

May 29, 2024

RESULT REPORT Q4 FY24 | Sector: Building Materials

Greenlam Industries Ltd.

Premium valuations compel rating downgrade, assign SELL!

Result Synopsis

Greenlam Industries Ltd (GRLM) registered healthy revenue growth of 17%YoY & 11%QoQ to Rs6.24Bn. Laminates sales (86% of revenue), grew by 9%YoY & 7.4%QoQ (2-year CAGR stood at 12.5%), wherein volumes increased by 12%YoY & 12.5%QoQ (2-year CAGR stood at 14%). ASP came in at Rs1,026 Vs Rs1,053/Rs1,075 in Q4FY23/Q3FY24, respectively. EBITDA margins came in at 16.6% Vs 15.6%/15.8% in Q4FY23/Q3FY24, respectively. For laminates, domestic revenue (49.5% of laminates revenue) increased by 12%YoY & remained flattish QoQ while exports revenue (50.5% of laminates sales) grew by 7%YoY & 14.4%QoQ. Domestic volumes (56.3% of laminates vols) reported a growth of 8.4%YoY & 4%QoQ (2-year CAGR stood at 17%); Exports volumes (43.7% of laminates vols), registered an increase of 16.6%YoY & 25%QoQ (2-year CAGR stood at 11%). Laminates plant operated at 85% utilization on total capacity of 24.52mn sheets. Veneers & allied segment's revenue grew by 45%YoY & 28%QoQ to Rs610Mn. EBITDA margins stood at 3.3% Vs loss of Rs16Mn in Q4FY23 & marginal profit of Rs3Mn in previous quarter. Plywood segment (commenced operations in FY24) volumes stood at 1.04msqm Vs 0.73msqm in Q3FY24, ASP improved sequentially from Rs218/sqm to Rs251/sqm. The segment's operational loss stood at Rs76Mn Vs loss of Rs83Mn in previous quarter. Utilization during Q4FY24 stood at 23%.

In FY24, GRLM missed the annual target of 20-25% revenue growth due to sluggish demand in domestic markets and red-sea issues impacting the export biz. However, going ahead company expects a revenue growth of 20%YoY in FY25E with EBITDA margins of 13-14%. Particle board plant is experiencing delays & hence, the plant is now scheduled to commence operations from Q3FY25E. Moreover, the capex cost has escalated to Rs8.75Bn Vs Rs7.75Bn projected earlier & total capacity will be 292,380cbm Vs previous capacity of 231,000cbm.

We reckon overall topline to grow by 21.6%CAGR over FY24-FY26E wherein laminates sales are expected to increase by 15%CAGR while Plywood plant is likely to ramp-up production in FY25E & commencement of Particle boards will accelerate growth in FY26E. Overall EBITDA margins should improve gradually from 12.8% in FY24 to 13.6% in FY26E. Net profit is likely to grow by 24.4%CAGR over FY24-FY26E. At CMP, the stock trades at premium P/E(x) of 49x/35x on FY25E/FY26E EPS of Rs12.1/16.7, respectively. We have revalued the company at P/E(x) of 30x on FY26E EPS, arriving at a target price of Rs502 (revised downwards by 5%). Hence, we downgrade the stock to SELL.

Result Highlights

- Revenue for the quarter stood at Rs6.24Bn, a growth of 17%YoY & 11%QoQ.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,241	5,922	6,200	5.4	0.7	
EBITDA	835	776	825	7.7	1.2	
EBITDA Margin (%)	13.4	13.1	13.3	28 bps	8 bps	Overall beat on estimates
Adjusted PAT	408	314	351	29.9	16.4	

Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 588
Target Price	: Rs 502
Potential Return	: -14.6%

Stock data (as on May 29, 2024)

Nifty	22,705
52 Week h/l (Rs)	662 / 346
Market cap (Rs/USD mn)	76,500 / 918
Outstanding Shares (mn)	128
6m Avg t/o (Rs mn):	58
Div yield (%):	0.3
Bloomberg code:	GRLM IN
NSE code:	GREENLAM

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	51.0%
FII+DII	16.9%
Others	32.1%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	NEUTRAL
Target Price	502	542

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	12.1	16.7
EPS (Old)	14.2	21.1
% change	-15.1%	-20.7%

