

## Merino Industries Ltd.

### About the company:

The Merino Group was started as a small establishment in 1965 by the late Man Kumar Lohia and his brothers. The Group has since evolved into the largest manufacturer and exporter of laminates in India. The Company is headquartered in Kolkata, West Bengal, with four manufacturing units in Hapur (UP), Rohad (Haryana), Hosur (TN) & Dahej (Gujarat), offices in more than 10 States , sales presence in more than 50 countries , dealer network of more than 4000 (doubled in five years). It also has Multi-regional warehouses for timely product delivery The Company's dispersed presence makes it possible to address pan India requirements. Merino products are also marketed in more than 50 countries. The Merino Group is the largest laminate manufacturer in India, manufacturing 168 lac sheets per annum and thus enjoying attractive economies of scale. The Company had set up a new Laminates manufacturing unit during the year 2016-17 under review, at Dahej, Gujarat, mainly to cater to West Indian markets. It is among India's handful laminates players to possess a captive printing unit.

### Principal Business Activities of the company

<b>Name &amp; description of man products /services</b>	<b>% to total turnover of the company</b>
Decorative Laminates	71.24%
Furniture & Panel Products	18.32%

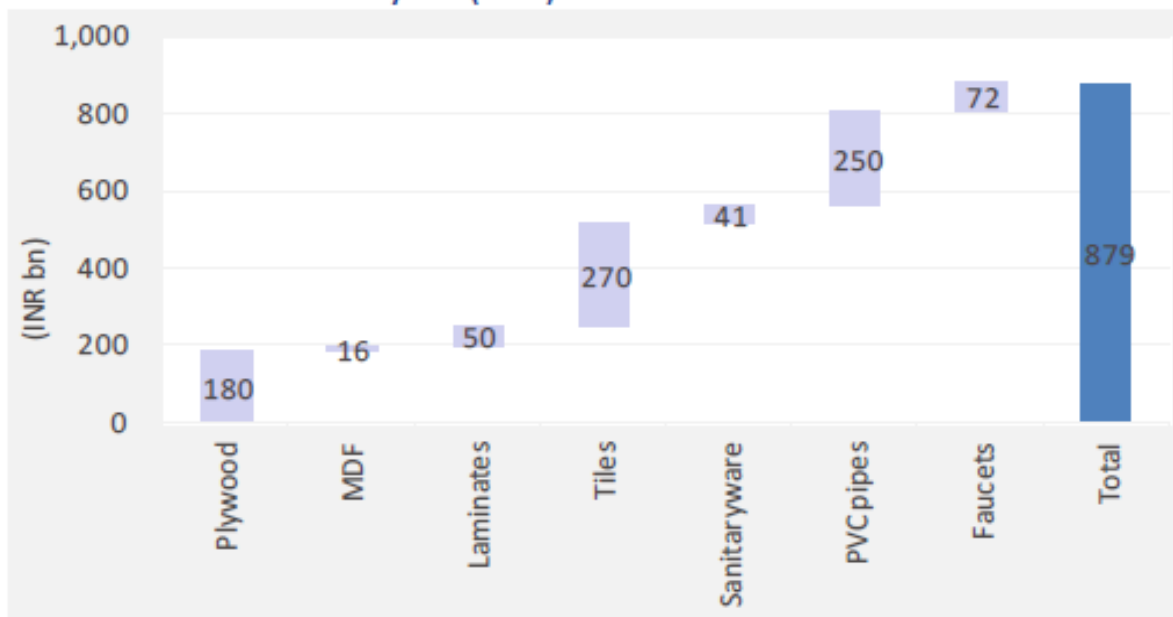
### Lamination Industry:

Laminates (INR50bn in FY17) industry is pegged to post healthy 11% CAGR over FY17-22 led by fast-changing consumer preference and demand shift in favour of organised players. This was spearheaded by robust top-line growth of large organised players, primarily led by rising penetration in tier II & III cities. This was commendable as it was achieved despite major slowdown during FY15-17 CAGR plummeted to mere 7% – primarily due to tepid real estate sector and one-off events like demonetisation. **Further, organised players in this industry are expected to grow at a faster pace of 16% CAGR over the same period.** The faster growth of organised players will be largely led by favourable GST rate of 18% vs. 28 % earlier tax rate Further, healthy exports will continue to support strong growth of organised players like Greenlam, Merino and Centuryply. According to Indian Laminates

