

# Greenlam Industries

## Entry into a new business to drag profitability

In our recent interactions, the Greenlam management highlighted that demand trend remains similar to Q2FY25. The price hike (2.5-3%) in the laminates segment taken in Sep-24 is well absorbed in the domestic market. In Q3FY25, raw material cost is expected to rise marginally QoQ. Management is confident its ply segment will hit EBITDA breakeven in FY26E at 40-45% capacity utilisation. The greenfield particle board (231K CBM, cost INR 8.75bn) is expected to be commissioned by Q3FY25-end. We expect the company to outperform industry growth and deliver strong margin in the laminates segment. The ramp-up of ply and particle board segments should bolster consolidated revenue CAGR during FY24-27E to 18%. We estimate 21/22% EBITDA/APAT CAGRs for the same period. We expect net debt/EBITDA to cool off below 2x by FY27E vs 3.2/2.3x in FY25/26E, owing to lower Capex outgo and contributions from newer segments. We like Greenlam for its leadership positioning in laminates. However, we are cautious on plant ramp-up in the new ply and particle board segments (large capacities added in a short period). Owing to supply pressure and elevated timber price, we expect particle board segment margin to remain under pressure in the medium term. We value Greenlam using SOTP—ex-particle board business at 33x Sep-26E EPS and the upcoming particle board business at 0.5x capital employed in Sep-26E. We maintain our ADD rating with a revised TP of INR 640/sh.

- Laminate segment outlook remains bright:** Management mentioned that the current demand situation remains similar to that in Q2FY25. Owing to the ocean freight issue, export goods in transit at quarter end have doubled to INR 0.6-0.65bn. However, management believes this situation will improve in the current quarter. The company had increased its domestic laminates prices by 2.5-3% in Sep-24, which is well absorbed in the market. However, export laminate prices remain stable. In Q3FY25, the raw material cost is expected to increase marginally QoQ. Management is confident of maintaining a 15-16% EBITDA margin in the laminate segment. Its laminate facility can run at 110% capacity utilisation (87% capacity utilisation in H1FY25). So, the company won't face capacity constraints. In the next few quarters, the company will plan a brownfield expansion either at Prantij, Gujarat, or Naidupeta, AP. Brownfield expansion work can be completed within three quarters.
- 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). Management is confident that the ply segment will be break even in FY26E at 40-45% capacity utilisation. It is aiming for 60-70% capacity utilisation for this segment in FY27E. Currently, it is focusing on selling more ply to its existing South Indian and Maharashtra markets, rather than entering a new market. However, in the future, it plans to become a pan-India player.
- Entry in a new segment—particle board:** The greenfield particle board (231K CBM, Capex INR 8.75bn) is expected to be commissioned by Q3FY25-end. Management is targeting 45-50/70-75% capacity utilisation for this plant in FY26/27E. It plans to maximise sales of high-value pre-lam board. At 45/60-65% capacity utilisation, this plant will hit EBITDA/PBT breakeven. Management expects to fully ramp up this plant by the fourth year of operations. It expects 20-24% EBITDA margin at optimum utilisation. We expect the particle board segment to speed up the company's growth rates. However, it will dilute the consolidated return ratios owing to its lower return profile vs laminates.

**ADD**

CMP (as on 5 Dec 2024)	INR 583
Target Price	INR 640
NIFTY	24,708

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 540	INR 640
EPS	FY25E	FY26E
revision %	(1.1)	(4.7)

### KEY STOCK DATA

Bloomberg code	GRLM IN
No. of Shares (mn)	128
MCap (INR bn) / (\$ mn)	75/881
6m avg traded value (INR mn)	21
52 Week high / low	INR 662/431

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.1	6.9	0.7
Relative (%)	5.6	(3.0)	(17.3)

### SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	50.98	50.98
FIs & Local MFs	15.63	15.60
FPIs	1.72	1.77
Public & Others	31.67	31.64
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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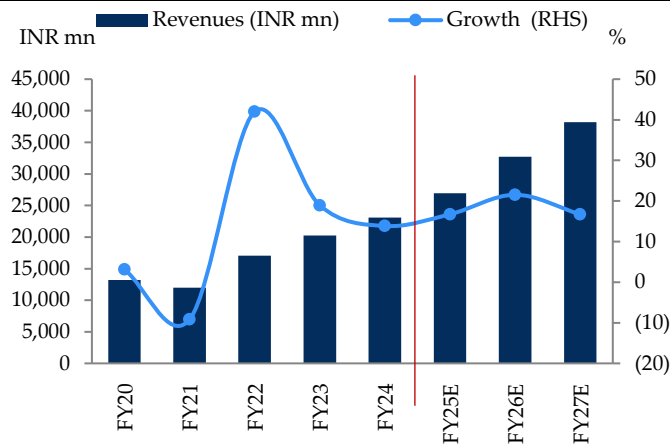
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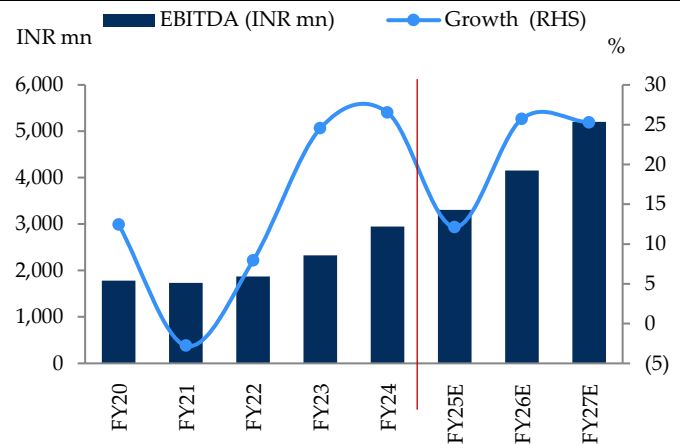
- **Veneer and door segment performance to improve:** Veneer is a niche segment, and the company believes it gels well with its other products. Ply and veneer have similar distribution networks. This segment won't need additional capital infusion. The door is a large segment; however, so far, the company has not been able to crack it. Greenlam focus is only on the wooden engineered door. The company is confident of improving this segment's performance.
- **Capex and debt:** In our view, as ply and particle board segments will take time to ramp up, no major capex is expected in these segments for the next 2-3 years (apart from ongoing particle board expansion). In the laminate segment, it has enough room to fulfil demand for at least four years through brownfield expansion. So, we expect net debt/ EBITDA to cool off below 2x by FY27E vs 3.2/2.3x in FY25/26E, 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 12% revenue CAGR in the laminate segment during FY24-27E. Owing to entry into the new ply and particle board segments, we expect a strong 18% revenue CAGR during FY24-27E at the company level. We estimate 21/22% 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). Owing to supply pressure and elevated timber price, we expect particle board segment margin to remain under pressure in the medium term. We maintain our FY25/26/27E estimates for all business (ex-particle board). We have factored in slower ramp-up of particle board business, leading to a cut of 1/5/5% in APAT estimates for FY25/26/27E respectively. We expect particle board business to incur a PAT loss until FY27E. So, we have moved to SOTP-based valuation methodology from consolidated EPS based earlier. We now value Greenlam (ex-particle business) at the same 33x its Sep-26E. We have valued the upcoming particle board business at 0.5x P/B Sep-26E, leading to SOTP based revised TP of INR 640/sh. We maintain our ADD rating on the company.

We expect strong 18% revenue CAGR during FY24-27E owing to strong volume growth in laminates segment and contribution from new segments...