Financial Summary

(Rs Mn)	FY24	FY25E	FY26E
Net Revenue	23,063	27,770	34,115
YoY Growth	13.8	20.4	22.8
EBIDTA	2,947	3,743	4,638
EBIDTA (%)	12.8	13.5	13.6
PAT	1,380	1,538	2,136
YoY Growth	7.4	11.5	38.9
ROE	13.6	13.3	16.0
EPS	10.8	12.1	16.7
P/E	48.7	48.8	35.1
BV/Share	84	102	120
P/BV	6.2	5.8	4.9

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- EBITDA margins came in at 13.4% Vs 13.9%/12.6% in Q4FY23/Q3FY24, respectively. Absolute EBITDA stood at Rs835Mn, a growth of 13%YoY & 17.4%QoQ.
- Net profit stood at Rs408Mn, a decline of 11%YoY (Tax rate in Q4FY23 was lower) & growth of 62%QoQ.

Segmental Highlights for Q4FY24:

- **Laminates** revenue stood at Rs5.37Bn (86% of revenue), a growth of 9%YoY & 7.4%QoQ (2-year CAGR stood at 12.5%). EBIT margins came in at 20% Vs 19%/17% in Q4FY23/Q3FY24, respectively.
- **Veneers & allied products** revenue stood at Rs610Mn, a growth of 45%YoY & 28%QoQ. EBIT stood at Rs21Mn Vs loss of Rs10.6Mn in Q4FY23 & profit of Rs4Mn in previous quarter.
- **Plywood** (4th quarter of operations), revenue stood at Rs263Mn Vs Rs160Mn in previous quarter. EBIT loss for the quarter stood at Rs85Mn.

Exhibit 2: Quarterly Snapshot:

Rs Mn	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% yoy	% qoq	FY23	FY24	% yoy
Revenue	5,035	5,338	5,152	6,036	5,634	6,241	16.9	10.8	20,260	23,063	13.8
Expenditure	4,487	4,598	4,509	5,280	4,922	5,406	17.6	9.8	17,931	20,117	12.2
- RM	2,602	2,732	2,459	2,933	2,548	2,935	7.4	15.2	10,793	10,875	0.8
- Staff Cost	798	856	962	1,077	1,085	1,133	32.4	4.5	3,139	4,257	35.6
- Other cost	1,088	1,009	1,088	1,271	1,289	1,338	32.5	3.7	3,999	4,985	24.7
Operating Profit	548	740	644	756	711	835	12.8	17.4	2,329	2,947	26.5
OPM(%)	10.9	13.9	12.5	12.5	12.6	13.4	-48 bps	76 bps	11.5	12.8	128 bps
Other Income	59	44	40	58	31	87	96.8	181.8	180	217	20.6
Depreciation	162	169	174	195	245	258	52.2	5.2	632	871	37.7
Interest	60	65	73	93	143	134	107.1	(6.6)	235	443	88.7
PBT	385	551	437	527	354	532	(3.5)	50.0	1,641	1,849	12.7
Tax	103	91	114	133	102	124	35.3	21.2	356	469	31.8
PAT	282	460	323	394	253	408	(11.2)	61.5	1,285	1,380	7.4

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% yoy	% qoq	FY23	FY24	% yoy
Volume											
Laminates (Mn sheets)	4.3	4.7	4.2	4.9	4.7	5.2	12.0	12.5	17.0	19.0	11.3
Veneer (Mn sqm)	0.2	0.3	0.3	0.4	0.3	0.4	31.3	35.5	1.2	1.4	14.9
Revenue (Rs Mn)											
Laminates	4,591	4,916	4,720	5,312	4,998	5,368	9.2	7.4	18,523	20,397	10.1
Veneer	444	422	425	575	477	610	44.7	28.0	1,736	2,087	20.2
Realization											
Laminates (Rs/sheet)	1,078	1,053	1,132	1,078	1,075	1,026	(2.5)	(4.5)	1,087	1,075	(1.1)
Veneer (Rs/sqm)	1,042	859	916	917	868	862	0.3	(0.7)	877	889	1.4

