BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

16 June 2021

RESEARCH

Greenply Industries | Target: Rs 230 | +7% | ADD

Decent quarter; cut to ADD on limited upside

Kajaria Ceramics | Target: Rs 950 | –5% | REDUCE

Strong quarter; maintain REDUCE due to rich valuations

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.51	4bps	(17bps)	78bps
India 10Y yield (%)	6.01	0bps	0bps	23bps
USD/INR	73.29	(0.3)	0.4	3.6
Brent Crude (US$/bbl)	72.88	0.3	6.0	88.6
Dow	34,394	(0.2)	0.6	37.2
Shanghai	3,590	(0.6)	4.3	22.9
Sensex	52,552	0.1	6.7	56.5
India FII (US$ mn)	**11-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(9.7)	(255.4)	(2,836.0)	(808.8)
FII-E	14.4	1,433.9	8,019.9	693.6

Source: Bank of Baroda Economics Research

SUMMARY

Greenply Industries

- GIL reported Q4FY21 consolidated revenue growth of 15% YoY backed by a 21% uptick in India business
- Consolidated operating margin expanded 280bps YoY to 11.5% supported by a higher gross margin (+95bps) and lower other expenses (-180bps)
- We raise FY23 PAT 5% and increase our TP to Rs 230 (vs. Rs 195) but downgrade from BUY to ADD on limited upside post the recent rally

Click here for the full report.

Kajaria Ceramics

- KJC reported consolidated Q4FY21 revenue growth of 46% YoY as tile volumes grew 39%, aided by a soft lockdown-hit base quarter
- Operating margin swelled 575bps YoY as employee/other expenses reduced by 320bps/315bps YoY
- We raise FY22/FY23 PAT 10%/14% and revise our Mar'22 TP to Rs 950 (vs. Rs 780). Retain REDUCE on current rich valuations of 34x FY23E

Click here for the full report.

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ADD
TP: Rs 230 | ▲ 7%

GREENPLY INDUSTRIES | Construction Materials | 15 June 2021

Decent quarter; cut to ADD on limited upside

- **GIL reported Q4FY21 consolidated revenue growth of 15% YoY backed by a 21% uptick in India business**
- **Consolidated operating margin expanded 280bps YoY to 11.5% supported by a higher gross margin (+95bps) and lower other expenses (-180bps)**
- **We raise FY23 PAT 5% and increase our TP to Rs 230 (vs. Rs 195) but downgrade from BUY to ADD on limited upside post the recent rally**

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India business leads revenue growth: GIL reported consolidated Q4 revenue growth of 15% YoY to ~Rs 4bn with India business up 21% led by 19% growth in plywood volumes off a soft base. Gabon subsidiary revenue declined 21% YoY as it faced logistical challenges due to the non-availability of ships. For FY21, GIL's consolidated topline declined 18% with India business contracting 20% (plywood volumes down 19%) and Gabon dipping 2%. Working capital days reduced by 25 days YoY to 53, and management sees scope for further improvement. During the year, GIL has reduced consolidated net debt by ~Rs 1.9bn to Rs 637mn.

Demand softens in Q1: GIL clocked brisk growth in Q4 with demand spread across markets, but ensuing lockdowns weakened sales traction in Q1FY22. Management is optimistic of demand revival from Q2 as the country unlocks. The company believes plywood demand will remain strong owing to increasing formalisation of the unorganised market, recovery in real estate and the growing work-from-home culture. It has thus undertaken capacity expansion capex of ~Rs 900mn which should become operational by Q4FY22-end.

Q4 operating margin up 280bps YoY: GIL reported consolidated operating margin gains of 280bps YoY to 11.5% backed by a 95bps increase in gross margin (on a better product mix) and a 180bps decline in other expenses (operating leverage). EBITDA/PBT thus grew 52%/106% YoY. In FY21, operating margin contracted 95bps YoY to 10% with EBITDA/PBT falling 25% each. As per management, the company has taken price increases due to rising raw material costs and has also rationalised cost, which should enable it to earn better margins ahead.

Downgrade to ADD post recent rally: We raise our FY23 PAT estimate 5% (FY22 largely unchanged) and also bring our target one-year forward P/E multiple in line with the five-year average of 20x (18x earlier) considering the much-improved balance sheet post retirement of debt. Our new Mar'22 TP stands at Rs 230 (vs. Rs 195). We continue to like GIL for its leadership in the plywood business and improved balance sheet but downgrade our rating from BUY to ADD due to the sharp 57% run-up in stock price over the past four months (taking current valuations to 19x FY23E EPS).

