



Industry	Paper & forest product
Bloomberg	GRLM IN
BSE CODE	538979

Weak demand environment and compressed margins blur future outlook

RATING	NEUTRAL
CMP	698
Price Target	750
Potential Upside	7%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1330/690
Mkt Capital (Rs Cr)	1685
Free float (%)	45%
Avg. Vol 1M (,000)	2
No. of Shares (Crs)	2
Promoters Pledged %	0%

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3QFY19 Result Update

- Greenlam Industries revenue grew by 12% YoY to Rs 314 crores with laminates & allied segment growing by 11.5% and veneer & allied segments growing by 14.6%
- The growth in laminates division was primarily driven by ~9% YoY growth in realizations and veneer division growth by ~60% YoY revenue growth in wood doors & floors combined.
- The price hikes taken helped company to report improved gross margins at 48.3%, up 20bps YoY, even with the higher RM costs.
- EBITDA margins came at 13.1%, lower by 80bps due to operational miss in terms of volumes in laminates division
- Company reported a PAT of Rs 20 crores for the quarter.

View and Valuation

GREENLAM reported 12% YoY sales growth where the major sales growth can be attributed to ~9% growth in realisations for the laminates segment and the engineered wood floors & doors growing 60% YoY combined. However, the management stated that the overall demand environment has been weak. Further, the lower range products have been facing competitive pressures due to over-capacities in the industry and the companies with brand recall benefitting due to their extensive distribution network across geographies and innovative products & designs. We expect GREENLAM to sail through this turbulence to gather sales on its strong brand and grow at a CAGR of 10% over FY18-20. During the quarter, the struggling gross margin on account of higher raw material cost due to higher crude and depreciating rupee improved on the back of pricing discipline maintained by the company. However, EBITDA margins came in lower by 80bps YoY to 13.1%. The management cited lower volumes in the laminates division for the operational miss. Going ahead, further price hikes will be difficult to be taken and higher raw material costs will contain the margins in near term. Also, improvement in margins of Veneer & Allied segments is to be seen with the break-even of wood floors and improvement of decorative veneer margins. We reduce PAT estimates by 7% for FY20 due to longer than expected margin stress. We reduce our valuation multiple on account of weak demand environment and prolonged stress in margins to 10.5x FY20e EV/EBITDA and arrive at a TP of Rs 750. Maintain NEUTRAL.

Key Risks to our rating and target

- Slowing demand environment and high competitive intensity
- 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	1383
EBITDA	127	138	149	161	183
EBIT	92	102	113	125	147
PAT	37.7	49.8	64.6	78.1	92.8
EPS (Rs)	16	21	26	32	38
EPS growth (%)	95%	32%	26%	25%	19%
ROE (%)	16%	18%	19%	20%	20%
ROCE (%)	15%	17%	19%	20%	21%
BV	104	124	148	177	212
EV/EBITDA (x)	11.9	12.9	19.9	11.6	9.8
P/E (x)	31.4	30.8	44.2	21.6	18.1

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3QFY19 Results Better than estimates

Gross Margin Improves

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	280	311	288	318	314	12.0%	-1.4%	1,076	1,145	6.4%
Other Income	1	0	0	(0)	1	16.4%	-810%	3	2	-35.0%
Total Revenue	281	311	289	318	315	12.0%	-1.1%	1,078	1,146	6.3%
COGS	145	167	150	172	162	11.6%	-5.9%	567	598	5.6%
Gross Margin	48%	46%	48%	46%	48%	0.2%	2.4%	47%	48%	0.4%
Employee Cost	43	45	47	48	48	12.9%	1.0%	152	173	13.7%
Other Expenses	53	60	57	59	62	17.7%	5.8%	218	224	2.7%
EBITDA	39	39	34	39	41	5.1%	4.4%	138	149	7.6%
EBITDA Mar.	14%	12%	12%	12%	13%	-0.9%	0.7%	13%	13%	0.1%
Depreciation	9	9	9	9	9	1.9%	2.0%	37	36	-1.9%
EBIT	30	30	25	30	32	6.1%	5.2%	102	113	11.1%
Interest	4	4	4	5	4	-0.7%	-12.3%	29	18	0.0%
PBT	26	26	21	25	28	7.5%	11.9%	76	97	27.6%
Excpt. Item	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	9	8	6	7	8	-6%	20.0%	26	32	22.8%
Minority Int	-	0	0	0	(0)	-100%	-300%	0	0	-90.6%
PAT	17	18	15	18	20	14%	8.7%	50	65	29.8%
PAT Margin	6%	6%	5%	6%	6%	0.1%	0.6%	5%	6%	1.0%
Segments	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	
Laminates & Allied	88%	86%	87%	87%	84%	85%	86%	86%	84%	
Veneer & Allied	12%	14%	13%	13%	16%	15%	14%	14%	16%	