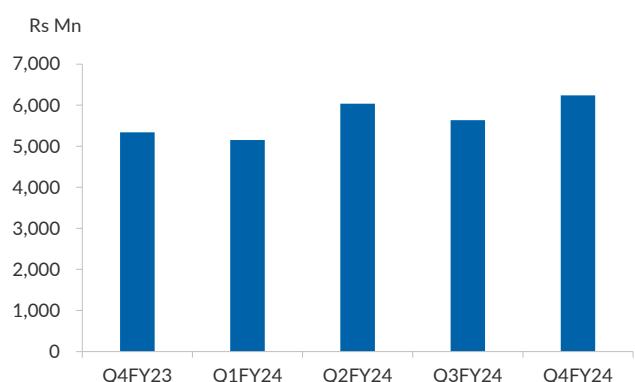
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Guidance:** Company expects a 20% growth in overall revenues and blended EBITDA margin to remain in a similar range of 13-14% for FY25E. EBITDA margin for laminates to remain in the 16% range at similar levels of realization.
- Sluggish demand scenario is the only challenge that the company faces with it having enough supply now as all plants are well settled.
- Overall laminate exports from India remained flattish YoY in FY24 and Greenlam has gained market share from other players.
- Employee cost has increased with new members joining the new plants and the addition of a new sales team for the plywood division.
- Working capital days improved by 12 days from 72 days in Q3FY24 to 60 days in Q4FY24 and expected to remain in the 60-65 days range going ahead.
- Company passes on the additional ocean freight charges to customers in most cases and hence there is not much impact on profitability.
- With stable RM prices in laminates and veneers (timber cost is increasing in both North & South zones for plywood), company expects Gross Margin to be in the same range of 54-55%.
- Naidupeta laminate plant turned EBITDA positive in Q4FY24 with a utilization of 42%.
- No price hikes are planned for laminates & veneers, and company plans a price hike for plywood.
- Enough space is available to add 6-8 lines at the Gujarat & AP plant for a brownfield expansion. Company plans to expand once the utilization is 95% for laminates. 1 line can generate 2Mn sheets of laminates at a capex of Rs400-500Mn. 2nd line onwards an incremental cost will be required to for additional equipment, but it would still be less than a greenfield expansion.
- **Laminates:** Domestic & export volumes improved by 15% & 6%, respectively. Company expects a double-digit volume growth for the next 2-3 years.
- **Veneers:** Floor registered a revenue of Rs143Mn for Q4FY24, and Rs510Mn with an EBITDA loss of Rs10Mn for FY24. Doors registered a revenue of Rs100Mn in Q4FY24, and Rs320Mn with an EBITDA loss of Rs56Mn in FY24.
- **Particle Boards:** Company expects an expansion capex of Rs2.5-2.7Bn and maintenance capex of Rs500Mn in FY25E. FY26E onwards only a maintenance capex of Rs500Mn will be incurred. The segment is expected to breakeven at 50% utilization and a margin of 20-24% FY28E onwards. Company expects to achieve 50%/70-75% utilization in FY26E/FY27E, respectively.
- Company will have a peak net debt of Rs9.25-9.5Bn in FY25E.

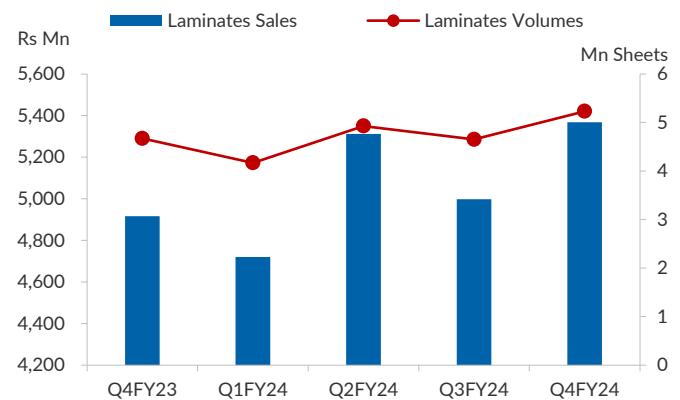
QUARTERLY TRENDS

Exhibit 4: Revenue increased by 17%YoY...



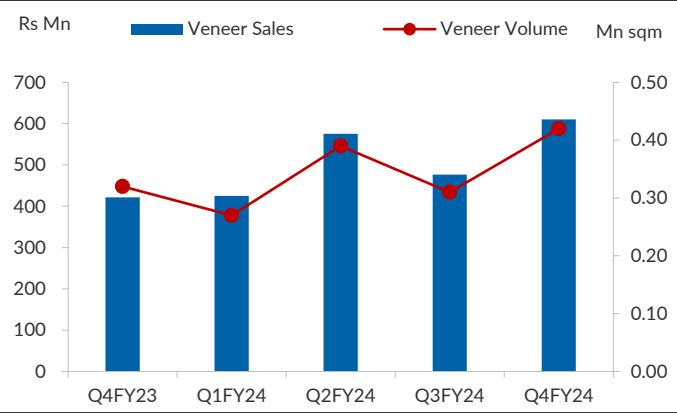
Source: Company, YES Sec

Exhibit 5: Laminates volume grew by 12%YoY...