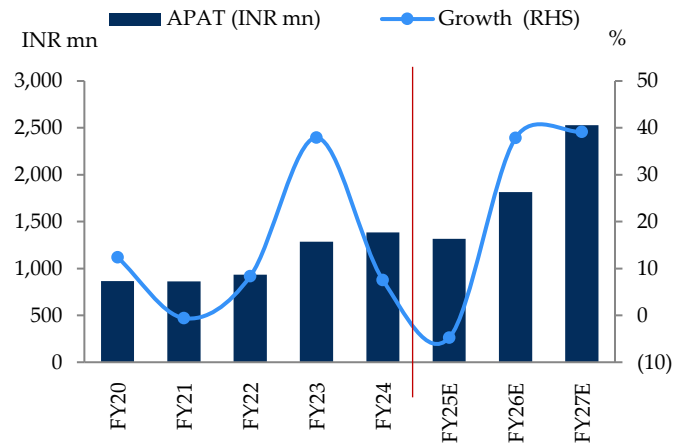
Source: Company, HSIE Research

...EBITDA to grow at 21% CAGR led by strong revenue growth and improvement in laminate segment margin



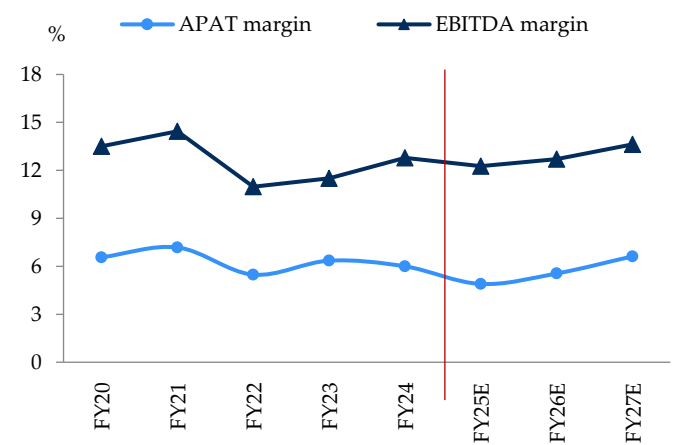
Source: Company, HSIE Research

APAT too should grow strongly in line with EBITDA (22% CAGR during FY24-27E)



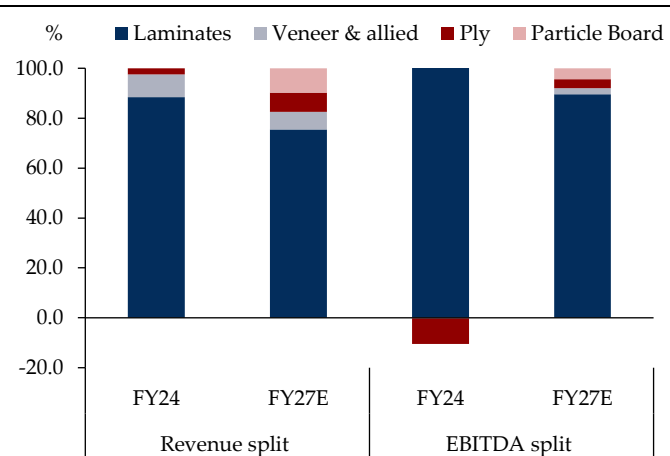
Source: Company, HSIE Research

Margins are expected to improve in FY26/27E



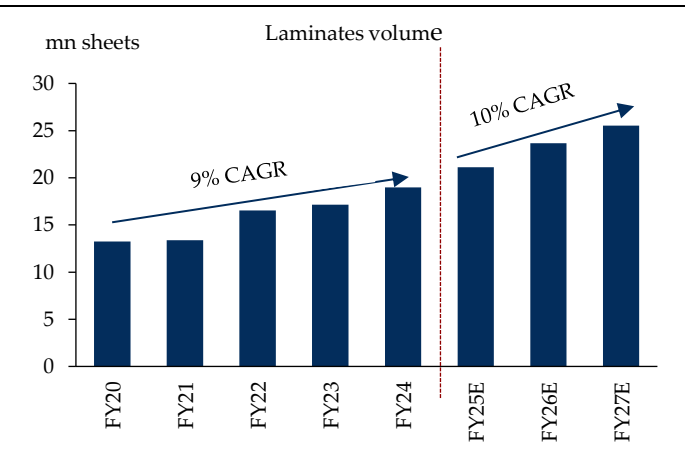
Source: Company, HSIE Research

Ply and particle board segments are expected to contribute 18/8% in revenue/EBITDA mix in FY27E



