

BUY

TP: Rs 55 | ▲ 40%

**GREENPANEL
INDUSTRIES**

Construction Materials

07 August 2020

Lockdown mars quarter

Greenpanel Industries' (GREENP) Q1FY21 consolidated revenue dropped 57% YoY due to the Covid-19 lockdown, with the plywood/MDF segments declining by 62%/56% YoY – in line with estimates. The company reported an EBITDA loss of Rs 83mn due to negative operating leverage. Management did not offer FY21 guidance but expects Q2FY21 to have flat revenues YoY with 15-16% margins. We maintain estimates and roll forward to a new Sep'21 TP of Rs 55 (earlier Rs 46), set at an unchanged 13x P/E.

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Lockdown hits revenue hard: GREENP's consolidated revenue dropped 57% YoY to Rs 902mn amid the lockdown. Revenues from the MDF/plywood segments nosedived 56%/62% YoY as volumes fell 54%/63% YoY. Sales have improved in July and management expects flat revenues in Q2FY21.

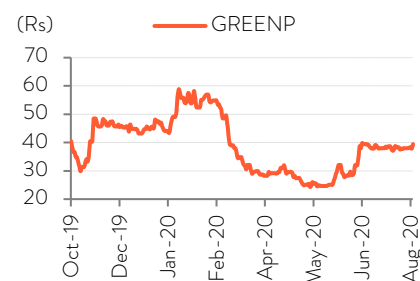
EBITDA and PAT turn negative: GREENP reported a consolidated EBITDA loss of Rs 83mn due to negative operating leverage from sharply weaker sales and 500bps YoY gross margin shrinkage stemming from a higher MDF export mix. Lower utilisation (21% vs. 60% YoY) and increased share of low-margin exports (35% vs. 25% YoY) led to negative operating margins of 4.3% (vs. +13% YoY) in MDF. Plywood also reported negative margins of 18.1% (vs. +16.3% YoY) due to lower sales.

Owing to the EBITDA loss and an MTM forex loss of Rs 65mn, the company reported a net loss of Rs 365mn (vs. Rs 27mn profit YoY). Management has guided for Q2 margins of 15-16% aided by normal sales.

Maintain BUY: We continue to like GREENP for its leadership in MDF and strong growth prospects, though the pandemic has given rise to near-term challenges. We maintain estimates and roll over to a revised Sep'21 TP of Rs 55.

Ticker/Price	GREENP IN/Rs 39
Market cap	US\$ 64.5mn
Shares o/s	123mn
3M ADV	US\$ 0.0mn
52wk high/low	Rs 61/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	7,726	10,188	11,465
EBITDA (Rs mn)	774	1,437	1,181	1,614	1,857
Adj. net profit (Rs mn)	228	253	119	429	605
Adj. EPS (Rs)	1.9	2.1	1.0	3.5	4.9
Adj. EPS growth (%)	NA	11.0	(53.1)	262.1	40.9
Adj. ROAE (%)	7.1	3.9	1.8	6.2	8.1
Adj. P/E (x)	21.2	19.1	40.8	11.3	8.0
EV/EBITDA (x)	NA	5.3	8.7	6.1	4.8

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Revenue	902	2,111	(57.3)	2,378	(62.1)
COGS	480	1,012	(52.5)	963	(50.1)
% of sales	53.3	48.0	533bps	40.5	1,281bps
Employee expenses	210	235	(10.8)	250	(16.2)
% of sales	23.3	11.1	1,214bps	10.5	1,275bps
Operating Expenses	294	586	(49.8)	669	(56.0)
% of sales	32.6	27.8	486bps	28.1	449bps
EBITDA	(83)	277	(129.8)	496	(116.7)
EBITDA Margin	(9.2)	13.1	(2,232bps)	20.9	(3,004bps)
Depreciation/Amortisation	169	161	5.5	179	(5.5)
EBIT	(252)	117	(315.7)	317	(179.6)
EBIT Margin	(28.0)	5.5	(3,351bps)	13.3	(4,129bps)
Net Interest Expenses	70	76	(7.7)	72	(3.0)
Other Income	4	3	8.8	10	(62.3)
PBT	(318)	45	(813.1)	255	(225.0)
Tax Expenses	(18)	8	(313.4)	(68)	(73.3)
Net Income before extraordinary items	(300)	36	(930.1)	322	(193.2)
Forex gain/(loss)	(65)	(10)	573.4	(247)	(73.8)
Reported Net Income	(365)	27	(1473.8)	76	(583.2)

