

**BUY**

TP: Rs 165 | ▲ 31%

**GREENPANEL  
INDUSTRIES**

Construction Materials

04 January 2021

**Strong showing in MDF to continue – we raise estimates**

**Demand for MDF has bettered expectations since unlocking of the economy in Q3FY21 as the pandemic has boosted consumption of readymade furniture. MDF is also replacing offtake of low-end plywood. We believe these demand trends are sustainable and raise our FY21-FY23 revenue estimates for Greenpanel Industries (GREENP) by 8-12% and EBITDA by 16-24%, implying a revenue/EBITDA CAGR of 16%/26% over FY20-FY23. We also revise our target P/E to 15x (earlier 13x) and roll over to a new Mar'22 TP of Rs 165 (earlier Rs 95).**

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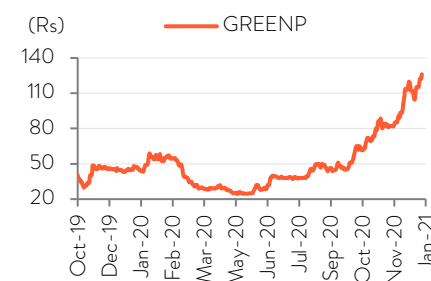
**MDF demand robust:** Demand for MDF has been better than expected since unlocking due to higher readymade furniture offtake, a shift away from low-end plywood and a slowdown in imports (25-30% of the market). Per our discussions with industry participants, imports have slowed due to container availability issues and higher freight cost. We expect MDF manufacturers with surplus capacities such as GREENP to benefit from the demand boom, which looks sustainable due to the government focus on domestic furniture manufacturing. We thus raise FY21-FY23 revenue estimates by 8-12% and expect the company's MDF utilisation to rise to 90% by FY23 (~60% in FY20).

**EBITDA forecast to double over FY20-FY23:** We estimate that operating margins in GREENP's MDF segment will increase 430bps to 22.5% by FY23 due to higher capacity utilisation and recent productivity initiatives. We upgrade FY21-FY23 EBITDA estimates by 16-24% factoring in higher turnover and better margins. Our PAT forecasts thus rise by 32-53%.

**Maintain BUY:** We continue to like GREENP for its leadership position in the MDF market, strong growth prospects and improving return ratios. Considering the robust demand trends, we raise our one-year forward P/E to 15x and roll over to a higher Mar'22 TP of Rs 165.

Ticker/Price	GREENP IN/Rs 126
Market cap	US\$ 211.5mn
Shares o/s	123mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 128/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	9,046	11,352	13,667
EBITDA (Rs mn)	774	1,432	1,597	2,258	2,881
Adj. net profit (Rs mn)	228	253	423	882	1,327
Adj. EPS (Rs)	1.9	2.1	3.4	7.2	10.8
Adj. EPS growth (%)	NA	11.0	67.1	108.7	50.5
Adj. ROAE (%)	7.1	3.9	6.2	11.8	15.5
Adj. P/E (x)	67.8	61.1	36.5	17.5	11.6
EV/EBITDA (x)	NA	12.8	13.2	9.0	6.7