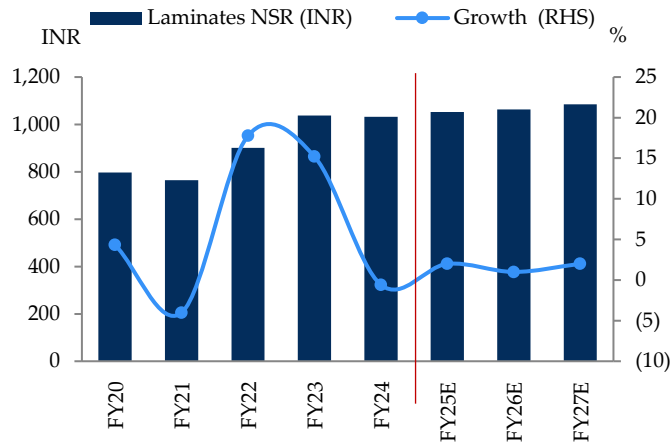
Source: Company, HSIE Research

Laminate sales volume will grow in low double digits



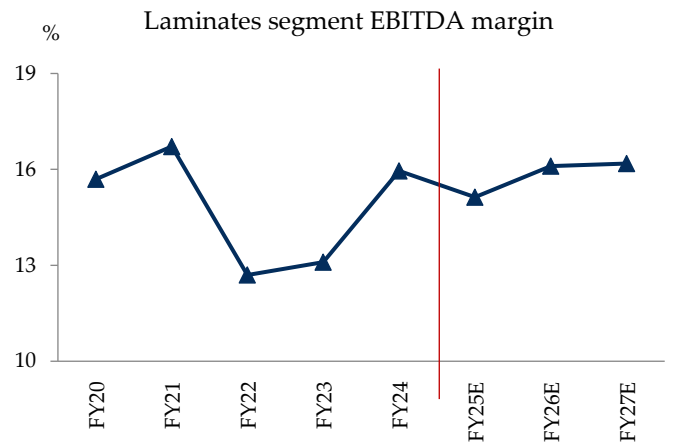
Source: Company, HSIE Research

We expect low 2% laminates segment realisation CAGR during FY24-27E, owing to benign raw material prices



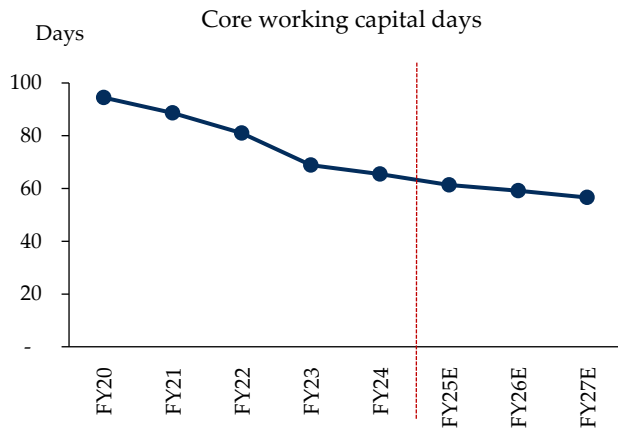
Source: Company, HSIE Research

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



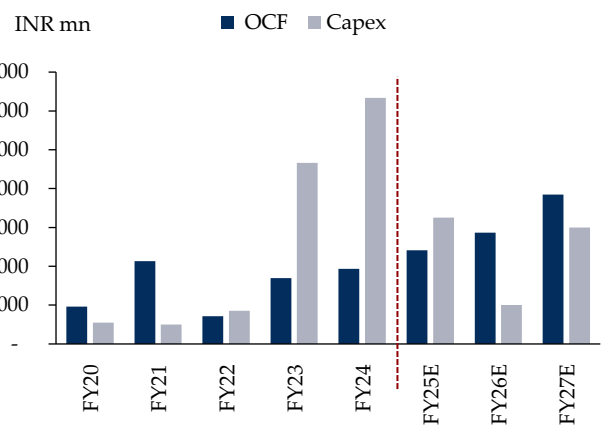
Source: Company, HSIE Research

The company is tightening its working capital cycle. Entry in new particle board segment requires lower working capital days



