EBITDA/APAT CAGRs for the same period. We like Greenlam for its leadership positioning in laminates. However, we are cautious of plant ramp-up in the new ply and particle board segments (large capacities added in a short period). We broadly maintain our FY24/25 APAT estimates and raise FY26E APAT estimates by 2%. We maintain our ADD rating with a revised TP of INR 585/sh (33x Mar-26E EPS).

We expect strong 20% revenue CAGR during FY23-26E owing to strong volume growth in laminates segment and contribution from new segments...



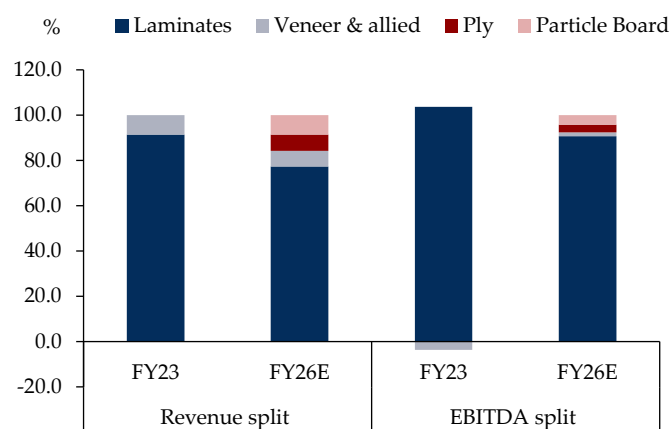
Source: Company, HSIE Research

APAT too should grow strongly in line with revenue (21% CAGR during FY24-26E)



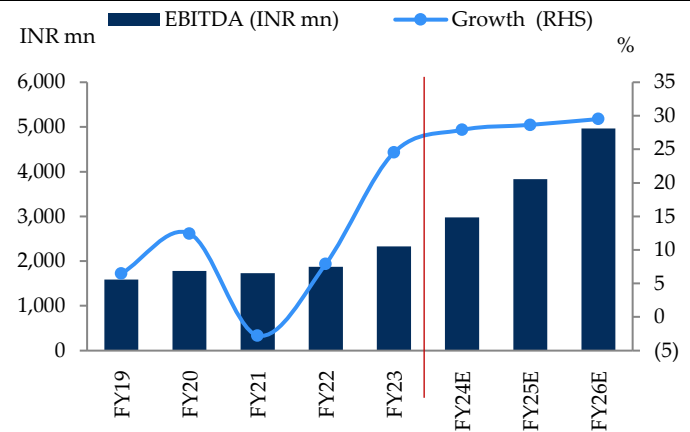
Source: Company, HSIE Research

New segment ply and particle board together are expected to contribute 16/8% in revenue/EBITDA mix in FY26E



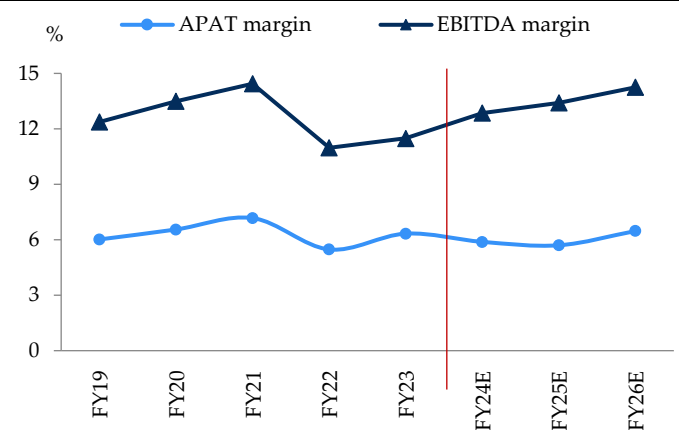
Source: Company, HSIE Research

...EBITDA to grow at 29% CAGR led by strong revenue growth and improvement in laminate segment margin