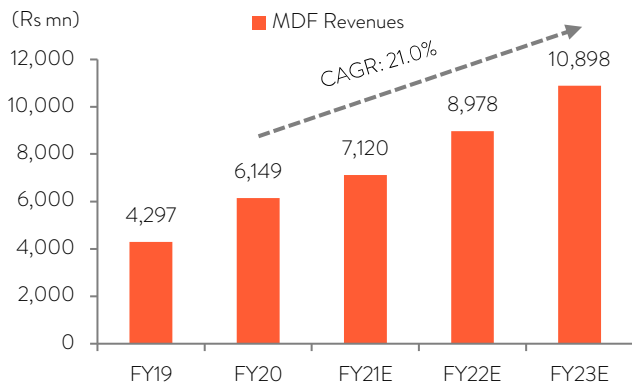
Source: Company, BOBCAPS Research

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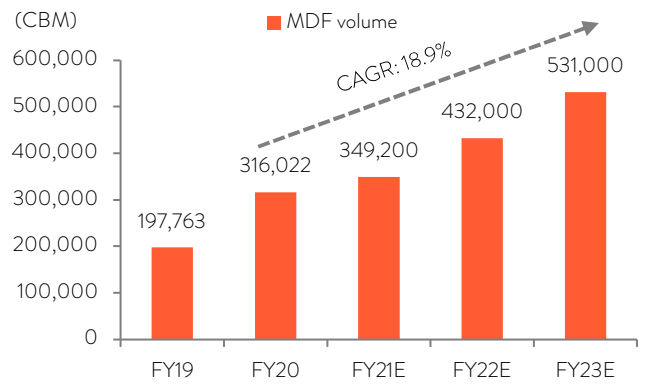


