

Greenlam Industries Ltd

BUY

CMP Rs844

Target Rs1,190

Upside 41%

Healthy beat on operating margins; maintain TP of Rs 1,190

Valuation and Outlook

- ✓ Although net sales for Greenlam during Q3FY21 was in-line with our estimates (decline of ~6.5% y/y), company delivered healthy beat on operational performance as EBITDA/PAT stood 17.5%/31.2% higher than our estimates and witnessed growth of 6% y/y and 10% y/y respectively. EBITDA margins for laminate division witnessed extremely strong improvement of 140 bps y/y and 360 bps q/q – scaling to 19.8% on the back of consumption of low cost inventory and operating leverage.
- ✓ Going ahead, we estimate sales/EBITDA/PAT CAGR of 16%/22%/38% over FY21E-FY23E. Further, we expect de-leveraging drive of Greenlam to continue despite cash outgo towards commissioning of Andhra plant – expect net debt to decline from Rs 2.63 bn to Rs 0.7 bn over FY20-FY23E.
- ✓ **Assigning DCF derived P/E multiple of 23x on FY23E EPS of Rs 52, we maintain our TP of Rs 1,190 and we maintain our BUY rating on the stock. Key re-rating trigger – positive contribution from floors/doors segment with pick of real estate market.**

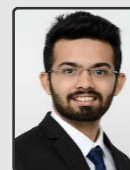
Key Result highlights

- ✓ **Volumes:** Laminate volumes came in at 3.91 mn sheets (vs our estimates of 3.54 mn sheets) and grew by 10.5% y/y & 21.1% q/q. Q3FY21 witnessed highest laminate production of 3.98 mn sheets for Greenlam. Opening-up of economy led to improvement in overall performance of laminates, but many international markets like UK, Indonesia, Italy, Thailand witnessed fresh lockdowns which restricted company's growth. Accordingly, domestic market outperformed with volume growth of 12% y/y vis-à-vis 9% y/y volume growth for export division. Veneer segment continued to witness sluggish prospects as volumes stood at 0.36 msqm in Q3FY21 – a decline of ~22% y/y. Further, engineered floors/doors segment suffered considerable headwinds as volumes de-grew by ~39%/50% y/y respectively for the quarter.
- ✓ **Realizations:** Overall realizations were below our expectations. Laminate realizations stood at Rs 736/sheet, a decline of ~8% y/y & 5% q/q. Realization of veneer contracted by 3.5% y/y and remained flat sequentially at Rs 694/sqm.
- ✓ **Sales:** For Q3FY21, net sales stood at Rs 3,346 mn and was in-line with our estimates of Rs 3,322 mn; translating into growth of 15.6% q/q but 6.5% y/y degrowth. Laminate revenues came in at Rs 2,956 mn (vs our estimate of Rs 2,883 mn) which was flat y/y and grew by 14.4% q/q. Veneer and allied segment revenue stood at Rs 390 mn which declined by 36% y/y.
- ✓ **EBITDA:** EBITDA came in at Rs 579 mn (vs our estimate of Rs 493 mn); reporting growth of 6% y/y & 43.1% q/q. EBITDA margins witnessed healthy improvement of 204.6 bps y/y & 331.6 bps q/q to 17.3%, which was above our estimate of 14.8%. In terms of segmental split, laminate division delivered robust operating margins of 19.8% (+140 bps y/y and +360 bps q/q) with EBITDA at Rs 585 mn. Margin expansion in laminates was led by absorption of low cost inventory and operating leverage. Veneer division had insignificant contribution to overall operating profit while floors/doors business posted minor losses.

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- ✓ **PAT:** Overall net profit for the quarter stood at Rs 320 mn (vs. our estimate of Rs 242 mn), growing by 10% y/y & 72.4% q/q. Net Profit margins came in at 9.6% as compared to 8.1%/6.4% in Q3FY20/Q2FY21 respectively.