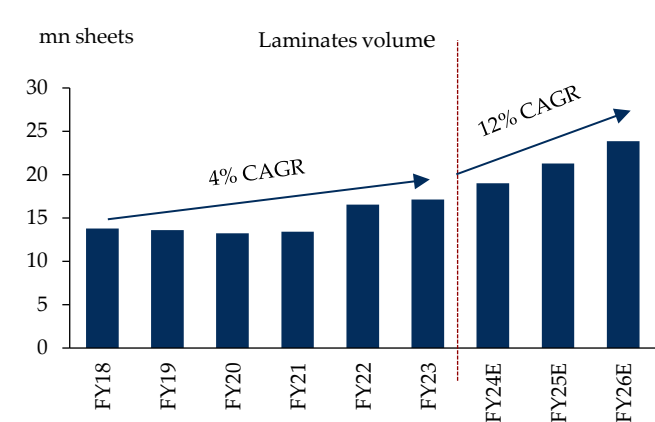
Source: Company, HSIE Research

Margins are expected to improve



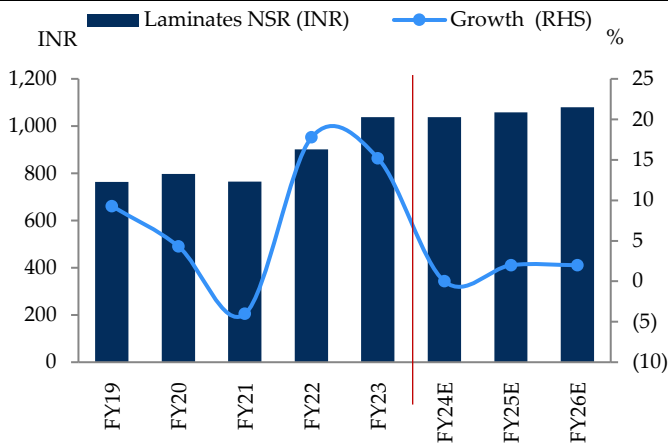
Source: Company, HSIE Research

Laminates sales volume growth should accelerate



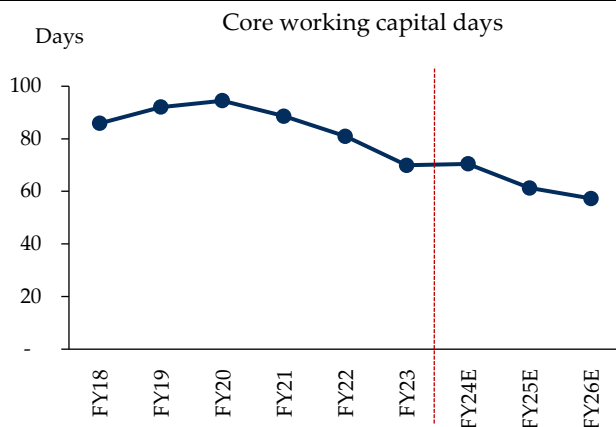
Source: Company, HSIE Research

We expect low 2% laminates segment realisation CAGR during FY23-26E, owing to cool-off in raw material prices in FY24...



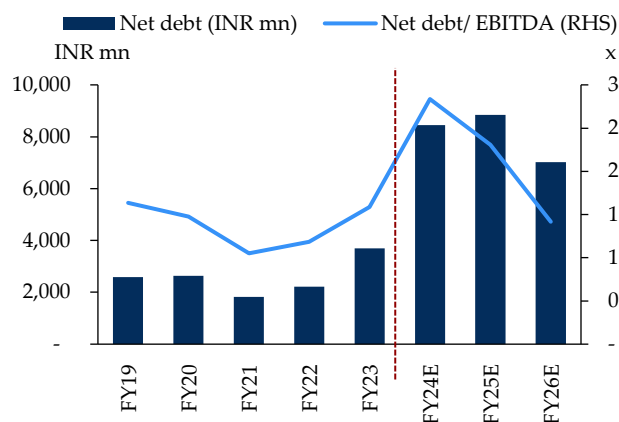
Source: Company, HSIE Research

The company is tightening its working capital cycle. Further decline to be led by entry in new particle board segment where working capital days are lower



