

## RESEARCH

### Greenpanel Industries | Target: Rs 595 | +35% | BUY

Structural tailwinds intact

### Metals & Mining

India Steel Conference 2022 – Demand outlook positive

## SUMMARY

### Greenpanel Industries

- Plans to expand MDF capacity by adding 231,000cbm at a capex of Rs 6bn, for commercial production in Q2FY25
- 9MFY23 EBITDA margin guidance for MDF business at 26-27% vs. 33.3% in Q1FY23 owing to uncertainty over RM cost inflation
- Near-term hindrances but structural drivers intact; maintain BUY with an unchanged TP of Rs 595 set at 23x FY24E EPS

[Click here for the full report.](#)

### Metals & Mining

- Experts view at the India Steel Conference 2022 suggest 7-8% steel demand growth over the medium term supported by progress on NIP
- We remain positive on India's steel sector as we look beyond near-term uncertainty and focus on delivery of the next wave of expansion projects
- Prefer defensive play TATA (BUY, TP Rs 140) amid the current volatile environment

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### Daily macro indicators

Indicator	06-Sep	07-Sep	Chg (%)
US 10Y yield (%)	3.35	3.26	(9bps)
India 10Y yield (%)	7.18	7.18	1bps
USD/INR	79.84	79.90	(0.1)
Brent Crude (US\$/bbl)	92.8	88.0	(5.2)
Dow	31,145	31,581	1.4
Hang Seng	19,203	19,044	(0.8)
Sensex	59,197	59,029	(0.3)
India FII (US\$ mn)	05-Sep	06-Sep	Chg (\$ mn)
FII-D	15.4	62.2	46.8
FII-E	33.0	213.4	180.4

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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**BUY**

TP: Rs 595 | ▲ 35%

**GREENPANEL INDUSTRIES**

| Construction Materials

| 08 September 2022

**Structural tailwinds intact**

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We interacted with GREENP CFO V Venkatramani to gain a perspective on the company’s growth prospects and sector outlook. Key takeaways:

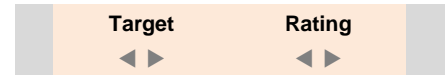
**Brownfield expansion planned at AP plant:** GREENP plans to expand MDF (medium-density fibreboard) capacity at its Andhra Pradesh plant by 231,000cbm at a capex of Rs 6bn, comprising ~Rs 2.3bn of low-cost foreign debt and internal accruals. The plant will manufacture thin MDF (30-40% of the market), and commercial production is scheduled to start by Q2FY25. Management expects the new capacity to generate revenue of Rs 7.7bn-8bn at optimal utilisation, targeted in FY27. MDF capacity will rise to 891,000cbm post expansion.

**“Over cautious” on raw-material price movement:** Management has guided for 26-27% EBITDA margins in 9MFY23 for MDF (33.3% in Q1) as it anticipates higher chemical prices (crude derivative) to put 300bps of gross margin pressure. Per management, chemical prices have not increased since the start of CY22, and the ability to take price hikes will depend on demand. In the plywood business, timber prices have risen by 6-8% in Q2FY23, putting pressure on segment EBITDA margins (11.5% in Q1). Nevertheless, management expects plywood margins to hold in the 11-11.5% range for FY23.

**MDF export realisation down 5-6% vs. Q1:** Due to lower demand from the Middle East amid festivals, geopolitical tensions which delayed shipments and the global economic slowdown, management expects MDF export volumes to remain flattish or grow in low single digits in FY23 compared to FY22 (122,512cbm). Export realisation has also fallen by 5-6% compared to Q1 (Rs 23,941/cbm).

**Maintain BUY:** Despite a strong Q1FY23, stock performance has remained lacklustre owing to management’s “over-cautious” guidance. GREENP is trading at 17x FY24E EPS. We continue to value the stock at 23x FY24E EPS, a 34% discount to peer CPBI, and retain our TP of Rs 595 with a BUY rating. We like the company for its a leadership position in the MDF market, improving balance sheet and commendable improvement in working capital discipline and return ratios.

**Key changes**



Ticker/Price	GREENP IN/Rs 441
Market cap	US\$ 676.6mn
Free float	47%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 626/Rs 264
Promoter/FPI/DII	53%/6%/41%

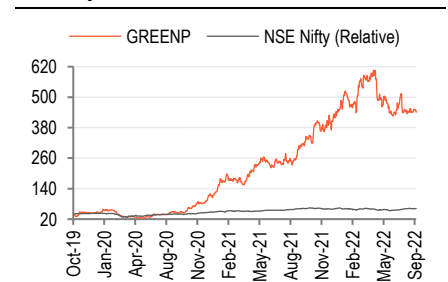
Source: NSE | Price as of 7 Sep 2022

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,543	20,553
EBITDA (Rs mn)	4,304	4,700	5,302
Adj. net profit (Rs mn)	2,405	2,673	3,171
Adj. EPS (Rs)	19.6	21.8	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.6	25.4
Adj. P/E (x)	22.5	20.2	17.0
EV/EBITDA (x)	13.6	12.0	10.2
Adj. EPS growth (%)	197.6	11.2	18.6

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## METALS & MINING

08 September 2022

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**Steel users/producers positive on mid-to-long-term steel demand:** We recently attended the India Steel Conference 2022 organised by Steel Users Federation of India (SUF). While producers were generally more optimistic than investors, several participants expect medium-to-long-term growth potential of 7-8% p.a. for the steel sector, led by demand from roads, rail, water, construction, energy and auto. Their positive outlook is underpinned by progress on National Infrastructure Pipeline (NIP) investments, where 40-45% of identified projects are under execution. ICRA expects FY23 government capex to meet the average annual rate targeted under NIP, and the industry expects acceleration in execution over the next 1.5 years ahead of polls.

**Modest recovery likely near term:** Steel prices have stabilised and could rise with an uptick in demand. Conference discussions suggest the industry anticipates a modest recovery in demand from 27mt in Q1FY23 (18mt in Jul-Aug'22) to 28mt in Q3 and 30mt in Q4. Participants do not expect a rebound in exports in current environment even after export duty removal. For long producers, competition from secondary products is here to stay.

**We remain constructive on India's steel sector:** While near-term uncertainty persists owing to the China slowdown, we believe margins will stabilise to mid-cycle levels over H2FY23 as Chinese demand gradually recovers from Q4CY22. More importantly, we look forward to earnings growth from Indian steel players over FY23-FY25 as they deliver on the next wave of expansion projects. The return profile for these projects is quite healthy even in mid-cycle scenarios, with all players leveraging existing infrastructure for brownfield expansion. Efficiency improvement projects and downstream integration would also mitigate earnings volatility.

**Prefer defensive play TATA:** We prefer defensive play TATA (BUY, TP Rs 140) from amongst our steel coverage for its ability to generate sector-leading margins via better integration all the way to iron ore and for its focus on downstream and retail businesses to capture value-add. We also have a BUY on JSP (TP Rs 460) which has scope for a gradual re-rating as the company demonstrates capital discipline and implements the next phase of growth.

### Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	433	460	BUY
JSTL IN	685	655	HOLD
SAIL IN	82	90	HOLD
TATA IN	108	140	BUY

Price & Target in Rupees | Price as of 7 Sep 2022



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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