Manufacturers Association, there is huge growth in Decorative Laminates manufacturing capacity in this country. This boom in capacity has given rise to sub product categories which is an obvious fall out of oversupply. High HPL Capacities is impacting the markets with every day growing competition to increased offerings of thin sheets in various markets. The cheaper offerings for door sized laminates had also fuelled high growth for laminates, providing a foray into rural belts. Rapid industrialisation and increasing trend for customised and attractive interior for homes and offices is anticipated to fuel the demand for laminates worldwide. With the government's continued focus on low cost housing and infrastructure, demand for laminates and plywood is likely to grow along with it. Industry observers said it was a challenging year. The real estate sector slowed. The proposed RERA implementation resulted in project postponements. The currency demonetisation affected consumer sentiment. And yet, Merino Industries Limited reported its best-ever financial performance in 2016-17.

**Size of lamination Industry in the Home Decor Sector:**

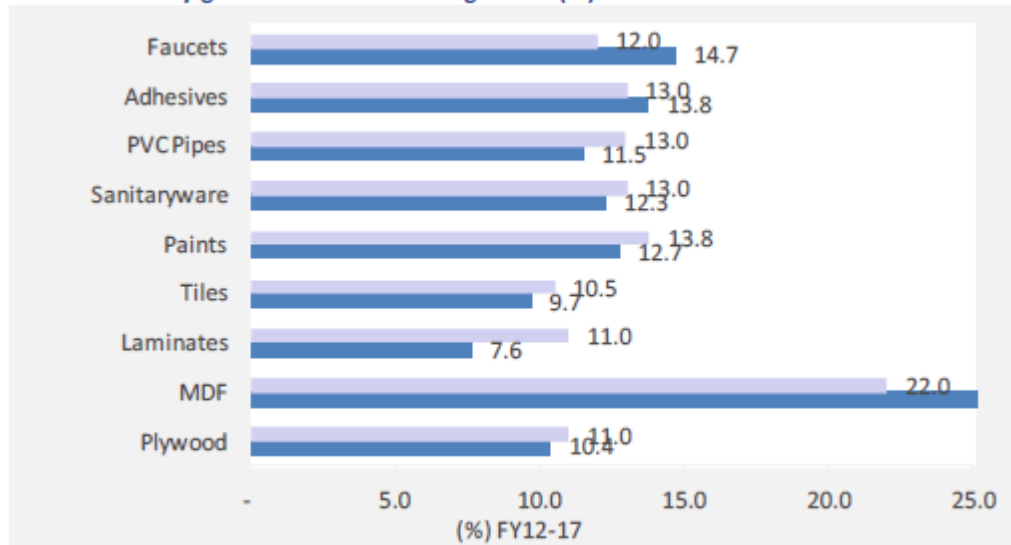
**Chart 2: Home décor industry size (FY17)**



Source: Industry, Edelweiss research

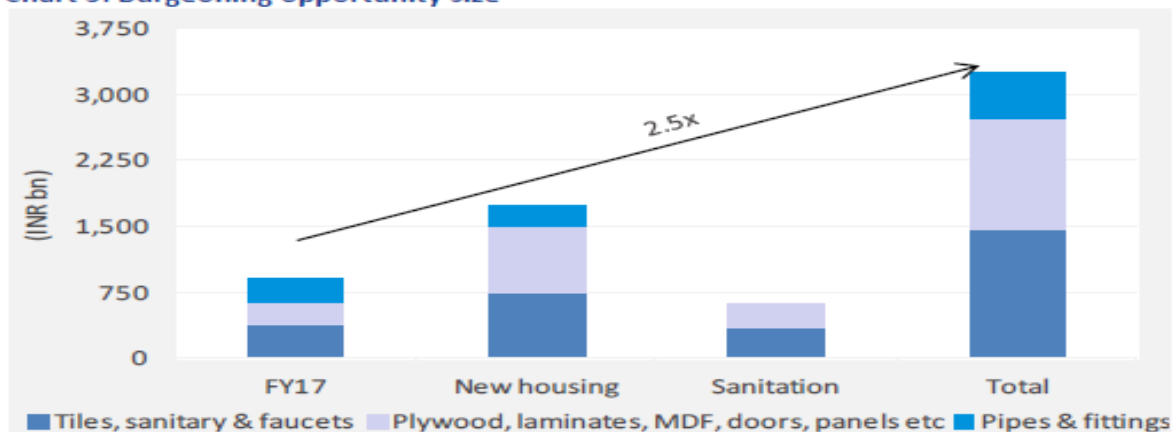
**Growth Rates across Home Decor Segments :**