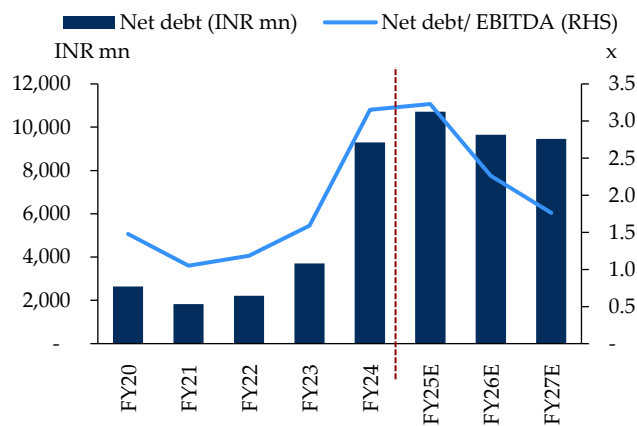
Source: Company, HSIE Research

Capex pace will slow down in FY26/27E, healthy OCF will help in debt reduction



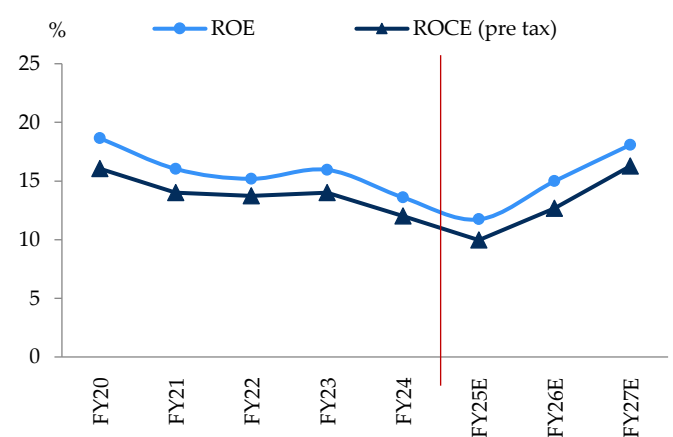
Source: Company, HSIE Research

Net debt/EBITDA will peak out in FY25E and fall below 2x in FY27E



Source: Company, HSIE Research

Return ratios to dilute in FY25E due to entry into new segments and improve as these segments ramp up