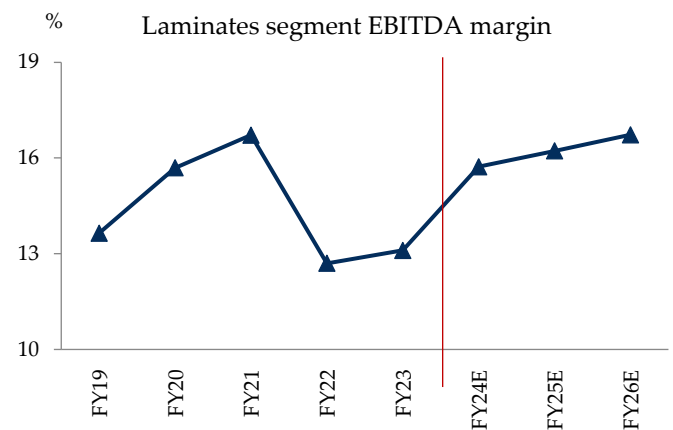
Source: Company, HSIE Research

Net debt/EBITDA will peaked out in FY24



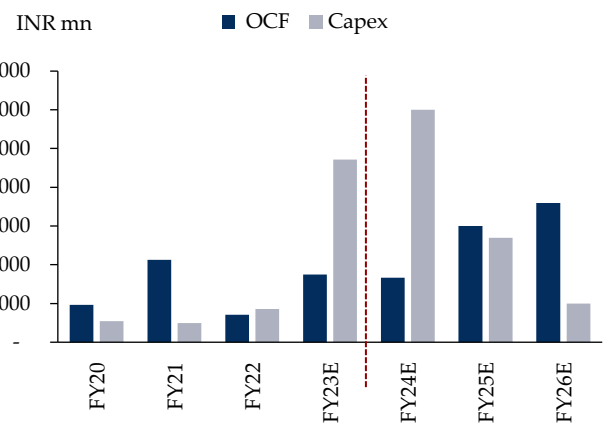
Source: Company, HSIE Research

...laminates segment margin will increase owing to higher value-added product sales and op-lev gain



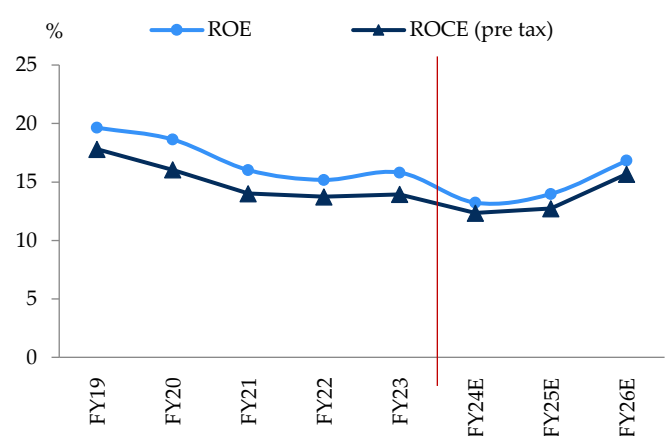
Source: Company, HSIE Research

Capex pace will slow down in FY25/26, so OCF will be higher than capex during these years



Source: Company, HSIE Research

Healthy return ratios



Source: Company, HSIE Research

Key operational assumptions (consolidated)