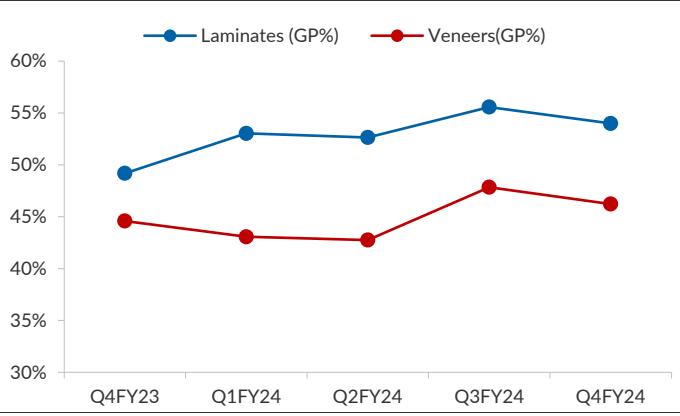
Source: Company, YES Sec

Exhibit 6: Veneer revenue went up by 45%YoY...



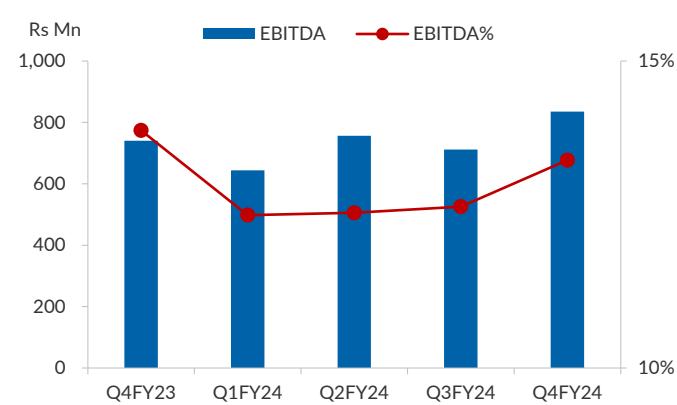
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Exhibit 7: Gross margins improved YoY...



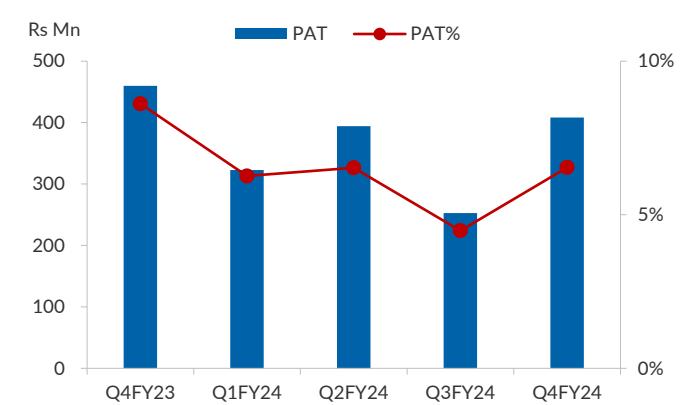
Source: Company, YES Sec

Exhibit 8: Blended margin came in at 13.4%...



Source: Company, YES Sec

Exhibit 9: Net profit stood at Rs408Mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	17,034	20,260	23,063	27,770	34,115
Growth (%)	42.0	18.9	13.8	20.4	22.8
EBITDA	1,870	2,329	2,947	3,743	4,638
EBITDA margin (%)	11.0	11.5	12.8	13.5	13.6
Growth (%)	7.9	24.5	26.5	27.0	23.9
Depreciation & Amortization	585	632	871	1,406	1,606
Other income	73	180	217	292	409
EBIT	1,358	1,876	2,292	2,629	3,440
EBIT margin (%)	8.0	9.3	9.9	9.5	10.1
Interest	141	235	443	578	592
PBT	1,217	1,641	1,849	2,051	2,848
Tax	286	356	469	513	712
Net profit	906	1,285	1,380	1,538	2,136
Net profit margin (%)	5.3	6.3	6.0	5.5	6.3
EPS	7.5	10.3	10.8	12.1	16.7
Growth (%)	22.9	36.7	5.4	11.4	38.9