Source: Company, HSIE Research

**Key operational assumptions (consolidated)**

Segmental performance	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Laminates and allied</b>						
Sales volume (mn sheets)	16.53	17.13	18.97	21.11	23.65	25.54
Volume growth YoY %	23.5	3.6	10.7	11.3	12.0	8.0
NSR (INR)	942	1,081	1,075	1,096	1,106	1,128
YoY change %	18.3	14.9	-0.6	1.9	1.0	1.9
Unit EBITDA (INR)	120	142	172	166	178	182
Revenue (INR mn)	15,563	18,523	20,397	23,138	26,163	28,799
YoY change %	46.1	19.0	10.1	13.4	13.1	10.1
EBITDA (INR mn)	1,976	2,427	3,255	3,502	4,213	4,660
YoY change %	10.9	22.8	34.1	7.6	20.3	10.6
OPM %	12.7	13.1	16.0	15.1	16.1	16.2
<b>Veneers and allied</b>						
Revenue (INR mn)	1,471	1,736	2,087	2,262	2,475	2,736
YoY change %	9.5	18.0	20.2	8.4	9.4	10.6
% of total revenues	8.6	8.6	9.0	8.4	7.6	7.2
EBITDA (INR mn)	-90	-87	-8	67	98	127
% of total EBITDA	-4.8	-3.7	-0.3	2.0	2.4	2.4
EBITDA margin %	-6.1	-5.0	-0.4	3.0	4.0	4.6
<b>Plywood</b>						
Revenue (INR mn)			579	1,215	1,913	2,898
YoY change %			NA	109.8	57.5	51.5
% of total revenues			2.5	4.5	5.8	7.6
EBITDA (INR mn)			-301	-193	13	190
% of total EBITDA			-10.2	-5.8	0.3	3.7
EBITDA margin %			-52.0	-15.9	0.7	6.6
<b>Particle board</b>						
Revenue (INR mn)				307	2,168	3,753
YoY change %				NA	607	73
% of total revenues				1	7	10
EBITDA (INR mn)				-73	-171	226
% of total EBITDA				-2.2	-4.1	4.3
EBITDA margin %				-23.8	-7.9	6.0

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

**Estimates revision summary (consolidated)**

INR mn	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %
Net Sales	26,936	26,921	-0.1	33,906	32,719	-3.5	38,984	38,187	-2.0
EBITDA	3,324	3,304	-0.6	4,270	4,154	-2.7	5,362	5,204	-3.0
APAT	1,333	1,318	-1.1	1,906	1,816	-4.7	2,650	2,528	-4.6

Source: Company, HSIE Research

## Financials

### Consolidated Income Statement

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>17,034</b>	<b>20,260</b>	<b>23,063</b>	<b>26,921</b>	<b>32,719</b>	<b>38,187</b>
<i>Growth %</i>	<i>42.0</i>	<i>18.9</i>	<i>13.8</i>	<i>16.7</i>	<i>21.5</i>	<i>16.7</i>
Raw Material	9,443	10,793	10,875	13,049	16,006	18,795
Power & Fuel	539	739	842	983	1,195	1,395
Freight Expense	322	390	475	555	674	787
Employee cost	2,594	3,139	4,257	5,193	6,492	7,271
Other Expenses	2,265	2,871	3,668	3,837	4,198	4,736
<b>EBITDA</b>	<b>1,870</b>	<b>2,329</b>	<b>2,947</b>	<b>3,304</b>	<b>4,154</b>	<b>5,204</b>
<i>EBITDA Margin (%)</i>	<i>11.0</i>	<i>11.5</i>	<i>12.8</i>	<i>12.3</i>	<i>12.7</i>	<i>13.6</i>
<i>EBITDA Growth %</i>	<i>7.9</i>	<i>24.5</i>	<i>26.5</i>	<i>12.1</i>	<i>25.7</i>	<i>25.3</i>
Depreciation	585	632	871	1,174	1,407	1,477
EBIT	1,285	1,696	2,076	2,130	2,747	3,727
Other Income	73	180	217	120	130	150
Interest	141	235	443	516	533	594
PBT	1,217	1,641	1,849	1,734	2,344	3,283
Tax	286	356	469	416	527	755
Minority Int	(2)	(2)	(4)	-	-	-
<b>RPAT</b>	<b>959</b>	<b>1,287</b>	<b>1,384</b>	<b>1,318</b>	<b>1,816</b>	<b>2,528</b>
EO (Loss) / Profit (Net Of Tax)	(26)	-	-	-	-	-
<b>APAT</b>	<b>933</b>	<b>1,287</b>	<b>1,384</b>	<b>1,318</b>	<b>1,816</b>	<b>2,528</b>
<i>APAT Growth (%)</i>	<i>8.3</i>	<i>37.9</i>	<i>7.5</i>	<i>(4.8)</i>	<i>37.8</i>	<i>39.2</i>
AEPS	7.7	10.1	10.8	10.3	14.2	19.8
<i>AEPS Growth %</i>	<i>8.3</i>	<i>30.5</i>	<i>7.5</i>	<i>(4.8)</i>	<i>37.8</i>	<i>39.2</i>