Key changes

Target	Rating
▲	▼

Ticker/Price	MTLM IN/Rs 216
Market cap	US$ 360.5mn
Free float	48%
3M ADV	US$ 2.0mn
52wk high/low	Rs 225/Rs 74
Promoter/FPI/DII	52%/2%/46%

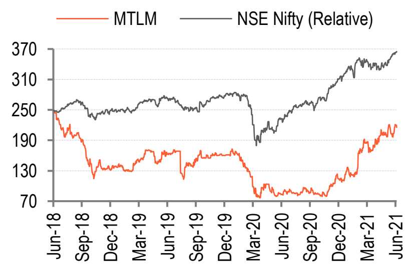
Source: NSE | Price as of 15 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	11,653	14,530	16,414
EBITDA (Rs mn)	1,167	1,800	2,118
Adj. net profit (Rs mn)	609	1,125	1,392
Adj. EPS (Rs)	5.0	9.2	11.3
Consensus EPS (Rs)	5.1	9.4	11.5
Adj. ROAE (%)	15.0	23.0	22.9
Adj. P/E (x)	43.4	23.5	19.0
EV/EBITDA (x)	24.7	15.6	12.7
Adj. EPS growth (%)	(27.6)	84.7	23.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

REDUCE
TP: Rs 950 | ∨ 5%

KAJARIA CERAMICS | Construction Materials | 15 June 2021

Strong quarter; maintain REDUCE due to rich valuations

- **KJC reported consolidated Q4FY21 revenue growth of 46% YoY as tile volumes grew 39%, aided by a soft lockdown-hit base quarter**
- **Operating margin swelled 575bps YoY as employee/other expenses reduced by 320bps/315bps YoY**
- **We raise FY22/FY23 PAT 10%/14% and revise our Mar'22 TP to Rs 950 (vs. Rs 780). Retain REDUCE on current rich valuations of 34x FY23E**

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Strong revenue growth aided by low base: KJC reported consolidated Q4 revenue growth of 46% YoY to Rs 9.5bn with tile volumes rising 39% YoY off a soft base. Sanitaryware & faucetware grew 73% YoY. Demand was broad-based across markets during the quarter with good traction in metros, tier-1 cities and tier-2-and-below markets. For FY21, revenue dipped 1% YoY and tile volumes fell 3% whereas the sanitaryware & faucet segment grew 20%. Working capital days improved by 23 days to 50 in FY21, and management expects a return to pre-Covid levels of 50-55 days going ahead.

Near-term headwinds: Per management, demand in Q1FY22 has been affected by renewed Covid lockdowns, with April at 75% of targeted revenue, May at 35% and June likely to be at 75%. The company anticipates demand revival from Q2 as unlocking gets underway. Management refrained from giving FY22 volume guidance for the tiles business but said it aims to achieve the earlier guided 20-25% growth rate on a low base of FY21 if the external situation normalises. KJC plans to incur capex of Rs 2.5bn in FY22 toward brownfield capacity expansion to meet the expected demand.

Sharp rise in margin: Consolidated operating margin expanded 575bps YoY to 20% despite gross margin declining 65bps as employee/other expenses reduced by 320bps/315bps YoY – this yielded EBITDA/PBT growth of 105%/153% YoY. Gross margin declined due to higher raw material cost whereas higher operating leverage helped bring down employee/other expenses as a percentage of sales. For FY21, KJC reported a 350bps increase in operating margin to 18.3% and 22%/32% YoY growth in EBITDA/ PBT. Management did not put out margin guidance for FY22 (vs. 20% guided last quarter) but highlighted that it would continue to keep a tight leash on cost.

Maintain REDUCE: We increase FY22/FY23 PAT estimates by 10%/14% due to better-than-expected FY21 margins and raise our target FY23E P/E multiple to 32x (vs. 30x), in line with the stock's five-year average. Our Mar'22 TP thus rises to Rs 950 (from Rs 780). KJC is currently trading at 33.6x FY23E EPS. Though we like the company for its leadership in tiles, strong balance sheet and robust return ratios, we maintain our REDUCE rating due to full valuations and await a better entry point.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	KJC IN/Rs 995
Market cap	US$ 2.2bn
Free float	52%
3M ADV	US$ 3.2mn
52wk high/low	Rs 1,055/Rs 350
Promoter/FPI/DII	48%/25%/27%

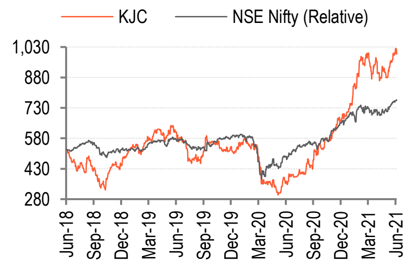
Source: NSE | Price as of 15 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	27,809	33,905	39,411
EBITDA (Rs mn)	5,088	6,268	7,596
Adj. net profit (Rs mn)	3,081	3,818	4,705
Adj. EPS (Rs)	19.4	24.0	29.6
Consensus EPS (Rs)	17.9	24.3	30.0
Adj. ROAE (%)	17.2	19.9	23.3
Adj. P/E (x)	51.3	41.4	33.6
EV/EBITDA (x)	30.8	24.9	20.5
Adj. EPS growth (%)	20.6	24.0	23.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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