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	121	127	128	121	121
Reserves	6,423	9,455	10,644	12,182	14,319
Total Shareholders' Funds	6,543	9,582	10,772	12,303	14,439
Non-current liabilities					
Long term borrowings	1,579	3,524	6,472	6,817	6,817
Deferred tax liabilities	169	155	160	160	160
Current liabilities					
Short term borrowings	2,014	2,175	3,516	3,671	3,671
Trade payables	2,558	2,753	3,479	4,287	5,521
Other financial liabilities	433	422	1,383	1,383	1,383
Total equity and liabilities	13,841	20,413	27,357	30,200	33,570
Non-current assets					
PPE	4,572	4,916	9,725	12,319	11,713
CWIP	75	3,801	6,110	3,110	3,110
Current assets					
Inventories	5,034	5,135	6,091	7,504	9,664
Trade receivables	1,290	1,427	1,515	1,824	2,240
Cash	158	160	329	1,858	3,258
Other current assets	467	947	1,418	1,418	1,418
Total assets	13,841	20,413	27,357	30,200	33,570

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	1,217	1,641	1,849	2,051	2,848
Depreciation & Amortization	585	632	871	1,406	1,606
Finance cost	141	235	443	578	592
(Incr)/Decr in Working Capital	(857)	(280)	(619)	(915)	(1,343)
Taxes	(333)	(354)	(471)	(513)	(712)
Cash from ops.	712	1,693	1,936	2,607	2,992
(Incr)/ Decr in PP&E	(871)	(4,664)	(6,353)	(1,000)	(1,000)
Cash Flow from Investing	(1,363)	(5,352)	(5,268)	(1,000)	(1,000)
(Decr)/Incr in Borrowings	969	2,246	4,289	500	-
Finance cost	(134)	(232)	(417)	(578)	(592)
Cash Flow from Financing	622	3,661	3,500	(78)	(592)
Incr/(Decr) in cash	(29)	2	168	1,529	1,400
Cash and cash equivalents at beginning of year	185	157	159	329	1,858
Cash and cash equivalents at end of year	156	159	328	1,858	3,258

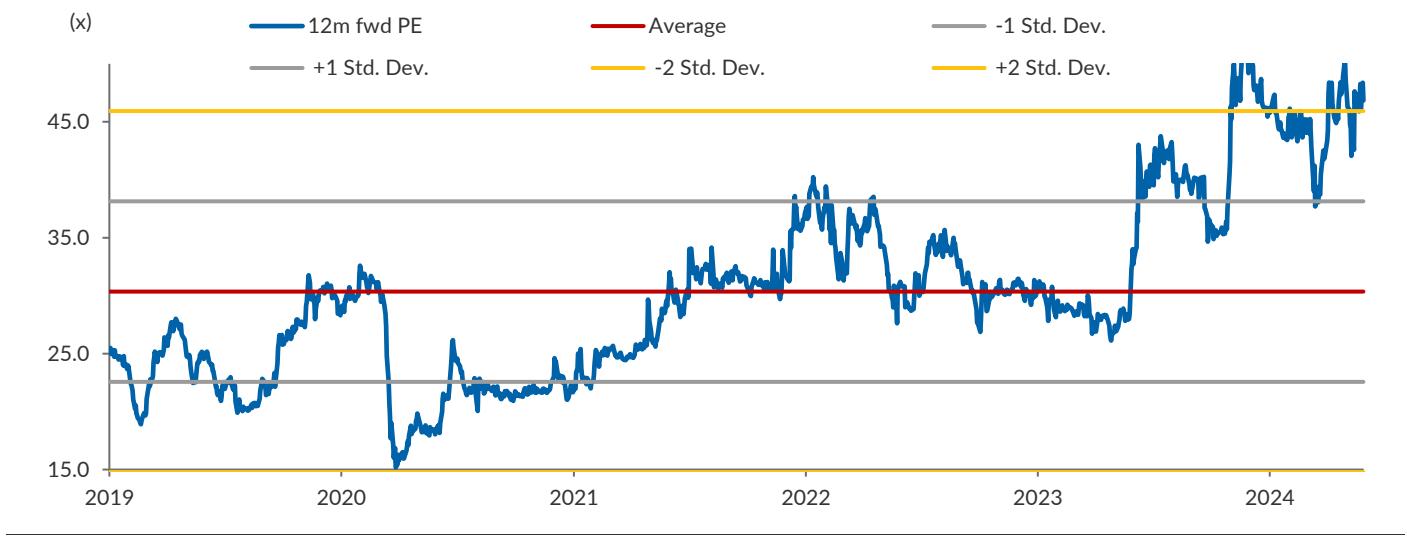
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	42.0	18.9	13.8	20.4	22.8
EBITDA growth	7.9	24.5	26.5	27.0	23.9
EBIT growth	8.4	38.1	22.2	14.7	30.9
PAT growth	22.9	41.9	7.4	11.5	38.9
Profitability ratios (%)					
EBITDA margin	11.0	11.5	12.8	13.5	13.6
EBIT margin	8.0	9.3	9.9	9.5	10.1
PAT margin	5.3	6.3	6.0	5.5	6.3
RoCE	16.9	16.6	14.2	13.6	16.1
RoE	14.8	15.9	13.6	13.3	16.0
Per share values					
EPS	7.5	10.3	10.8	12.1	16.7
CEPS	12.4	15.1	17.6	23.1	29.3
BVPS	54	76	84	102	120
Valuation ratios (x)					
P/E	40.9	29.9	48.7	48.8	35.1
P/CEPS	24.8	20.3	29.9	25.5	20.0
P/B	5.7	4.1	6.2	5.8	4.9
EV/EBITDA	20.8	18.1	25.6	21.2	16.8
Leverage ratios (x)					
Debt/ Equity	0.3	0.3	0.8	0.7	0.5
Net debt/Equity	0.3	0.3	0.8	0.7	0.5
Net debt/EBITDA	1.0	1.3	2.8	2.3	1.6
Int coverage	9.6	8.0	5.2	4.5	5.8
NWC days					
Receivables	28	26	24	24	24
Inventory	195	174	204	204	204
Payables	99	93	117	117	117