| Segmental performance | FY22 | FY23 | FY24E | FY25E | FY26E |
|-----------------------------|--------|--------|--------|--------|--------|
| Laminates and allied | | | | | |
| Sales volume (mn sheets) | 16.5 | 17.1 | 19.0 | 21.3 | 23.9 |
| Volume growth YoY % | 23.5 | 3.6 | 11.0 | 12.0 | 12.0 |
| NSR (INR) | 942 | 1,081 | 1,087 | 1,108 | 1,129 |
| YoY change % | 18.3 | 14.9 | 0.5 | 1.9 | 1.9 |
| Unit EBITDA (INR) | 120 | 142 | 171 | 180 | 189 |
| Revenue (INR mn) | 15,563 | 18,523 | 20,667 | 23,589 | 26,924 |
| YoY change % | 46.1 | 19.0 | 11.6 | 14.1 | 14.1 |
| EBITDA (INR mn) | 1,976 | 2,427 | 3,250 | 3,826 | 4,504 |
| YoY change % | 10.9 | 22.8 | 33.9 | 17.7 | 17.7 |
| OPM % | 12.7 | 13.1 | 15.7 | 16.2 | 16.7 |
| Veneers and allied | | | | | |
| Revenue (INR mn) | 1,471 | 1,736 | 1,937 | 2,148 | 2,371 |
| YoY change % | 9.5 | 18.0 | 11.6 | 10.9 | 10.4 |
| % of total revenues | 8.6 | 8.6 | 8.4 | 7.5 | 6.8 |
| EBITDA (INR mn) | -90 | -87 | -21 | 37 | 83 |
| % of total EBITDA | -4.8 | -3.7 | -0.7 | 1.0 | 1.7 |
| EBITDA margin % | -6.1 | -5.0 | -1.1 | 1.7 | 3.5 |
| Plywood | | | | | |
| Revenue (INR mn) | | | 550 | 1,815 | 2,524 |
| YoY change % | | | NA | 230.0 | 39.1 |
| % of total revenues | | | 2.4 | 6.4 | 7.3 |
| EBITDA (INR mn) | | | -250 | 15 | 167 |
| % of total EBITDA | | | -8.4 | 0.4 | 3.4 |
| EBITDA margin % | | | -45.5 | 0.8 | 6.6 |
| Particle board | | | | | |
| Revenue (INR mn) | | | | 1,016 | 2,986 |
| YoY change % | | | | NA | 194 |
| % of total revenues | | | | 3.6 | 8.6 |
| EBITDA (INR mn) | | | | -46 | 210 |
| % of total EBITDA | | | | -1.2 | 4.2 |
| EBITDA margin % | | | | -4.5 | 7.0 |

Source: Company, HSIE Research. NA – not applicable. Plywood sales started in FY24, Particle board sales to commence in FY25E

Estimates revision summary (consolidated)

| INR bn | FY24E Old | FY24E Revised | Change % | FY25E Old | FY25E Revised | Change % | FY26E Old | FY26E Revised | Change % |
|-----------|--------------|------------------|-------------|--------------|------------------|-------------|--------------|------------------|-------------|
| Net Sales | 23,144 | 23,155 | 0.0 | 28,558 | 28,569 | 0.0 | 34,843 | 34,806 | -0.1 |
| EBITDA | 2,979 | 2,979 | -0.0 | 3,781 | 3,832 | 1.3 | 4,941 | 4,964 | 0.5 |
| APAT | 1,364 | 1,364 | -0.0 | 1,623 | 1,630 | 0.4 | 2,204 | 2,256 | 2.3 |

Source: Company, HSIE Research

Financials

Consolidated Income Statement

| YE Mar (INR mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 17,034 | 20,260 | 23,155 | 28,569 | 34,806 |
| <i>Growth %</i> | <i>42.0</i> | <i>18.9</i> | <i>14.3</i> | <i>23.4</i> | <i>21.8</i> |
| Raw Material | 9,443 | 10,793 | 13,398 | 16,824 | 20,504 |
| Power & Fuel | 539 | 739 | 697 | 860 | 1,048 |
| Freight Expense | 322 | 390 | 692 | 854 | 1,041 |
| Employee cost | 2,594 | 3,139 | 3,452 | 4,143 | 4,972 |
| Other Expenses | 2,265 | 2,871 | 1,936 | 2,056 | 2,279 |
| EBITDA | 1,870 | 2,329 | 2,979 | 3,832 | 4,964 |
| <i>EBITDA Margin (%)</i> | <i>11.0</i> | <i>11.5</i> | <i>12.9</i> | <i>13.4</i> | <i>14.3</i> |
| <i>EBITDA Growth %</i> | <i>7.9</i> | <i>24.5</i> | <i>27.9</i> | <i>28.7</i> | <i>29.5</i> |
| Depreciation | 585 | 632 | 853 | 1,152 | 1,449 |
| EBIT | 1,285 | 1,696 | 2,125 | 2,680 | 3,515 |
| Other Income | 73 | 180 | 160 | 127 | 124 |
| Interest | 141 | 235 | 442 | 662 | 670 |
| PBT | 1,217 | 1,641 | 1,843 | 2,145 | 2,968 |
| Tax | 286 | 361 | 479 | 515 | 712 |
| Minority Int | (2) | (4) | - | - | - |
| RPAT | 959 | 1,284 | 1,364 | 1,630 | 2,256 |
| EO (Loss) / Profit (Net Of Tax) | (26) | - | - | - | - |
| APAT | 933 | 1,284 | 1,364 | 1,630 | 2,256 |
| <i>APAT Growth (%)</i> | <i>8.3</i> | <i>37.6</i> | <i>6.2</i> | <i>19.5</i> | <i>38.4</i> |
| AEPS | 7.7 | 10.1 | 10.7 | 12.8 | 17.8 |
| <i>AEPS Growth %</i> | <i>8.3</i> | <i>30.8</i> | <i>6.2</i> | <i>19.5</i> | <i>38.4</i> |