Source: Company, HSIE Research

### Consolidated Balance Sheet

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>						
Share Capital	121	127	128	128	128	128
Reserves And Surplus	6,423	9,455	10,644	11,764	13,308	15,457
<b>Total Equity</b>	<b>6,544</b>	<b>9,582</b>	<b>10,772</b>	<b>11,892</b>	<b>13,436</b>	<b>15,585</b>
Long-term Debt	2,214	4,263	8,752	8,752	7,252	7,252
Short-term Debt	1,765	2,017	2,341	2,551	2,782	2,528
<b>Total Debt</b>	<b>3,978</b>	<b>6,280</b>	<b>11,093</b>	<b>11,303</b>	<b>10,034</b>	<b>9,780</b>
Deferred Tax Liability	88	92	61	61	61	61
Long-term Liab+ Provisions	103	111	137	149	163	178
<b>TOTAL SOURCES OF FUNDS</b>	<b>10,720</b>	<b>16,065</b>	<b>22,059</b>	<b>23,402</b>	<b>23,691</b>	<b>25,601</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	4,675	5,060	9,864	17,940	17,033	17,557
Capital WIP	91	3,803	6,110	110	610	1,610
Goodwill	-	-	-	-	-	-
Other Non-current Assets	427	1,381	445	445	445	445
Total Non-current Investments	0	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>5,193</b>	<b>10,244</b>	<b>16,420</b>	<b>18,495</b>	<b>18,089</b>	<b>19,612</b>
Inventories	5,034	5,135	6,091	6,461	7,525	8,401
Debtors	1,301	1,440	1,521	1,831	2,192	2,482
Cash and Cash Equivalents	1,765	2,579	1,802	579	497	265
Other Current Assets (& Loans/adv)	468	952	1,426	926	926	926
<b>Total Current Assets</b>	<b>8,568</b>	<b>10,107</b>	<b>10,839</b>	<b>9,796</b>	<b>11,140</b>	<b>12,073</b>
Creditors	2,558	2,753	3,479	3,769	4,417	4,964
Other Current Liabilities & Provns	483	1,533	1,720	1,120	1,120	1,120
<b>Total Current Liabilities</b>	<b>3,041</b>	<b>4,286</b>	<b>5,200</b>	<b>4,889</b>	<b>5,537</b>	<b>6,085</b>
<b>Net Current Assets</b>	<b>5,528</b>	<b>5,821</b>	<b>5,640</b>	<b>4,907</b>	<b>5,602</b>	<b>5,989</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>10,720</b>	<b>16,065</b>	<b>22,059</b>	<b>23,402</b>	<b>23,691</b>	<b>25,601</b>

Source: Company, HSIE Research

### Consolidated Cash Flow

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,217	1,641	1,849	1,734	2,344	3,283
Non-operating & EO Items	(44)	(182)	(136)	(120)	(130)	(150)
Interest Expenses	141	235	443	516	533	594
Depreciation	585	632	871	1,174	1,407	1,477
Working Capital Change	(855)	(280)	(619)	(477)	(764)	(603)
Tax Paid	(333)	(353)	(471)	(416)	(527)	(755)
<b>OPERATING CASH FLOW ( a )</b>	<b>712</b>	<b>1,693</b>	<b>1,936</b>	<b>2,410</b>	<b>2,863</b>	<b>3,846</b>
Capex	(854)	(4,660)	(6,332)	(3,250)	(1,000)	(3,000)
Free Cash Flow (FCF)	(143)	(2,967)	(4,396)	(840)	1,863	846
Investments	(543)	(813)	945	-	-	-
Non-operating Income	34	120	119	120	130	150
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,363)</b>	<b>(5,352)</b>	<b>(5,267)</b>	<b>(3,130)</b>	<b>(870)</b>	<b>(2,850)</b>
Debt Issuance/(Repaid)	877	2,088	4,107	210	(1,269)	(254)
Interest Expenses	(134)	(232)	(417)	(516)	(533)	(594)
FCFE	600	(1,111)	(705)	(1,145)	60	(3)
Share Capital Issuance	-	1,950	-	-	-	-
Dividend	(121)	(145)	(190)	(198)	(272)	(379)
<b>FINANCING CASH FLOW ( c )</b>	<b>622</b>	<b>3,661</b>	<b>3,500</b>	<b>(504)</b>	<b>(2,075)</b>	<b>(1,228)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(29)</b>	<b>2</b>	<b>169</b>	<b>(1,223)</b>	<b>(82)</b>	<b>(232)</b>
<b>Closing Cash &amp; Equivalents</b>	<b>1,222</b>	<b>1,767</b>	<b>2,747</b>	<b>579</b>	<b>497</b>	<b>265</b>