Sales growth on the back of higher realisations

Greenlam Industries revenue grew by 12% YoY to Rs 314 crores, in-line with our estimates. The laminates & allied division grew in-line with our expectations by 11.5% primarily driven ~9% YoY growth in realizations. The veneer & allied segment reported better than expected revenue with the decorative segment growing by 2% (driven by volumes) and wood doors and floors reporting a ~60% YoY rise in sales combined.

Higher RM costs lead to lower Gross margins

The price hikes taken helped company to report improved gross margins at 48.3% (est. 46.2%) even with the higher RM costs. EBITDA margins came at 13.1%, lower by 80bps due to operational miss in terms of volumes in laminates division. However, this is substantial higher than our estimates of 11.9% with laminate division reporting an EBITDA margin of 13.5% (est. 13.5%) and veneer division reporting margin of 11.1% (est. 6.1%). The strong margin performance in veneer division is due to decorative veneers clocking margin of 18.1% and wood engineered doors breaking-even in the quarter at 8.57%. The company reported a PAT of Rs 20 crores better than our expectation of Rs 17 crores.

Concall Highlights

- It's a benign quarter for all building materials players. Due to increase in RM costs, most of the players are compelled to increase their prices. Also, not all players have been able to take price increases due to tough domestic environment and slow pickup in housing sales.
- Exports markets have been nervous due to ongoing global concerns such as huge volatility in crude and currencies, BREXIT and US-China trade war.
- Margins in veneers have come down: 1) lower realizations 2) product mix 3) Higher raw material prices 4) Rupee depreciation 5) Margins impacted even after taking price hikes
- The engineered doors segment achieved EBITDA breakeven in the quarter and is expected to continue the momentum going ahead
- The company continues to put serious efforts to push value added product sales. However, due to tough housing markets, the domestic sales volume have been muted for the quarter
- The domestic commercial market seems to be opening up and company has been receiving fair share of demand from the commercial spaces
- Total debt is at Rs 273.5 crores including ST debt of 183 crores. Debt – Equity ratio stood at 0.68. On an annualized basis, ROCE was 16.7% & ROE was 17.5%
- The acquisition target Decolan SA is already a customer of the company and buys around 2/3rd of its sales requirement from GREENLAM. It buys laminates from India and sells in the European region. The company expects the revenue to go up to CHF 6-7 million in 1-2 years.

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

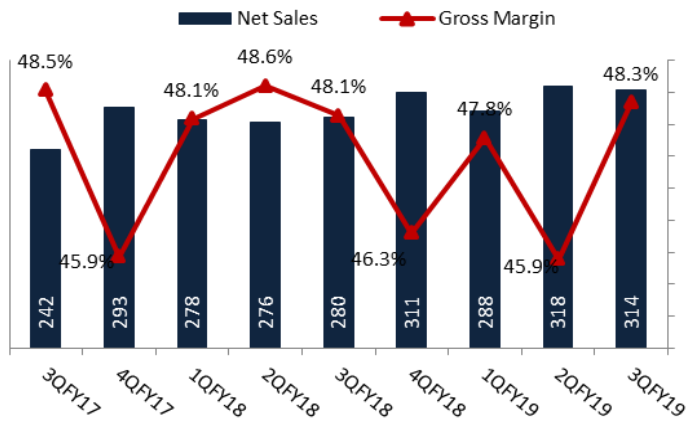


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margins due to contained with stressed gross margins and operational pressures

