

Industry	Paper & forest product
Bloomberg	GRLM IN
BSE CODE	538979

Higher RM costs to keep margins under pressure

RATING	NEUTRAL
CMP	910
Price Target	915
Potential Upside	1%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	1395/865
Mkt Capital (Rs Cr)	2196
Free float (%)	45%
Avg. Vol 1M (,000)	1488
No. of Shares	2
Promoters Pledged %	0%

Research Analyst

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Key Highlights -

- Greenlam Industries revenue grew by 15.6% to Rs 318 crores vs estimated Rs 324 crores. Laminates volumes de-grew by 5.6% while veneer volumes 4.9%.
- Higher RM costs and depreciated rupee led to gross margins at 45.9% vs an expected margins of 48%. Operating profit stood at Rs 39 crores with margins at 12.3% against our estimate of 13.7%.
- Company reported a PAT of Rs 18 crores, PAT margins of 5.7%.

2Q FY19 Results-

Net sales came in at Rs 318 crores vs our estimate of Rs 324 crores. Laminates revenue grew at 13.4% on the back of higher realisations of 4% QoQ while veneer and allied products grew by 30.1%. Gross Margins came in at 45.9% vs expected 48% on account of higher RM costs even after higher realisations. EBITDA Margin is reported at 12.3% vs our estimate of 13.7%. PAT for the quarter stood at Rs 18 crores vs estimated 23 crores.

View and Valuation

GREENLAM reported 15.6% sales growth; however, the rising cost pressures have impacted the company's gross margins and EBITDA margins. Though the major sales growth came in through 16.6% YoY rise in realizations for laminates division, it fell short to contain the higher raw materials cost. The laminate and veneer industry as a whole have been facing pressures on the margins front with raw materials like phenol, methanol, melamine, craft paper, design paper trading at highest levels and most of which are imported. The depreciating rupee has further added to the cost as 75-80% of COGS is imported. The company benefits from a natural hedge created from the exports in the laminate division and to a very small amount of wooden floors exports. With higher capacities in the market and slower than expected growth of the market demand, the rising crude/falling rupee adds to the trouble for the industry. We expect sales to grow at 10.25% over FY18-20 mainly with the help in realization growth. The margin in the near term looks bleak due to rising cost pressures, price hikes slower than rising cost due to heavy capacities and delayed breakeven of wooden floors and doors segment. We reduce PAT estimates by 12%/10% of FY19/20 due to near term lower margins and delay in better profitability of whole veneer and allied segments. We value GREENLAM at 12x FY20e EV/EBITDA to arrive at a TP of Rs 915 and maintain NEUTRAL.

Key Risks to our rating and target

- Slowing demand environment, high competition affecting ability to take price hikes.
- Rising RM costs in higher crude prices & paper costs and depreciating rupee macro-economic environment.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1030	1076	1145	1265	1391
EBITDA	127	138	149	158	192
EBIT	92	102	113	121	155
PAT	37.7	49.8	64.6	75.3	99.7
EPS (Rs)	16	21	26	31	41
EPS growth (%)	95%	32%	26%	21%	32%
ROE (%)	16%	18%	19%	19%	21%
ROCE (%)	15%	17%	19%	20%	23%
BV	104	124	148	176	213
EV/Sales (x)	1.5	1.7	2.6	1.9	1.6
P/E (x)	31.4	30.8	44.2	29.2	22.0

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2Q FY 19 Results Lower than estimates

Lower Gross Margins

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	276	280	311	288	318	15.6%	10.5%	1,076	1,145	6.4%
Other Income	(0)	1	0	0	(0)	150.0%	-121.3%	3	2	-35.0%
Total Revenue	276	281	311	289	318	15.5%	10.3%	1,078	1,146	6.3%
COGS	142	145	167	150	172	21.6%	14.5%	567	598	5.6%
Gross Margin	49%	48%	46%	48%	46%	-2.7%	-1.9%	47%	48%	0.4%
Employee Cost	43	43	45	47	48	12.3%	1.3%	152	173	13.7%
Other Expenses	53	53	60	57	59	11.0%	4.0%	218	224	2.7%
EBITDA	38	39	39	34	39	2.9%	16.5%	138	149	7.6%
EBITDA Margin	14%	14%	12%	12%	12%	-1.5%	0.6%	13%	13%	0.1%
Depreciation	9	9	9	9	9	2.0%	-0.2%	37	36	-1.9%
EBIT	29	30	30	25	30	3.2%	22.8%	102	113	11.1%
Interest	5	4	4	4	5	0.0%	0.0%	29	18	0.0%
PBT	25	26	26	21	25	1.8%	19.6%	76	97	27.6%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	9	9	8	6	7	-21%	21.5%	26	32	22.8%
Minority Int	0	-	0	0	0	-67%	-66.7%	0	0	-90.6%
PAT	16	17	18	15	18	14%	18.8%	50	65	29.8%
PAT Margin	6%	6%	6%	5%	6%	-0.1%	0.4%	5%	6%	1.0%
Segments	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	
Laminates & Allied	88%	88%	86%	87%	87%	84%	85%	86%	86%	
Veneer & Allied	12%	12%	14%	13%	13%	16%	15%	14%	14%	