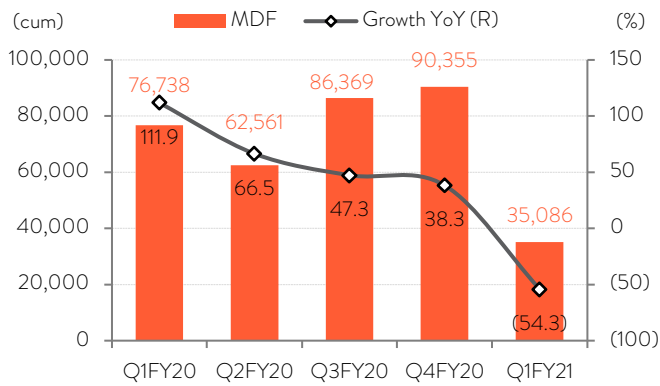
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue					
Plywood & Allied products	195	518	(62.3)	501	(61.1)
MDF	706	1,593	(55.7)	1,876	(62.4)
Net revenues	902	2,111	(57.3)	2,378	(62.1)
Profit before interest & tax					
Plywood & Allied products	(35)	93	(137.1)	43	(181.0)
MDF	(138)	121	(213.8)	339	(140.7)
Total	(173)	215	(180.4)	382	(145.2)
EBIT Margin (%)					
Plywood & Allied products	(17.8)	18.0	(3,579bps)	8.5	(2,629bps)
MDF	(19.5)	7.6	(2,714bps)	18.1	(3,760bps)

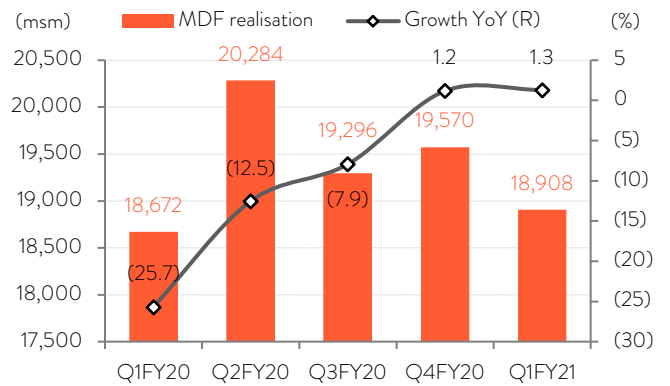
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



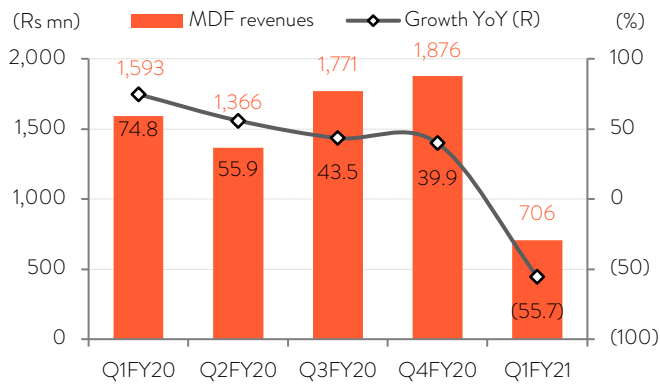
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