Source: Company, HSIE Research

Consolidated Balance Sheet

| YE Mar (INR mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital | 121 | 127 | 127 | 127 | 127 |
| Reserves And Surplus | 6,423 | 9,559 | 10,787 | 12,254 | 14,284 |
| Total Equity | 6,544 | 9,686 | 10,914 | 12,381 | 14,411 |
| Long-term Debt | 2,214 | 4,263 | 6,763 | 6,263 | 3,763 |
| Short-term Debt | 1,765 | 2,018 | 2,955 | 4,355 | 4,775 |
| Total Debt | 3,978 | 6,280 | 9,718 | 10,618 | 8,538 |
| Deferred Tax Liability | 88 | 92 | 92 | 92 | 92 |
| Long-term Liab+ Provisions | 103 | 111 | 120 | 130 | 142 |
| TOTAL SOURCES OF FUNDS | 10,720 | 16,173 | 20,847 | 23,225 | 23,186 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 4,675 | 5,172 | 8,318 | 15,366 | 14,417 |
| Capital WIP | 91 | 3,803 | 5,803 | 303 | 803 |
| Goodwill | - | - | - | - | - |
| Other Non-current Assets | 427 | 1,381 | 681 | 681 | 681 |
| Total Non-current Investments | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 5,193 | 10,356 | 14,803 | 16,350 | 15,901 |
| Inventories | 5,034 | 5,135 | 6,020 | 6,857 | 8,005 |
| Debtors | 1,301 | 1,443 | 1,690 | 1,943 | 2,332 |
| Cash and Cash Equivalents | 1,765 | 2,583 | 1,268 | 1,767 | 1,513 |
| Other Current Assets (& Loans/adv) | 468 | 946 | 946 | 946 | 946 |
| Total Current Assets | 8,568 | 10,106 | 9,924 | 11,512 | 12,796 |
| Creditors | 2,558 | 2,697 | 3,242 | 4,000 | 4,873 |
| Other Current Liabilities & Provns | 483 | 1,593 | 638 | 638 | 638 |
| Total Current Liabilities | 3,041 | 4,290 | 3,880 | 4,638 | 5,511 |
| Net Current Assets | 5,528 | 5,817 | 6,045 | 6,874 | 7,285 |
| TOTAL APPLICATION OF FUNDS | 10,720 | 16,173 | 20,847 | 23,225 | 23,186 |

Source: Company, HSIE Research

Consolidated Cash Flow

| YE Mar (INR mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT | 1,217 | 1,641 | 1,843 | 2,145 | 2,968 |
| Non-operating & EO Items | (44) | (66) | (160) | (127) | (124) |
| Interest Expenses | 141 | 235 | 442 | 662 | 670 |
| Depreciation | 585 | 632 | 853 | 1,152 | 1,449 |
| Working Capital Change | (855) | (337) | (833) | (320) | (654) |
| Tax Paid | (333) | (353) | (479) | (515) | (712) |
| OPERATING CASH FLOW (a) | 712 | 1,752 | 1,666 | 2,997 | 3,598 |
| Capex | (854) | (4,718) | (6,000) | (2,700) | (1,000) |
| Free Cash Flow (FCF) | (143) | (2,967) | (4,334) | 297 | 2,598 |
| Investments | (543) | (813) | - | - | - |
| Non-operating Income | 34 | 120 | 160 | 127 | 124 |
| INVESTING CASH FLOW (b) | (1,363) | (5,411) | (5,840) | (2,573) | (876) |
| Debt Issuance/(Repaid) | 877 | 2,088 | 3,438 | 900 | (2,080) |
| Interest Expenses | (134) | (232) | (442) | (662) | (670) |
| FCFE | 600 | (1,111) | (1,338) | 535 | (153) |
| Share Capital Issuance | - | 1,950 | - | - | - |
| Dividend | (121) | (145) | (136) | (163) | (226) |
| FINANCING CASH FLOW (c) | 622 | 3,661 | 2,859 | 75 | (2,976) |
| NET CASH FLOW (a+b+c) | (29) | 2 | (1,315) | 499 | (254) |
| Closing Cash & Equivalents | 1,222 | 1,767 | 1,268 | 1,767 | 1,513 |