Key Con-call highlights

- ✓ Demand from residential real estate has been growing mainly on the back of lower interest rates and decline in stamp duty in few regions. Renovation and upgradation of homes is also picking up. Though demand from commercial real estate is stagnant, management stated they are witnessing signs of revival.
- ✓ During the quarter business witnessed headwinds on supply chain side due to unavailability of containers which largely impacted company's exports biz.
- ✓ Laminates utilization came in at 102% Vs 96% in Q3FY20. Veneers operated at 32% utilization in Q3FY21 Vs 43% in Q3FY20. Wooden floors/Wooden doors utilizations came in at 14%/18% in Q3FY21 as compared to 23%/36% in Q3FY20 respectively.
- ✓ 2 new-wholly subsidiaries were incorporated in Russia and Poland under the name of GREENLAM RUS LLC & GREENLAM POLAND LLC respectively during the quarter.
- ✓ **Update on South Plant:** Management mentioned that they are in-process of obtaining approvals. They expect to commence constructing plant from Q3FY22 and start commercial production within 12-15months of commencing construction works. Moreover, company is exploring possibility of setting up capacities of more than 1.5 mn sheet in the new plant.
- ✓ **Margins:** Management mentioned that such high margins in laminates (19.8% during Q3FY21) are unlikely to sustain. During the quarter company had low cost inventory which led to higher margins. Going ahead, company expects to maintain ~17-18% margins in laminate business.
- ✓ **Cost increase:** Cost of chemicals (1/3rd of RM) has gone up by ~20-25% and cost of kraft paper/decorative paper has gone up by 6%/3-5% respectively. In order to mitigate the same, Company undertook price increase of 2-3% in Q3FY21 and will increase another 2-3% over Feb-April 2021.
- ✓ **Capex:** For 9MFY21 capex stood at Rs 250 Mn. For FY21/FY22 capex will be ~Rs 350-400Mn/Rs250-300 Mn respectively.
- ✓ **Wood doors & floors:** With improvement in residential real estate, company expects pick-up in their doors and floors segment. Management expects operations of Veneers & allied product segment to achieve normalcy from Q4FY21E.
- ✓ Net Debt declined to Rs 1.8 bn in Q3FY21 Vs Rs 2.63 bn as of FY20.

Exhibit 1: Q3FY21 Result

Y/e 31 Mar (Rs mn)	Q3 FY21	Q2 FY21	q/q (%)	Q3 FY20	y/y (%)
Revenue	3,346	2,893	15.7	3,580	(6.5)
Gross Profit	1,743	1,416	23.1	1,799	(3.1)
GP margin (%)	52.1	49.0	314 bps	50.3	184 bps
EBITDA	579	405	43.1	546	6.0
EBITDA Margin (%)	17.3	14.0	332 bps	15.3	205 bps
PBT	419	235	78.5	367	14.0
Tax	99	49	101.2	77	29.2
PAT	320	186	72.4	291	10.0

Exhibit 2: Financial Summary

Financial Overview (Rs mn)	FY20	FY21E	FY22E	FY23E
Laminate Vol (mn sheets)	13.23	12.84	14.76	15.65
Veneer Vol (msqm)	1.54	0.98	1.54	1.62
Net sales	13,206	11,537	14,138	15,515
EBITDA	1,782	1,595	2,094	2,366
EBITDA%	13.5	13.8	14.8	15.2
Net Profit	866	658	1,058	1,255
Net Profit %	6.6	5.7	7.5	8.1
EPS (Rs)	35.9	27.3	43.9	52.0
CFI	(588)	(400)	(1,050)	(450)
Net Debt	2,634	1,338	1,667	743
Net Debt/Equity (x)	0.53	0.24	0.25	0.10
Net Debt/EBITDA (x)	1.48	0.84	0.80	0.31
ROE (%)	17.3	11.8	16.2	16.3
ROCE (%)	16.4	13.5	17.4	18.6
P/E (x)	20.7	30.9	19.2	16.2
P/B (x)	3.58	3.64	3.11	2.65

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