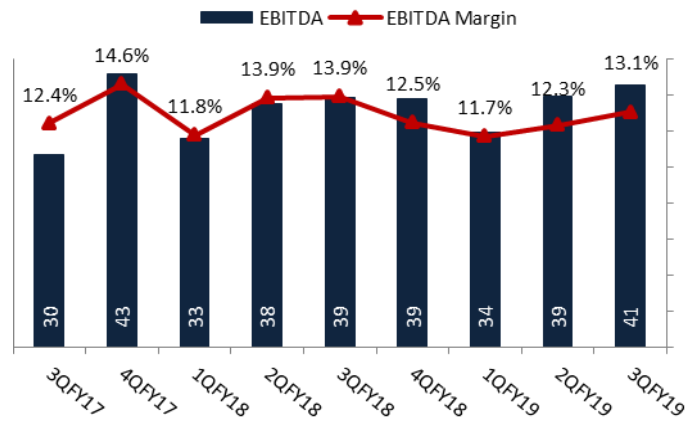


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

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

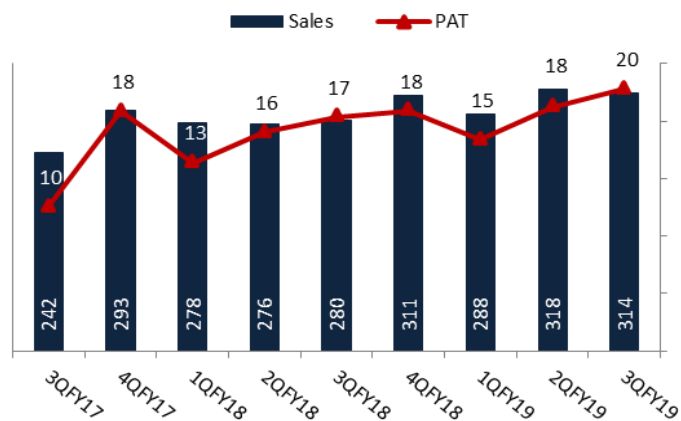


Exhibit: PAT (Rs. Crore) and PAT Margin trend

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

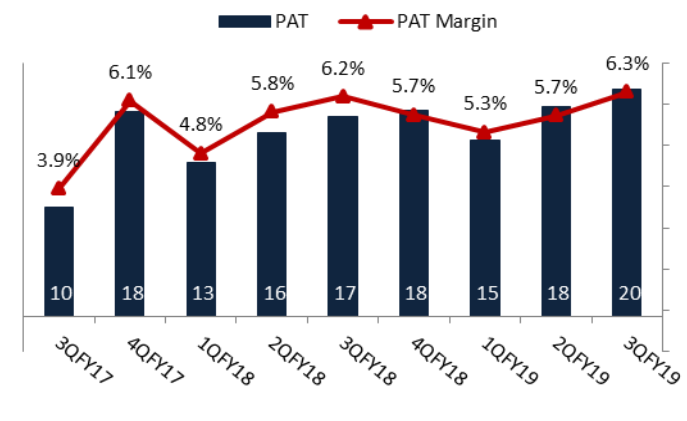


Exhibit: Return Ratios

Return ratios to improve going ahead

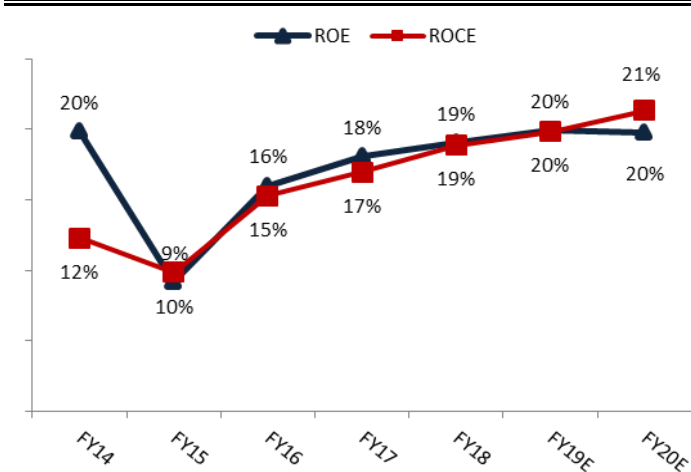
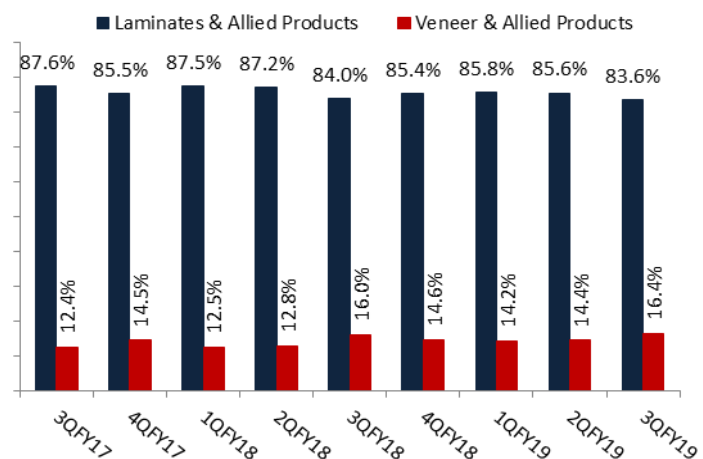