**FIG 1 – MDF REVENUE CAGR OF 21% OVER FY20-FY23E**



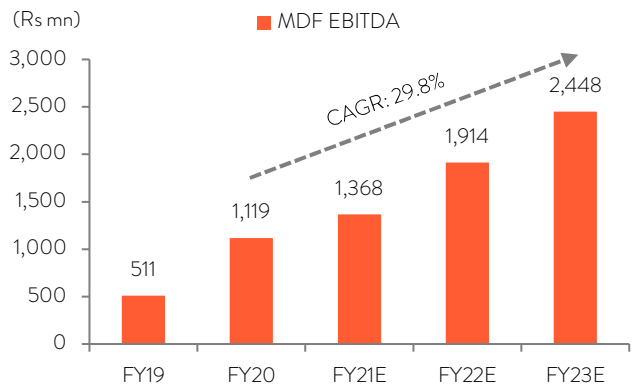
Source: Company, BOBCAPS Research

**FIG 2 – MDF VOLUME CAGR OF 19% OVER FY20-FY23E**



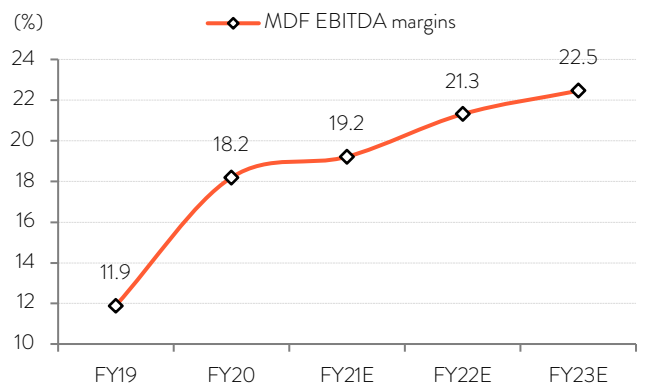
Source: Company, BOBCAPS Research

**FIG 3 – MDF EBITDA CAGR OF 30% OVER FY20-23E**



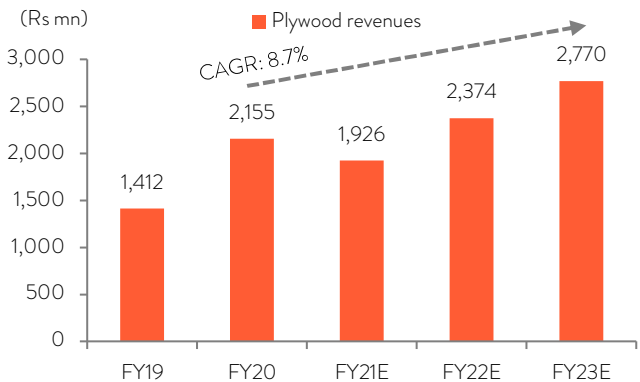
Source: Company, BOBCAPS Research

**FIG 4 – MDF MARGINS TO EXPAND ON BETTER CAPACITY UTILISATION**



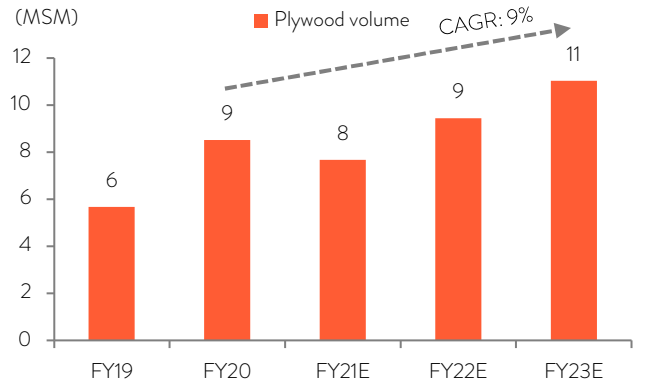
Source: Company, BOBCAPS Research

**FIG 5 – PLYWOOD REVENUE CAGR OF 9% OVER FY20-FY23E**



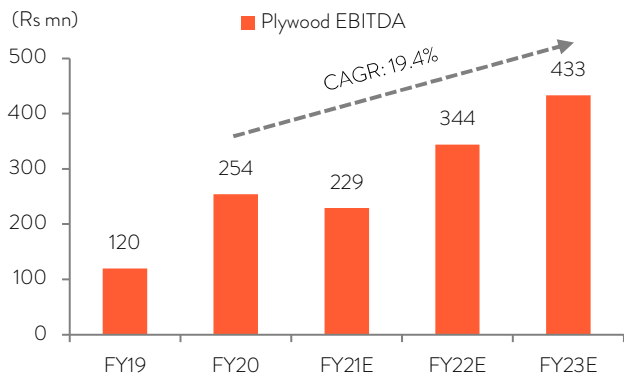
Source: Company, BOBCAPS Research

**FIG 6 – PLYWOOD VOLUME CAGR OF 9% OVER FY20-FY23E**



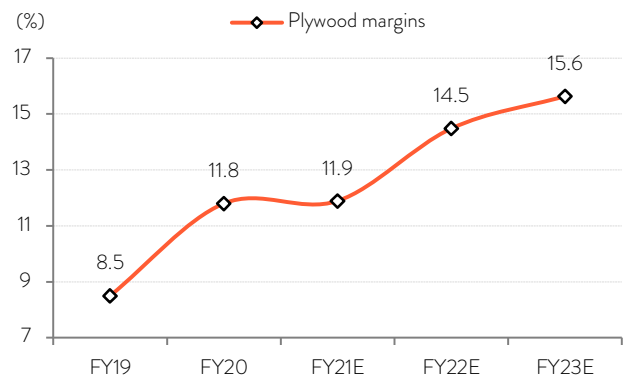
Source: Company, BOBCAPS Research

**FIG 7 – PLYWOOD EBITDA CAGR OF 19% OVER FY20-FY23E**



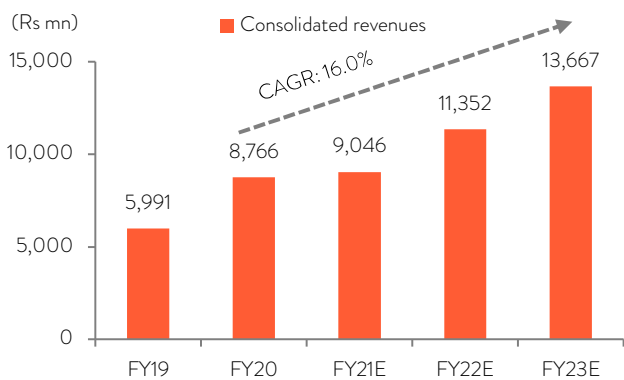
Source: Company, BOBCAPS Research

**FIG 8 – PLYWOOD MARGINS ON AN UPTREND DUE TO BETTER CAPACITY UTILISATION**



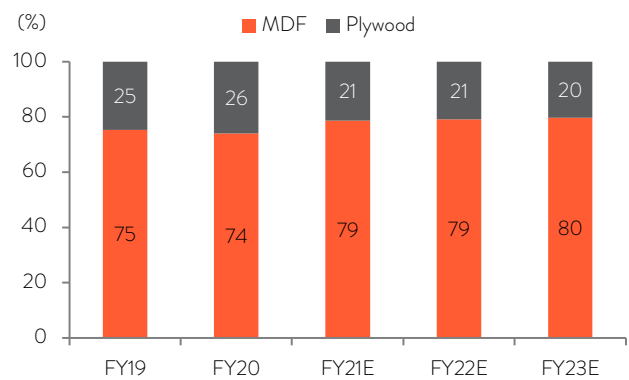
Source: Company, BOBCAPS Research

**FIG 9 – CONSOLIDATED REVENUE CAGR OF 16% OVER FY20-FY23E**



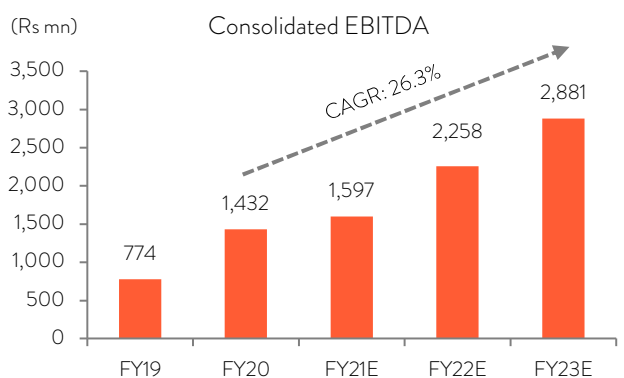
Source: Company, BOBCAPS Research

**FIG 10 – REVENUE BREAKUP SHOWS GROWING SHARE OF MDF**



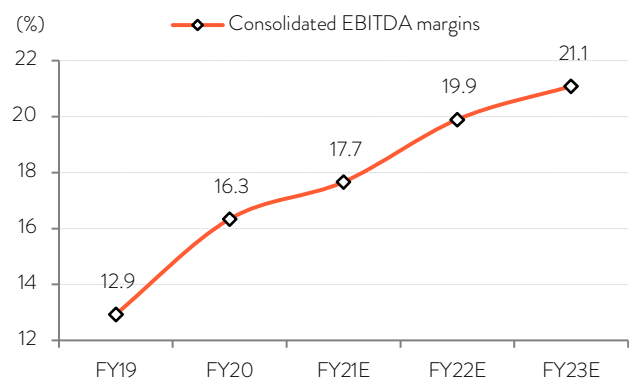
Source: Company, BOBCAPS Research

**FIG 11 – CONSOLIDATED EBITDA CAGR OF 26% OVER FY20-FY23E**



Source: Company, BOBCAPS Research