**Chart 4: Healthy growth rates across segments (%)**



Source: Industry, Edelweiss research

**Chart 5: Burgeoning opportunity size**



Note : Demand estimate methodology – Basis assumption taken per household (HH) for tiles / sanitaryware / faucets is assumed at INR15,000/HH, for plywood/laminates/MDF/doors, etc., taken is assumed at INR15,000/HH and for pipes & fittings assumed at INR5,000/HH

Source: Edelweiss research

**Opportunities in the Lamination Industry due to :**

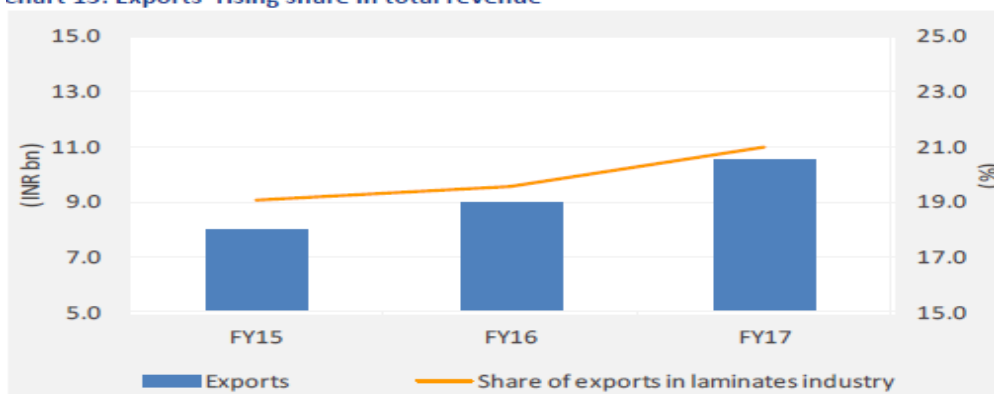
- Players tapping adjacent categories to maximise wallet share
- Improving affordability & easy availability of product(i.e entering adjacent business categories besides primary business to leverage existing brands , reach)
- Shortening product replacement cycles .Shortening replacement cycle will boost demand. Products’ replacement cycle will shorten riding rising affordability and products’ availability driven by deepening distribution of companies and expanding e commerce.

- Government's housing, infrastructure & sanitation push.
- Within the sector, cut in GST rate to 18% from 28% is envisaged to decisively shift the demand pendulum in favour of organised players. This will be driven by: a) government push towards cashless/formal economy; b) rising premiumisation trend; and c) consolidation in the sector. GST is also expected to improve operational profitability of large organised players by ~300-400bps due to narrowing pricing gap between organised & unorganised players, dip in logistics costs across operational & non-operational segments and input tax savings. Further, reduction in tax threshold to INR1.0-1.5mn under GST from INR15.0mn under excise will bring small players under GST's ambit.

### China Import ban , excess capacity spurring exports :

Imposition of anti-dumping duty on Chinese imports and cost competitiveness have thrown open floodgate of opportunities for Indian players. cost competitiveness is spurring laminates exports. Exports, at INR10.5bn, account for 20% of India's total laminates industry. India has huge laminate exports presence in US, Europe and Asia-Pacific markets. All major players like **Merino**, **Greenlam** and Century have significant share in exports with Greenlam being the largest exporter with over 40% market share. Laminate exports have clocked healthy 9.5% CAGR over FY14-17. However significant appreciation in INR may reduce exports .