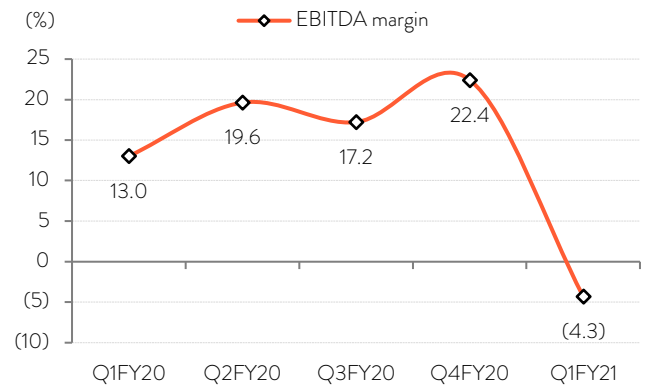
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



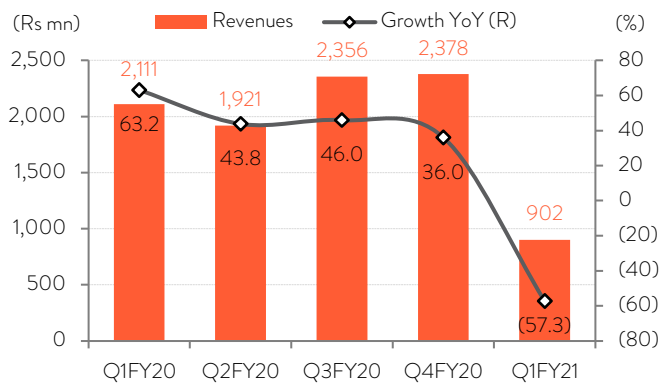
Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



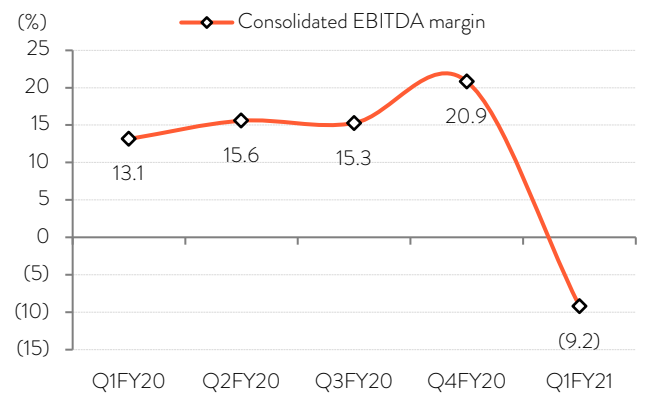
Source: Company, BOBCAPS Research

FIG 7 – CONSOLIDATED REVENUES & YOY GROWTH



Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

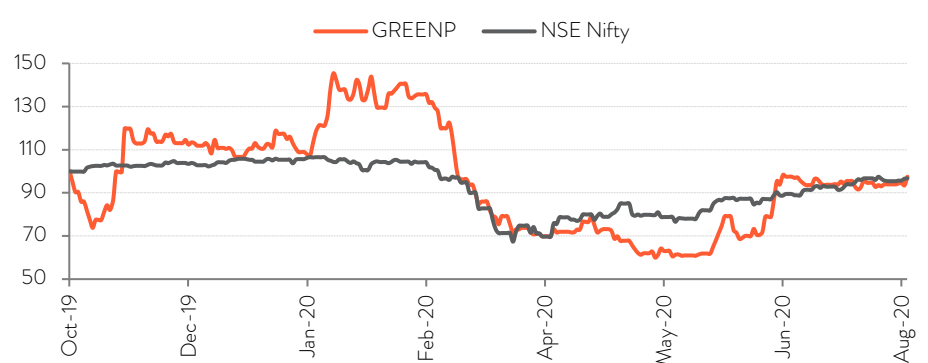
- While the lockdown dampened Q1 performance, July sales have improved to ~Rs 600mn (+15% MoM).
- Domestic MDF revenue was flat YoY in July whereas plywood continues to decline.
- GREENP is seeing faster recovery in the MDF segment as the product is cheaper and is also a key raw material for readymade furniture which is seeing increased acceptance due to Covid-19.
- Due to Covid-19 volatility, management has not proffered guidance for FY21 but expects Q2FY21 to have flat revenues YoY with 15-16% operating margins. Internal targets are at Rs 1.6bn-1.7bn of sales in the plywood segment and a ~10% decline in MDF for FY21.
- MTM loss of Rs 65mn in Q1FY21 was primarily due to adverse movement in the euro vs. the rupee. The company has ~EUR 38mn in loans that have not been hedged due to the prevailing high cost of hedging in forex markets.
- GREENP availed of moratorium to preserve liquidity in an uncertain business environment. It plans to repay ~Rs 520mn of debt in FY21.
- Working capital cycle has decreased by 44 days YoY primarily due to higher inventory built up during the lockdown. The company has seen good collection from debtors, aiding CFO of ~Rs 170mn in Q1.
- Various cost-cutting initiatives should enable cost savings of Rs 180mn-240mn.
- GREENP is not facing pricing pressure in domestic MDF markets and expects this trend to continue.
- Management expects a countervailing duty on MDF imports by the end of this year. It has also requested the government to levy an intermediate duty till this happens.
- The company's MDF currently finds more demand in the commercial real estate market. But growing acceptance of readymade furniture in residential markets should aid pick-up here as well.
- Major markets for its MDF exports are the Middle East and Sri Lanka. It has also recently sourced a sizeable order from Iran.
- GREENP has no significant capex plans for FY21 and envisages yearly maintenance capex of Rs 50mn.