**FIG 12 – CONSOLIDATED EBITDA MARGIN TO INCREASE DUE TO HIGHER MDF CONTRIBUTION**



Source: Company, BOBCAPS Research

## Valuation methodology

GREENP is the demerged entity of Greenply Industries (MTLM IN), carved out primarily to house the latter's MDF business. The company was demerged in Jul'19 and listed on 23 Oct 2019. It is the largest MDF player in the country with an installed capacity of 560,000cbm, spread across two facilities in Uttarakhand and Andhra Pradesh. The AP facility commissioned in Jul'18 with a capacity of 360,000cbm per year is the largest MDF plant in Asia.

India's MDF market is estimated at Rs 19bn and projected to grow to Rs 25bn by 2024. This product is expected to replace low-cost plywood (an estimated Rs 50bn market) due to its superior quality and competitive pricing.

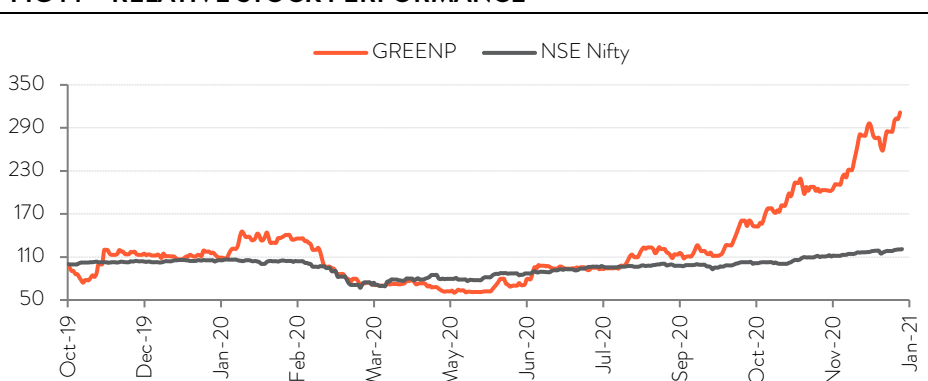
We raise FY21-FY23 revenue estimates for GREENP by 8-12% due to faster-than-expected demand revival post lifting of lockdown restrictions. EBITDA estimates for this period have been increased by 16-24% assuming better capacity utilisation, resulting in a 32-53% earnings upgrade. We also raise our target P/E from 13x to 15x (~20% discount to target multiples for plywood companies vs. ~30% earlier) due to strong growth prospects and improving return ratios. On rollover, we have a revised Mar'22 target price of Rs 165 (earlier Rs 95). Maintain BUY.