**Chart 13: Exports' rising share in total revenue**



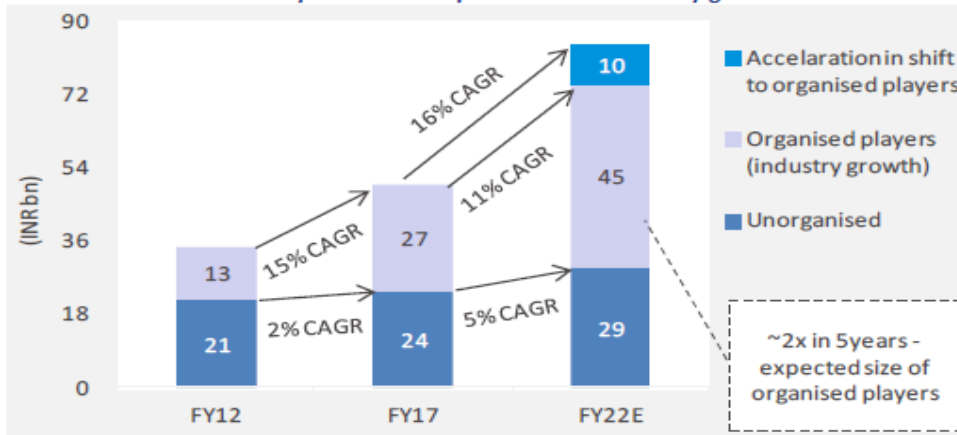
Source: Industry, Edelweiss research

### Organised players vs Unorganised players:

Organised players, which constitute ~50% of the industry, have surpassed unorganised counterparts due to unwavering focus on 1mm thickness laminates and value-added products like textured, exterior grade and compact laminates. With sustenance of demand

shift from unbranded to branded products, we expect organised laminates players to continue to grow at a faster pace of around 16% compared to industry's 11%.

**Chart 8: Laminates industry tracks wood panel surface industry growth**

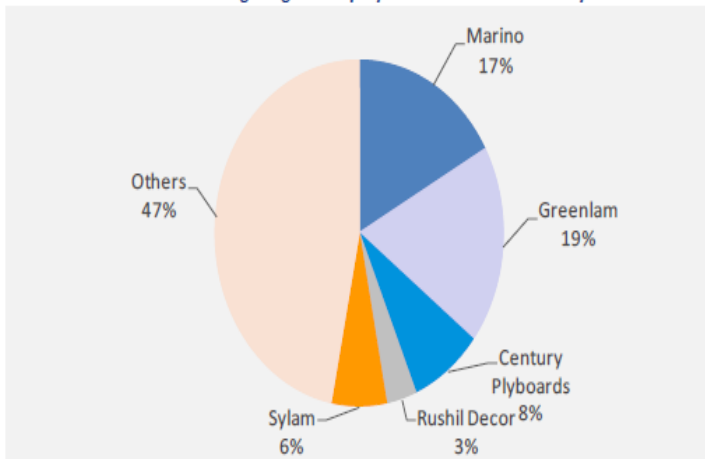


Source: Industry, Edelweiss research

**Market Share of large organised players in laminates Industry:**

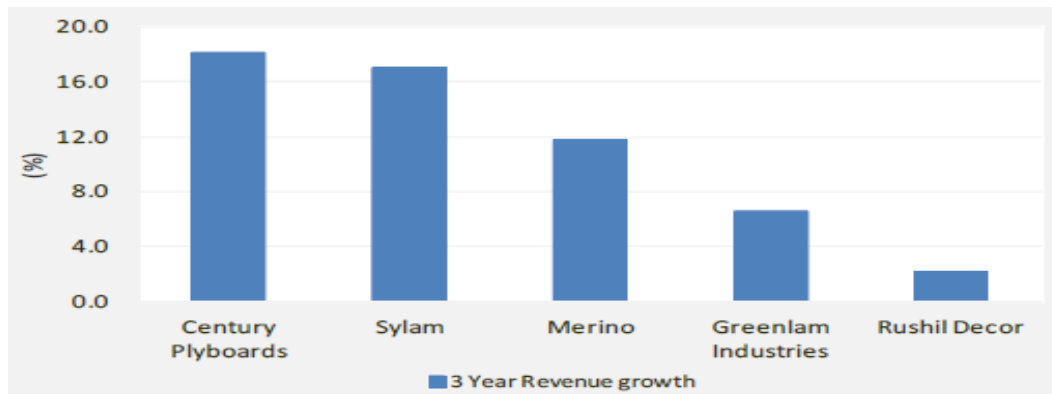
Merino Industries was amongst the first few players to enter the domestic high-pressure laminates market in the late 1970s.

**Chart 50: Market share of large organised players in laminates industry**



Source: Industry, Edelweiss research

**3 years revenue growth rate from FY14-17:**



Source: Company, Edelweiss research

## Merino Industry

### Products:

- The Company is one of the largest manufacturers of laminates in India.
- Panel products and furniture division - The Company pioneered the manufacture of panel products like rest-room cubicles that are finding increased applications across public spaces; the furniture division manufactures products like furniture components made out of particle boards, MDF boards and ply boards.
- Potato Flakes - Company invested in the manufacture of potato flakes with a manufacturing facility at Hapur, Uttar Pradesh- potato flakes.

Products launched in the year 2016 , including wall claddings - internal & external - are faring exceptionally well in the market.