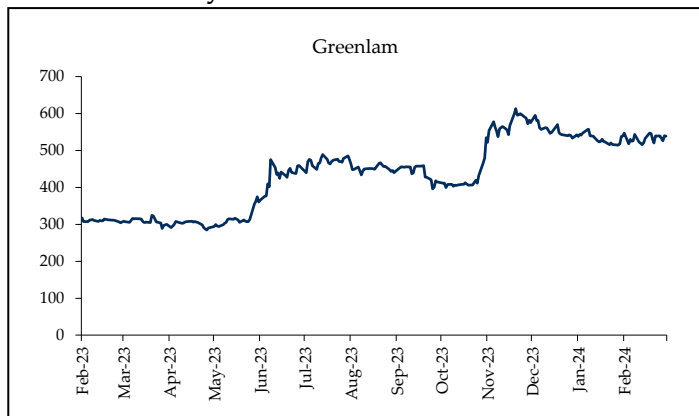
Source: Company, HSIE Research

Key Ratios

| | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------------|------|------|-------|-------|-------|
| PROFITABILITY % | | | | | |
| EBITDA Margin | 11.0 | 11.5 | 12.9 | 13.4 | 14.3 |
| EBIT Margin | 7.5 | 8.4 | 9.2 | 9.4 | 10.1 |
| APAT Margin | 5.5 | 6.3 | 5.9 | 5.7 | 6.5 |
| RoE | 15.2 | 15.8 | 13.2 | 14.0 | 16.8 |
| RoIC (pre-tax) | 15.6 | 18.2 | 18.0 | 15.3 | 16.7 |
| RoCE (pre-tax) | 13.7 | 14.0 | 12.3 | 12.7 | 15.7 |
| EFFICIENCY | | | | | |
| Tax Rate % | 23.5 | 22.0 | 26.0 | 24.0 | 24.0 |
| Fixed Asset Turnover (x) | 2.0 | 2.1 | 1.9 | 1.6 | 1.5 |
| Inventory (days) | 108 | 93 | 95 | 88 | 84 |
| Debtors (days) | 28 | 26 | 27 | 25 | 24 |
| Other Current Assets (days) | 19 | 42 | 26 | 21 | 17 |
| Payables (days) | 55 | 49 | 51 | 51 | 51 |
| Other Current Liab & Provns (days) | 13 | 31 | 12 | 10 | 8 |
| Cash Conversion Cycle (days) | 88 | 81 | 84 | 72 | 66 |
| Net Debt/EBITDA (x) | 1.2 | 1.6 | 2.8 | 2.3 | 1.4 |
| Net D/E | 0.3 | 0.4 | 0.8 | 0.7 | 0.5 |
| Interest Coverage | 9.1 | 7.2 | 4.8 | 4.0 | 5.2 |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 7.7 | 10.1 | 10.7 | 12.8 | 17.8 |
| CEPS | 12.6 | 15.1 | 17.5 | 21.9 | 29.2 |
| Dividend | 1.2 | 1.5 | 1.1 | 1.3 | 1.8 |
| Book Value | 54.3 | 76.3 | 86.0 | 97.5 | 113.5 |
| VALUATION | | | | | |
| P/E (x) | 72.8 | 52.9 | 49.8 | 41.7 | 30.1 |
| P/Cash EPS (x) | 44.0 | 35.4 | 30.6 | 24.4 | 18.3 |
| P/BV (x) | 10.4 | 7.0 | 6.2 | 5.5 | 4.7 |
| EV/EBITDA (x) | 37.5 | 29.9 | 24.7 | 20.0 | 15.0 |
| Dividend Yield (%) | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 |

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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