**FIG 13 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	9,046	11,352	13,667	8,359	10,454	12,233	8.2	8.6	11.7
EBITDA	1,597	2,258	2,881	1,383	1,910	2,320	15.5	18.2	24.2
PAT	423	882	1,327	276	669	966	53.0	31.8	37.3

Source: BOBCAPS Research

**FIG 14 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Downside risks to our estimates include:

- slowdown in the housing and commercial real estate sectors;
- fall in international MDF prices, resulting in higher imports and pressure on domestic markets; and
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>5,991</b>	<b>8,766</b>	<b>9,046</b>	<b>11,352</b>	<b>13,667</b>
EBITDA	774	1,432	1,597	2,258	2,881
Depreciation	(530)	(692)	(701)	(743)	(754)
EBIT	244	740	896	1,515	2,127
Net interest income/(expenses)	(246)	(302)	(289)	(233)	(203)
Other income/(expenses)	8	22	24	35	57
Exceptional items	118	(343)	0	0	0
EBT	6	460	631	1,316	1,981
Income taxes	222	28	(208)	(434)	(654)
<b>Reported net profit</b>	<b>346</b>	<b>145</b>	<b>423</b>	<b>882</b>	<b>1,327</b>
Adjustments	(118)	108	0	0	0
<b>Adjusted net profit</b>	<b>228</b>	<b>253</b>	<b>423</b>	<b>882</b>	<b>1,327</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	816	1,207	1,239	1,524	1,797
Other current liabilities	1,197	1,036	1,264	1,586	1,910
Provisions	126	120	118	136	150
Debt funds	5,865	5,611	4,351	3,431	2,381
Other liabilities	121	69	164	361	658
Equity capital	123	123	123	123	123
Reserves & surplus	6,332	6,494	6,916	7,799	9,126
Shareholders' fund	6,455	6,616	7,039	7,921	9,248
<b>Total liabilities and equities</b>	<b>14,580</b>	<b>14,658</b>	<b>14,174</b>	<b>14,960</b>	<b>16,145</b>
Cash and cash eq.	199	115	88	94	1,007
Accounts receivables	456	705	768	933	1,123
Inventories	1,345	1,539	1,537	1,897	2,284
Other current assets	1,167	1,131	1,165	1,462	1,760
Net fixed assets	11,368	11,107	10,612	10,569	9,966
CWIP	38	57	0	0	0
Intangible assets	7	4	4	4	4
<b>Total assets</b>	<b>14,580</b>	<b>14,658</b>	<b>14,174</b>	<b>14,960</b>	<b>16,145</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	836	1,124	1,625	2,081
Interest expenses	302	289	233	203
Non-cash adjustments	(235)	0	0	0
Changes in working capital	(183)	164	(197)	(264)
Other operating cash flows	0	0	0	0
<b>Cash flow from operations</b>	<b>720</b>	<b>1,576</b>	<b>1,662</b>	<b>2,020</b>
Capital expenditures	(242)	(150)	(700)	(150)
Change in investments	0	0	0	0
Other investing cash flows	0	95	197	297
<b>Cash flow from investing</b>	<b>(242)</b>	<b>(55)</b>	<b>(503)</b>	<b>147</b>
Equities issued/Others	0	0	0	0
Debt raised/repaid	(255)	(1,259)	(920)	(1,050)
Interest expenses	(302)	(289)	(233)	(203)
Dividends paid	0	0	0	0
Other financing cash flows	(5)	0	0	0
<b>Cash flow from financing</b>	<b>(561)</b>	<b>(1,548)</b>	<b>(1,153)</b>	<b>(1,253)</b>
<b>Changes in cash and cash eq.</b>	<b>(84)</b>	<b>(27)</b>	<b>6</b>	<b>913</b>
<b>Closing cash and cash eq.</b>	<b>115</b>	<b>88</b>	<b>94</b>	<b>1,007</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	2.8	1.2	3.4	7.2	10.8
Adjusted EPS	1.9	2.1	3.4	7.2	10.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	57.4	64.6	75.4