### Investments:

- The company has made proactive investment in a plate polishing and cleaning facility for uniform surface finish of stainless steel moulds.
- It has also Invested in a new manufacturing plant, which will increase Group capacity by more than 15% starting FY18.
- The Company invested in state-of-the-art equipment - treators and impregnators from Italy over cheaper equipment available from within the country.

### Liquidity , turnover & bad debts:

- Liquidity -The Company had Rs. 53.48 cr cash on its books towards the close of 2016-17.
- Receivables -The Company had 48 days of receivables.
- Bad debts - negligible bad debts on the company's books.

### Debt:

- Company had sizable debt on its book in 2012-13 .
- The Company began to redeploy accruals in debt liquidation.
- Prudential debt management has improved the credit rating by CARE / CRISIL rating agencies to AA-.
- Decline in interest thus enhanced liquidity.

### Merino was largely a manufacturing driven company :

- The Company strengthened its marketing .
- The Company designed schemes to engage dealers and carpenters
- The initiatives strengthened a quicker offtake of value-added laminates.

**Merino was largely an India -Centric company until 1981:**

- The Company began to manufacture a world-class product quality.
- The Company widened its export presence to over 50 countries as on 31st March 2017.
- The Company derived more than 27.47% of revenues from exports in 2016-17 .
- The Company has emerged among the largest laminate exporting companies in India.

**Dividend:**

Company declared and paid Interim Dividend at the rate of Rs. 3.50 per share for Financial Year 2016-17 duly approved at the Board meeting held on 27.08.2016.

**Top Line & PAT Growth:**

Particulars	Greenlam Industries Ltd 2015-16	Greenlam Industries Ltd 2016-17	Merino Industries 2015-16	Merino Industries 2016-17
Growth in the Top line	11.32%	4.55%	4.62%	12.04%
Growth in Operating Profits	61.29%	10.54%	24.18%	26.45%
Growth in PAT	95.03%	32.06%	33.58%	35.56%

**EPS Growth :**

Companies	FY 15	FY 16	FY 17	Growth in FY16 compared to FY 15	Growth in FY 17 compared to FY 16
Merino Industries Ltd	62.34	83.27	112.89	33.57 %	35.57 %
Greenlam Industries Ltd	23.58	15.62	20.63	(33.76) %	32.07%

**Given below are the financials for the company Merino Industries Ltd as compared with its listed peer group company - Greenlam Industries :**

<b>Key Financials</b>	<b>Merino Industries</b>	<b>Greenlam Industries</b>
No of Shares Outstanding in Crs	1.04	2.41
CMP**	3350	1190
Market Cap in Crs	3484	2867.9
EPS (Earnings Per Share)	112.89	20.63
P/E FY 2016-17	29.67	57.68
Sales FY 17 in Crs	1063.62	1075.93
Net Profit (PAT) FY 17 in Crs	117.06	49.79
EBIDTA in Crs	234.73	141.46
EBIDTA Margin	21.57%	13.10%
EV/EBIDTA	15.47	21.51
EV / Sales	3.42	2.82
ROE	25.70%	17.10%
ROA	13.40%	6.28%
ROCE	34.67%	24.00%
Debt/Equity*	0.23	0.6
Debt: Long Term Loans in Crs	50.14	97.03
Debt: Short Term Loans in Crs	108.62	86.91
Equity Share Capital in Crs	10.47	12.06
Reserves and Surplus in Crs	444.98	278.64
Curr Ratio	1.8	1.23
Dividend Yield	0.17%	0.12%
Cash as on FY 17 in Crs	53.47	7.85

\*\* Market Price as on 27th February 2018.

\*Debt = Long term Borrowings + Short Term Borrowings - Cash

\*\*\*ROCE = Earnings before income and tax/ Total Assets - Current Liabilities

**Link for the Annual Report of Merino Industries Ltd (Refer to page numbers 106 & 107 for Consolidated Balance Sheet & Consolidated P/L respectively) -**

<http://www.merinoindia.com/pdf/MIL%20-%20Annual%20Reports%20&%20Accounts%202016-17.pdf>

**Link for the Annual Report of Greenlam Industries Ltd(Refer to page numbers 146 & 147 for Consolidated Balance Sheet & Consolidated P/L respectively) -**

[https://www.greenlamindustries.com/pdf-file/Greenlam%20Industries%20Limited\\_Annual%20Report\\_2016-17.pdf](https://www.greenlamindustries.com/pdf-file/Greenlam%20Industries%20Limited_Annual%20Report_2016-17.pdf)