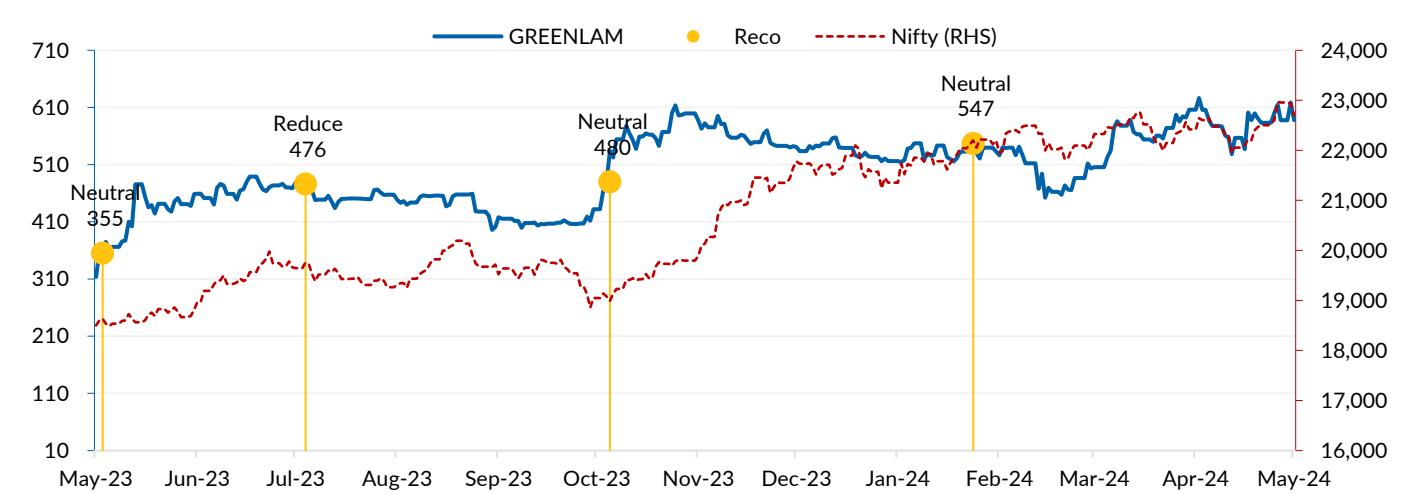
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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Name of the Research Analyst : Udit Gajiwala, Shalin Damani

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5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.

Analyst Signature

Analyst Signature