Sales growth on the back of higher realisations

The revenue growth of 15.6% resulted in sales at Rs 318 crores. laminates revenue grew by 13.4% primarily driven by higher realisations of 4% QoQ and 20.2% YoY while volumes grew by 5.6% YoY to 3.35 mn sheets. Lower volumes were attributed to slower demand market and heavy competition due to higher capacities by the management. Decorative veneer volumes grew by 4.9% and realisation grew by 3.3% YoY reporting revenue of Rs 30 crores. The wooden floors segment grew 147.1% YoY to Rs 12.6 crores and wooden doors segment grew by 36.4% to Rs 3 crores.

Higher RM costs lead to lower Gross margins

Gross Margins in Q2FY19 came at 45.9%, down 270bps YoY and 190bps QoQ due to continued pressure from raw material costs in a rising crude prices and depreciating rupee environment. The cost of raw materials like phenol, melamine, methanol, Kraft paper, design paper are all trading at highest levels hurting margins. Price hikes have to be taken slower than pace of costs growth due to heavy competition. EBITDA Margins reported at 12.3%, down 160bps YoY and up 60 bps QoQ. Higher absolute gross margins lead to improvement on a QoQ basis. PAT margins came at 5.7%.

Concall Highlights

- ❑ Business of Kerala impacted due to floods that too in peak season of Onam. The transport strike in July also impacted business to a certain extent.
- ❑ Overall domestic business remains challenging with rising crude prices, tighter monetary conditions and weakening rupee.
- ❑ Margins impacted due to higher RM costs which are linked to crude prices and mostly being imported. RM costs continue to be at highest levels. Currency depreciation impact is already in the RM costs. Impact from higher prices of crude and paper take a lag effect and some can be experienced in H2. Being an exporter, rupee depreciation has benefitted and has overweighed the increase in RM costs.
- ❑ The hit on margins were far lower due to price hikes. However, competition pressure restricts the ability to take a price rise. Price hikes of +3% in lam space, +2% in veneer for rupee depreciation (wef oct).
- ❑ No shift seen from unorganized to organized market.
- ❑ Tax benefits at Nalagarh plant ends this year and expected tax rate is 28-30% for FY19.
- ❑ Floors business is facing pressure in Gross Margin terms. For better profitability, volumes and the mix needs to improve for better margins.
- ❑ Management Expects better H2 in FY19 for floors and doors. Earlier stated revenue target for these two seems possible, however breakeven in floors remain uncertain in FY19.

Exhibit: Net Sales (Rs. Crore) and Gross Margin trend

Sales growth to be driven by higher realisations; however, RM costs to continue pressure on the gross margins

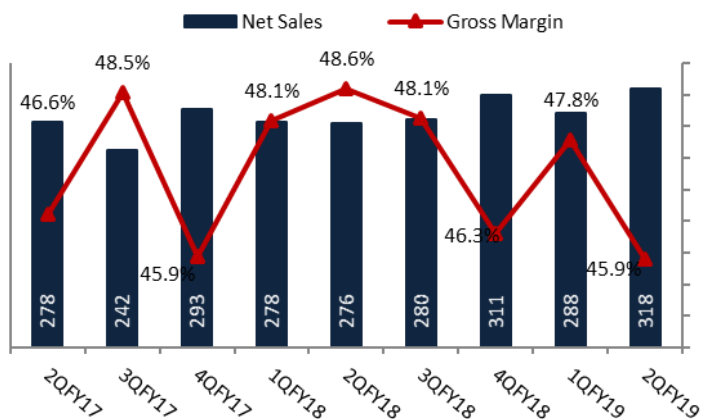


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Lower gross margins to pressurize EBITDA margins

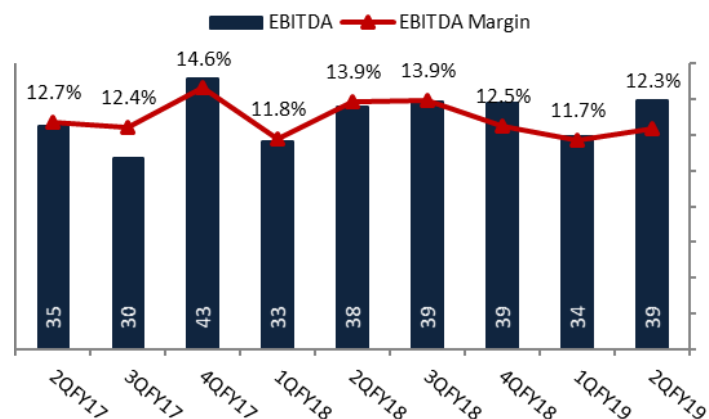


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

PAT expected to grow at faster pace than sales due to improvement in margins in FY20 over FY19

