

BUY

TP: Rs 295 | ▲ 19%

**GREENPANEL
INDUSTRIES**

Construction Materials

26 May 2021

Lockdown to subdue near-term demand but outlook upbeat

We interacted with the management of Greenpanel Industries (GREENP) for an update on MDF business prospects. Following are the key takeaways:

- Demand trends were in line with management's expectations till April but have weakened thereafter due to lockdowns across several states. The company is hopeful of domestic demand recovery as restrictions ease.
- Management plans to focus on higher MDF exports for the next couple of months till the domestic market reopens and demand revives.
- Higher exports at this time will enable GREENP to have more capacity available in future quarters to meet domestic demand.
- The company has an unfulfilled export obligation of ~176,000cbm under the Export Promotion Capital Goods (EPCG) scheme availed for its Andhra Pradesh facility, which is to be fulfilled by FY23.
- Operating margin may be subdued in the near term due to lower capacity utilisation (with domestic markets under lockdown) and weaker margins earned on exports (11-12%). Management expects margins for FY22 to retrace at least to FY21 levels as domestic markets reopen.
- GREENP has hiked MDF prices by ~4% in the domestic market (~85% of sales in FY21) from May'21 due to increased raw material cost. These hikes will fully offset the higher RM cost burden.
- MDF plant debottlenecking will be completed by Q3FY22, adding ~65,000cbm of capacity. Capex for debottlenecking and backward integration totals ~Rs 550mn.
- The company has been focusing on domestic distribution and now has over 1,400 MDF dealers across India vs. 1,080 as on Mar'20. It plans to continue scaling up its reach and targeting smaller cities to widen the market.
- Net debt has reduced further in April and the company is on track to achieve its guidance of net debt reduction of Rs 1.5bn to Rs 2.2bn in FY22.

Our view: We believe GREENP will continue to see a strong demand revival post unlocking due to higher acceptance of readymade furniture and a demand shift from low-cost plywood to MDF. Maintain BUY with a Mar'22 TP of Rs 295, set at 18x FY23E P/E.

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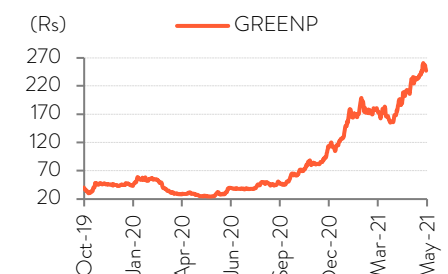
Ticker/Price	GREENP IN/Rs 247
Market cap	US\$ 416.2mn
Shares o/s	123mn
3M ADV	US\$ 2.1mn
52wk high/low	Rs 268/Rs 24
Promoter/FPI/DII	53%/4%/43%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,208	13,278	15,782
EBITDA (Rs mn)	2,034	3,056	3,730
Adj. net profit (Rs mn)	778	1,482	1,998
Adj. EPS (Rs)	6.3	12.1	16.3
Adj. EPS growth (%)	207.4	90.6	34.8
Adj. ROAE (%)	11.2	18.4	20.4
Adj. P/E (x)	39.0	20.4	15.2
EV/EBITDA (x)	17.6	11.4	9.0

Source: Company, BOBCAPS Research

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%

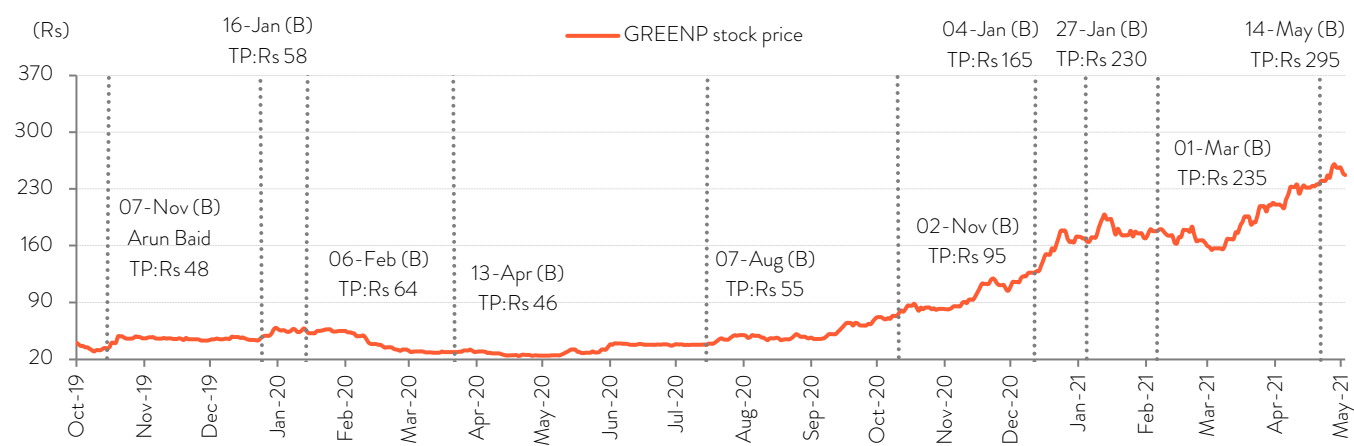
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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.

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



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

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