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 in Oct'19. 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 maintain our estimates for GREENP and roll over to a revised Sep'21 target price of Rs 55 (earlier Rs 46), based on an unchanged 13x Sep'22E P/E. Maintain BUY.

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- further slowdown in the housing sector and commercial real estate sector;
- 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	FY20P	FY21E	FY22E	FY23E
Total revenue	5,991	8,766	7,726	10,188	11,465
EBITDA	774	1,437	1,181	1,614	1,857
Depreciation	(530)	(692)	(701)	(710)	(721)
EBIT	244	746	480	904	1,136
Net interest income/(expenses)	(246)	(302)	(320)	(277)	(249)
Other income/(expenses)	8	22	12	14	15
Exceptional items	118	(349)	0	0	0
EBT	6	466	172	641	903
Income taxes	222	28	(53)	(211)	(298)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	346	145	119	429	605
Adjustments	(118)	108	0	0	0
Adjusted net profit	228	253	119	429	605

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	816	1,207	1,016	1,396	1,571
Other current liabilities	1,197	1,218	1,080	1,423	1,602
Provisions	126	120	100	122	126
Debt funds	5,865	5,428	4,901	4,031	3,081
Other liabilities	121	69	91	187	323
Equity capital	123	123	123	123	123
Reserves & surplus	6,332	6,494	6,612	7,042	7,646
Shareholders' fund	6,455	6,616	6,735	7,164	7,769
Total liabilities and equities	14,580	14,658	13,923	14,324	14,471
Cash and cash eq.	199	115	258	331	493
Accounts receivables	456	705	656	837	942
Inventories	1,345	1,539	1,397	1,786	2,073
Other current assets	1,167	1,131	995	1,312	1,476
Investments	0	0	0	0	0
Net fixed assets	11,368	11,107	10,612	10,052	9,482
CWIP	38	57	0	0	0
Intangible assets	7	4	4	4	4
Total assets	14,580	14,658	13,923	14,324	14,471

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	836	820	1,139	1,325
Interest expenses	302	320	277	249
Non-cash adjustments	(241)	0	0	0
Changes in working capital	(1)	(22)	(142)	(199)
Other operating cash flows	0	0	0	0
Cash flow from operations	897	1,118	1,274	1,375
Capital expenditures	(242)	(150)	(150)	(150)
Change in investments	0	0	0	0
Other investing cash flows	0	22	96	135
Cash flow from investing	(242)	(128)	(54)	(15)
Equities issued/Others	0	0	0	0
Debt raised/repaid	(437)	(527)	(870)	(950)
Interest expenses	(302)	(320)	(277)	(249)
Dividends paid	0	0	0	0
Other financing cash flows	1	0	0	0
Cash flow from financing	(738)	(847)	(1,147)	(1,199)
Changes in cash and cash eq.	(84)	143	73	162
Closing cash and cash eq.	115	258	331	493