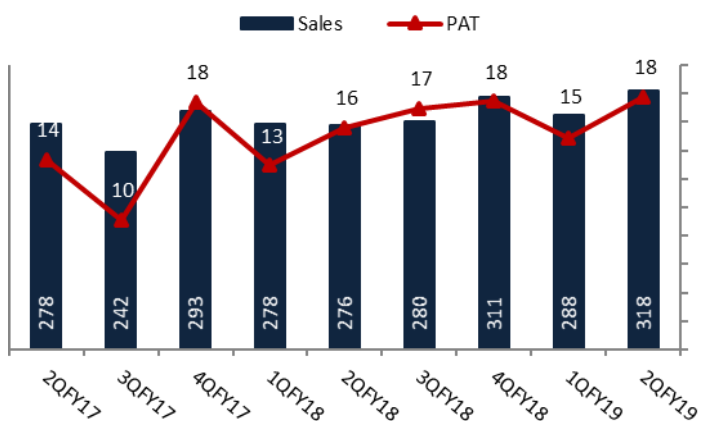


Exhibit: PAT (Rs. Crore) and PAT Margin trend

FY20 to report better PAT margins with better profitability from veneer & allied products

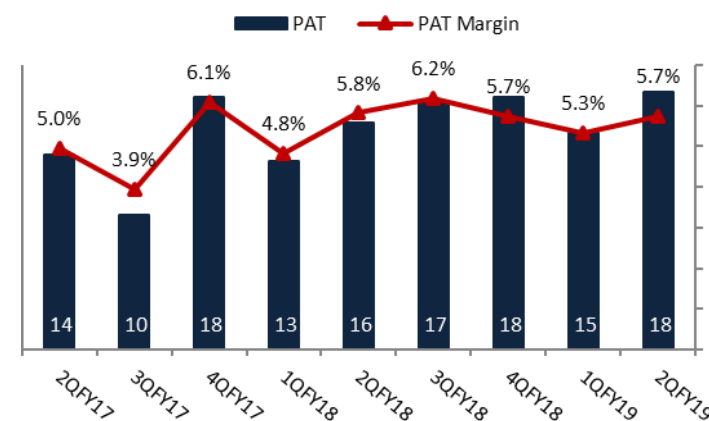


Exhibit: Return Ratios

Return ratios, especially ROCE, to improve going ahead

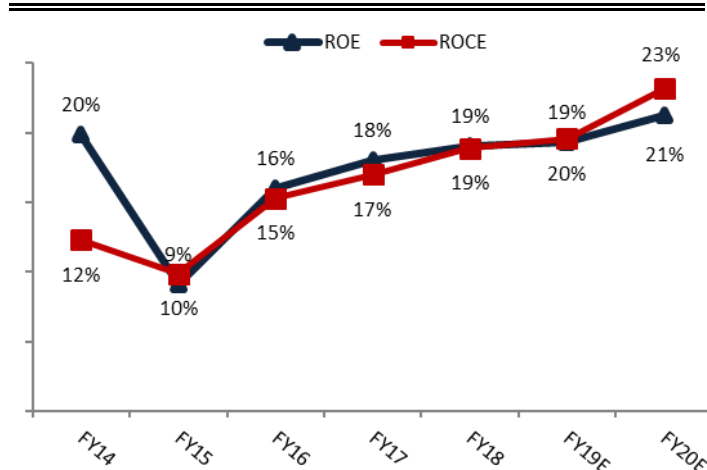
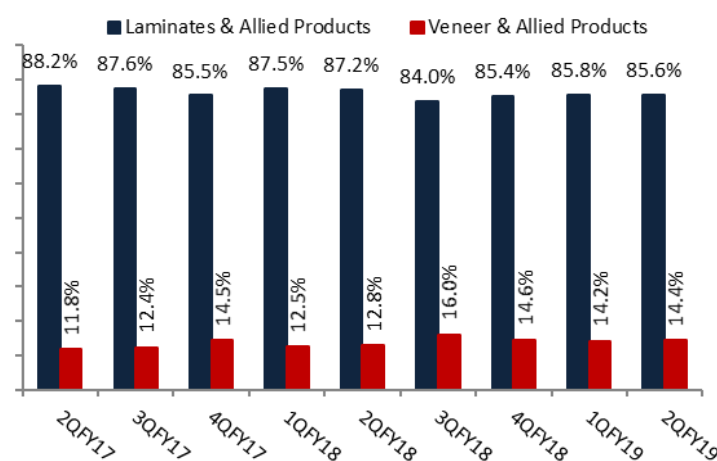