Exhibit: Segment Contribution

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	415	499
Net Worth	220	251	298	356	427	511
Minority Interest	0	0	0	0	0	0
Debt	352	327	258	210	187	182
Other Non Current Liab	24	27	36	37	37	37
Total Capital Employed	596	606	592	604	652	730
Net Fixed Assets (incl CWIP)	337	338	326	330	349	343
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	372	366
Inventory	231	247	228	256	313	340
Debtors	182	189	158	171	188	206
Cash & Bank	6	5	7	9	12	72
Other Current Assets	72	63	47	34	38	41
Current Assets	491	504	441	470	552	659
Creditors	186	135	129	158	203	220
Provisions	2	1	1	1	1	1
Other Current Liabilities	59	126	69	61	67	73
Curr Liabilities	247	261	199	219	272	295
Net Current Assets	244	243	242	251	280	364
Total Assets	842	866	791	823	923	1,025

Income Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	926	1,030	1,076	1,145	1,265	1,383
Change (%)	1194%	1125%	447%	641%	1051%	936%
Other Income	2	3	3	2	2	2
EBITDA	90	127	138	149	161	183
Change (%)	-2%	41%	9%	8%	8%	14%
Margin (%)	10%	12%	13%	13%	13%	13%
Depr & Amor.	33	35	37	36	36	36
EBIT	57	92	102	113	125	147
Int. & other fin. Cost	30	32	29	18	18	17
EBT	29	62	76	97	108	133
Exp Item	-	-	-	-	-	-
Tax	9	25	26	32	30	40
share of profit/(loss) of associates	-	-	-	-	-	-
Minority Interest	(0)	(0)	0	0	-	-
Reported PAT	19	38	50	65	78	93
Adjusted PAT	19	38	50	65	78	93
Change (%)	-52%	95%	32%	30%	21%	19%
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	2.0	2.2
Debt-Equity Ratio	1.6	1.3	0.9	0.6	0.4	0.4
Interest Coverage Ratio	1.9	2.8	3.6	6.3	7.0	8.9
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	3.8	4.0
Inventory Days outstanding	160	168	147	156	171	171
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%	21%
ROE	9%	16%	18%	19%	20%	20%
FCF per Share	7.2	26.5	66.7	29.2	20.4	37.0
Price / EPS	56.7	31.4	30.8	44.2	21.6	18.1
Price / Book Value	5.0	4.7	5.1	7.7	3.9	3.3
EV/EBITDA	16.0	11.9	12.9	19.9	11.6	9.8
EV/Sales	1.6	1.5	1.7	2.6	1.5	1.3
Div Yield	0.3%	0.6%	0.7%	0.6%	1.2%	1.7%

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	29	62	76	97	108	133
(inc)/Dec in Working Capital	33	4	55	(8)	(26)	(24)
Non Cash Op Exp	37	31	41	33	35	34
Int Paid (+)	30	32	29	18	18	17
Tax Paid	(11)	(13)	(14)	(31)	(30)	(40)
CF from Op. Activities	118	116	185	109	104	119
(inc)/Dec in FA & CWIP	(100)	(52)	(24)	(38)	(55)	(30)
Free Cashflow	17	64	161	70	49	89
(Pur)/Sale of Inv	-	-	-	-	-	-
others	(2)	(1)	2	1	2	2
CF from Inv. Activities	(103)	(53)	(22)	(38)	(53)	(28)
inc/(dec) in NW	-	-	-	-	-	-
inc/(dec) in Debt	18	(29)	(128)	(46)	(23)	(6)
Int. Paid	(30)	(32)	(29)	(18)	(18)	(17)
Div Paid (inc tax)	-	(1)	(3)	(4)	(7)	(9)
others	(0)	(1)	(1)	(0)	-	-
CF from Fin. Activities	(12)	(63)	(160)	(69)	(48)	(31)
Inc(Dec) in Cash	3	(0)	3	2	3	60
Add: Opening Balance	2	5	5	7	9	12
Closing Balance	5	5	7	9	12	72

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