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.6	2.1	2.3	1.8	1.4
EV/EBITDA	19.9	12.8	13.2	9.0	6.7
Adjusted P/E	67.8	61.1	36.5	17.5	11.6
P/BV	2.4	2.3	2.2	1.9	1.7

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	184.0	216.0	67.0	67.0	67.0
Interest burden (PBT/EBIT)	50.7	15.8	70.4	86.9	93.1
EBIT margin (EBIT/Revenue)	4.1	8.4	9.9	13.3	15.6
Asset turnover (Revenue/Avg TA)	82.2	60.0	62.7	77.9	87.9
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	1.9	1.8
Adjusted ROAE	7.1	3.9	6.2	11.8	15.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	NA	46.3	3.2	25.5	20.4
EBITDA	NA	84.8	11.6	41.3	27.6
Adjusted EPS	NA	11.0	67.1	108.7	50.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.9	16.3	17.7	19.9	21.1
EBIT margin	4.1	8.4	9.9	13.3	15.6
Adjusted profit margin	3.8	2.9	4.7	7.8	9.7
Adjusted ROAE	7.1	3.9	6.2	11.8	15.5
ROCE	4.0	6.0	5.1	8.9	12.4
<b>Working capital days (days)</b>					
Receivables	14	24	30	27	27
Inventory	96	134	143	128	131
Payables	29	50	60	55	56
<b>Ratios (x)</b>					
Gross asset turnover	0.9	0.6	0.6	0.8	0.9
Current ratio	0.9	1.0	1.1	1.2	1.6
Net interest coverage ratio	1.0	2.5	3.1	6.5	10.5
Adjusted debt/equity	0.9	0.8	0.6	0.4	0.1

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

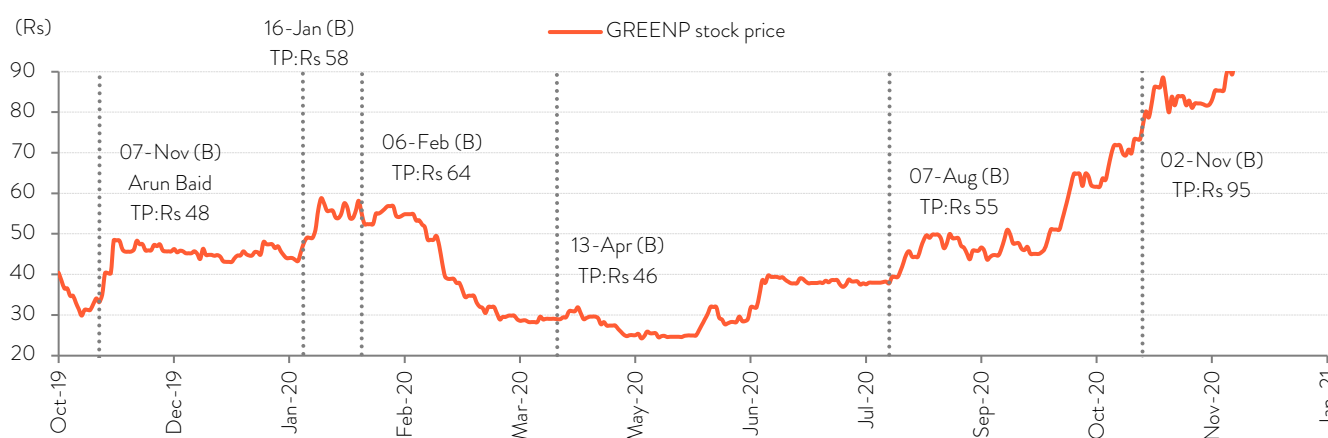
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): GREENPANEL INDUSTRIES (GREENP IN)



B – Buy, A – Add, R – Reduce, S – Sell

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