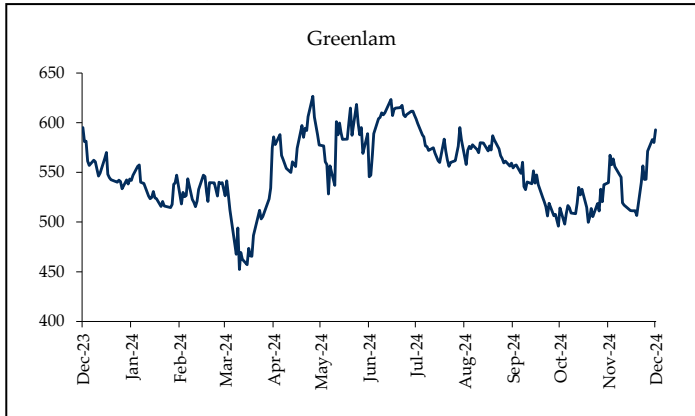
Source: Company, HSIE Research

### Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>PROFITABILITY %</b>						
EBITDA Margin	11.0	11.5	12.8	12.3	12.7	13.6
EBIT Margin	7.5	8.4	9.0	7.9	8.4	9.8
APAT Margin	5.5	6.4	6.0	4.9	5.6	6.6
RoE	15.2	16.0	13.6	11.6	14.3	17.4
RoIC (pre-tax)	15.6	18.3	17.4	11.6	12.1	16.1
RoCE (pre-tax)	13.7	14.0	12.0	9.9	12.2	15.7
<b>EFFICIENCY</b>						
Tax Rate %	23.5	21.7	25.4	24.0	22.5	23.0
Fixed Asset Turnover (x)	2.0	2.1	1.8	1.3	1.3	1.4
Inventory (days)	108	93	96	88	84	80
Debtors (days)	28	26	24	25	24	24
Other Current Assets (days)	19	42	30	19	15	13
Payables (days)	55	50	55	51	49	47
Other Current Liab & Provns (days)	13	30	29	17	14	12
Cash Conversion Cycle (days)	88	81	66	63	60	57
Net Debt/EBITDA (x)	1.2	1.6	3.2	3.2	2.3	1.8
Net D/E	0.3	0.4	0.9	0.9	0.7	0.6
Interest Coverage	9.1	7.2	4.7	4.1	5.2	6.3
<b>PER SHARE DATA (Rs)</b>						
EPS	7.7	10.1	10.8	10.3	14.2	19.8
CEPS	12.6	15.0	17.7	19.5	25.3	31.4
Dividend	1.2	1.5	1.7	1.5	2.1	3.0
Book Value	54.3	75.1	84.4	93.2	105.3	122.1
<b>VALUATION</b>						
P/E (x)	75.4	57.8	53.7	56.4	40.9	29.4
P/Cash EPS (x)	45.6	38.7	33.0	29.8	23.1	18.6
P/BV (x)	10.8	7.8	6.9	6.3	5.5	4.8
EV/EBITDA (x)	38.8	32.7	27.4	25.7	20.1	16.0
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.4	0.5

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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