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	2.8	1.2	1.0	3.5	4.9
Adjusted EPS	1.9	2.1	1.0	3.5	4.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	54.9	58.4	63.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	NA	0.9	1.3	1.0	0.8
EV/EBITDA	NA	5.3	8.7	6.1	4.8
Adjusted P/E	21.2	19.1	40.8	11.3	8.0
P/BV	0.7	0.7	0.7	0.7	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	184.0	216.1	69.0	67.0	67.0
Interest burden (PBT/EBIT)	50.7	15.7	35.8	70.9	79.4
EBIT margin (EBIT/Revenue)	4.1	8.5	6.2	8.9	9.9
Asset turnover (Revenue/Avg TA)	82.2	60.0	54.1	72.1	79.6
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	2.0	1.9
Adjusted ROAE	7.1	3.9	1.8	6.2	8.1

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	NA	46.3	(11.9)	31.9	12.5
EBITDA	NA	85.6	(17.9)	36.7	15.1
Adjusted EPS	NA	11.0	(53.1)	262.1	40.9
Profitability & Return ratios (%)					
EBITDA margin	12.9	16.4	15.3	15.8	16.2
EBIT margin	4.1	8.5	6.2	8.9	9.9
Adjusted profit margin	3.8	2.9	1.5	4.2	5.3
Adjusted ROAE	7.1	3.9	1.8	6.2	8.1
ROCE	4.0	6.1	2.8	5.3	6.9
Working capital days (days)					
Receivables	14	24	32	27	28
Inventory	96	134	158	129	141
Payables	29	50	62	51	56
Ratios (x)					
Gross asset turnover	0.9	0.6	0.5	0.7	0.8
Current ratio	0.9	1.1	1.1	1.2	1.3
Net interest coverage ratio	1.0	2.5	1.5	3.3	4.6
Adjusted debt/equity	0.9	0.8	0.7	0.5	0.3

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

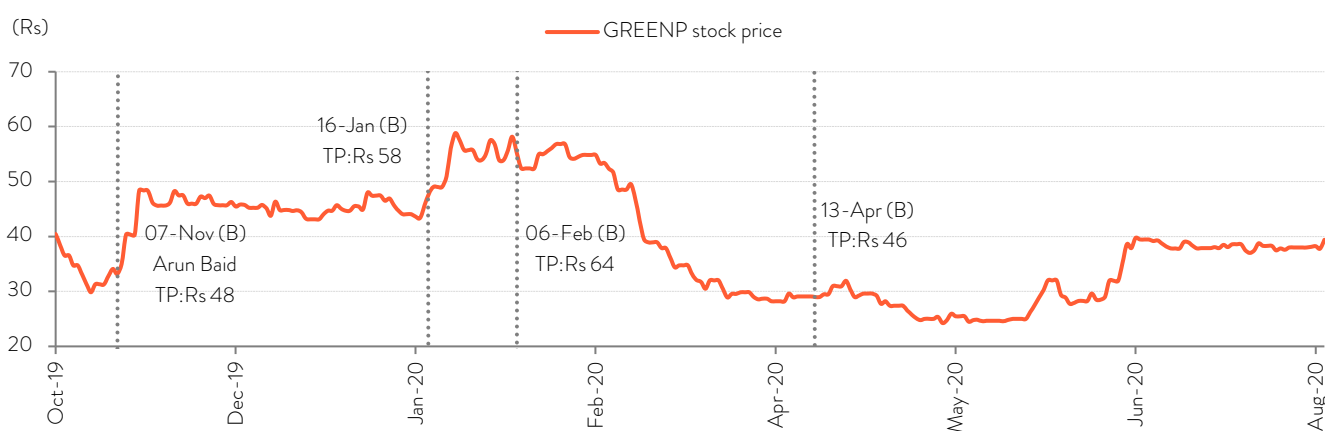
ADD – Expected return from >+5% to +15%

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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