Exhibit: Segment Contribution

Higher sales growth in veneer & allied products to drive higher share of total sales for the segment



Financial Details

Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	12	12	12	12	12	12
Reserves	208	239	286	344	412	503
Net Worth	220	251	298	356	424	515
Minority Interest	0	0	0	0	0	0
Debt	352	327	258	210	173	153
Other Non Current Liab	24	27	36	37	37	37
Total Capital Employed	596	606	592	604	635	705
Net Fixed Assets (incl CWIP)	337	338	326	330	333	336
Goodwill on Consolidation	-	4.2	2.9	1.8	1.8	1.8
Other non-current assets	15	20	21	21	21	21
Non Current Assets	352	362	350	353	356	359
Inventory	231	247	228	256	288	311
Debtors	182	189	158	171	189	207
Cash & Bank	6	5	7	9	9	53
Other Current Assets	72	63	47	34	38	41
Current Assets	491	504	441	470	524	612
Creditors	186	135	129	158	177	191
Provisions	2	1	1	1	1	1
Other Current Liabilities	59	126	69	61	67	74
Curr Liabilities	247	261	199	219	246	266
Net Current Assets	244	243	242	251	278	346
Total Assets	842	866	791	823	880	971

Income Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	926	1,030	1,076	1,145	1,265	1,391
Change (%)	1194%	1125%	447%	641%	1054%	997%
Other Income	2	3	3	2	2	2
EBITDA	90	127	138	149	158	192
Change (%)	-2%	41%	9%	8%	6%	22%
Margin (%)	10%	12%	13%	13%	12%	14%
Depr & Amor.	33	35	37	36	37	37
EBIT	57	92	102	113	121	155
Int. & other fin. Cost	30	32	29	18	17	15
EBT	29	62	76	97	106	142
Exp Item	-	-	-	-	-	-
Tax	9	25	26	32	30	43
share of profit/(loss) of associates	-	-	-	-	-	-
Minority Interest	(0)	(0)	0	0	0	0
Reported PAT	19	38	50	65	75	100
Adjusted PAT	19	38	50	65	75	100
Change (%)	-52%	95%	32%	30%	17%	32%
Margin(%)	2%	4%	5%	6%	6%	7%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	2.0	1.9	2.2	2.1	2.1	2.3
Debt-Equity Ratio	1.6	1.3	0.9	0.6	0.4	0.3
Interest Coverage Ratio	1.9	2.8	3.6	6.3	7.0	10.6
Capital Turnover Ratio	2.2	2.6	2.7	2.6	2.7	2.6
Fixed Asset Turnover Ratio	3.6	3.2	3.3	3.6	3.9	4.2
Inventory Days outstanding	160	168	147	156	156	156
Accounts Receivable Days outstanding	72	67	54	54	54	54
Accounts Payable Days outstanding	103	144	117	115	115	115
ROCE	10%	15%	17%	19%	20%	23%
ROE	9%	16%	18%	19%	19%	21%
FCF per Share	7.2	26.5	66.7	29.2	24.9	35.3
Price / EPS	56.7	31.4	30.8	44.2	29.2	22.0
Price / Book Value	5.0	4.7	5.1	7.7	5.2	4.3
EV/EBITDA	16.0	11.9	12.9	19.9	14.9	11.9
EV/Sales	1.6	1.5	1.7	2.6	1.9	1.6
Div Yield	0.3%	0.6%	0.7%	0.6%	1.0%	1.3%

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	29	62	76	97	106	142
(inc)/Dec in Working Capital	33	4	55	(8)	(27)	(24)
Non Cash Op Exp	37	31	41	33	35	35
Int Paid (+)	30	32	29	18	17	15
Tax Paid	(11)	(13)	(14)	(31)	(30)	(43)
CF from Op. Activities	118	116	185	109	100	125
(inc)/Dec in FA & CWIP	(100)	(52)	(24)	(38)	(40)	(40)
Free Cashflow	17	64	161	70	60	85
(Pur)/Sale of Inv	-	-	-	-	-	-
others	(2)	(1)	2	1	2	2
CF from Inv. Activities	(103)	(53)	(22)	(38)	(38)	(38)
inc/(dec) in NW	-	-	-	-	-	-
inc/(dec) in Debt	18	(29)	(128)	(46)	(37)	(20)
Int. Paid	(30)	(32)	(29)	(18)	(17)	(15)
Div Paid (inc tax)	-	(1)	(3)	(4)	(7)	(9)
others	(0)	(1)	(1)	(0)	-	-
CF from Fin. Activities	(12)	(63)	(160)	(69)	(62)	(44)
Inc(Dec) in Cash	3	(0)	3	2	0	43
Add: Opening Balance	2	5	5	7	9	9
Closing Balance	5	5	7	9	9	53

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