

BUY

TP: Rs 315 | ▲ 28%

GREENPANEL INDUSTRIES

| Construction Materials

| 28 July 2021

MDF continues to witness strong growth

- Q1 consolidated revenue growth robust at 242% YoY with 272%/132% rebound in MDF/plywood segments off a soft base
- EBITDA margin (ex-forex) rises to 22.7% vs. operating loss YoY with both MDF and plywood seeing good profitability
- We broadly maintain estimates and roll forward to a Jun'22 TP of Rs 315 (vs. Rs 295) – retain BUY

Strong growth aided by MDF segment: GREENP's consolidated revenue grew 242% YoY to Rs 3.1bn, with MDF up 272% as the segment's volumes climbed 220%. In plywood, revenue rose 132% YoY as volumes surged 124% due to a weak lockdown-hit base quarter. In the MDF segment, demand was driven by both exports (+232% YoY) and domestic sales (+464% YoY). As per management, export demand remains strong even now, supporting elevated sales in Q2 as well. Domestic MDF demand has started to revive from mid-June post unlocking and has improved further in July.

Operating margin improves: EBITDA margin (ex-forex losses) stood at 22.7% vs. an operating loss YoY aided by higher MDF and plywood profitability and better capacity utilisation. MDF margin stood at 24.3% (vs. -4.3% YoY) backed by better utilisation (91% vs. 21%) and price hikes. Plywood earned 11% margins (vs. -18% YoY) due to cost optimisation and lower wastage. Management believes MDF margins are sustainable given price hikes in the domestic segment and could expand further if utilisation levels hold. Also, with the rise in international MDF prices in Q2FY22 YTD (+20% over Q1 to Rs 18,000-18,500/cbm), margins should hold steady.

Working capital and debt reduces: GREENP reduced its working capital by 56 days YoY to 33 (-2 days QoQ) primarily due to lower debtor days. Management indicated continued working capital discipline going ahead. During Q1, the company lowered consolidated net debt by Rs 180mn to Rs 3.6bn and is on track to reduce it by a further ~Rs 1.5bn, as guided, in FY22.

Maintain BUY: GREENP posted a robust Q1 despite lockdowns during the quarter. We continue to believe the MDF business enjoys significant demand tailwinds due to the growing acceptance of readymade furniture and shift of the low-cost plywood market to MDF where GREENP is the industry leader. Reiterate BUY on strong growth prospects and an improving debt and return ratio profile. We roll over to a Jun'22 TP of Rs 315 (vs. Rs 295), based on an unchanged 18x one-year forward P/E which is a ~20% discount to target multiples for plywood peers.

Arun Baid

researchreport@bobcaps.in

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GREENP IN/Rs 247
Market cap	US\$ 407.1mn
Free float	46.9%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 268/Rs 38
Promoter/FPI/DII	53%/5%/41%

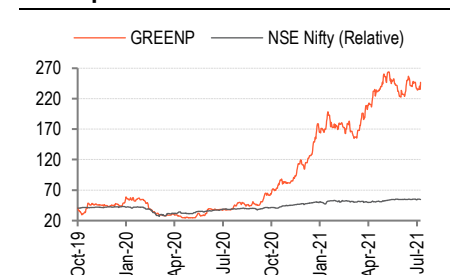
Source: NSE | Price as of 28 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,208	13,526	15,976
EBITDA (Rs mn)	2,077	3,075	3,759
Adj. net profit (Rs mn)	808	1,493	2,014
Adj. EPS (Rs)	6.6	12.2	16.4
Consensus EPS (Rs)	6.6	11.6	16.5
Adj. ROAE (%)	11.6	18.5	20.5
Adj. P/E (x)	37.5	20.3	15.0
EV/EBITDA (x)	17.3	11.3	8.9
Adj. EPS growth (%)	219.4	84.7	34.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Consolidated quarterly results

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Revenue	3,083	902	242.0	3,888	(20.7)
COGS	1,312	480	173.2	1,783	(26.4)
% of sales	42.6	53.3	(1,072bps)	45.9	(330bps)
Employee expenses	281	210	33.7	292	(3.8)
% of sales	9.1	23.3	(1,418bps)	7.5	160bps
Operating Expenses	790	299	164.3	856	(7.7)
% of sales	25.6	33.1	(753bps)	22.0	360bps
EBITDA	700	(88)	(899.5)	957	(26.8)
EBITDA Margin (%)	22.7	(9.7)	3,243bps	24.6	(191bps)
Depreciation/Amortisation	173	169	1.8	170	1.5
EBIT	528	(257)	(305.4)	787	(33.0)
EBIT Margin (%)	17.1	(28.5)	4,562bps	20.2	(313bps)
Net Interest Expenses	45	70	(36.0)	41	8.8
Other Income	7	9	(20.0)	20	(65.9)
PBT	490	(318)	(253.9)	766	(36.1)
Tax Expenses	116	(18)	(741.6)	292	(60.3)
Net Income before extraordinary items	374	(300)	(224.5)	474	(21.1)
Forex gain/(loss)	(76)	(65)	18.0	91	(184.2)
Reported Net Income	297	(365)	(181.5)	565	(47.3)

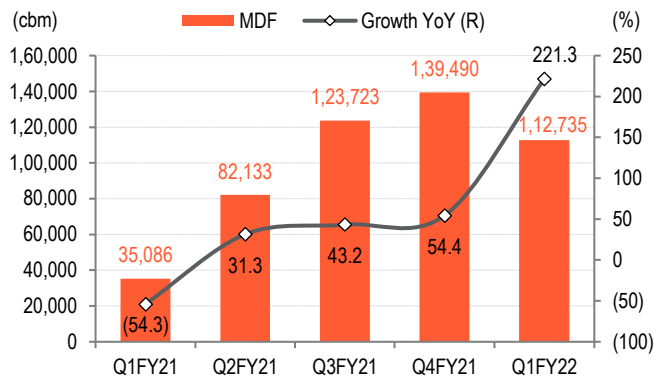
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue					
Plywood & Allied products	453	195	132.4	828	(45.3)
MDF	2,630	706	272.2	3,060	(14.0)
Total	3,083	902	242.0	3,888	(20.7)
Net revenues	3,083	902	242.0	3,888	(20.7)
EBIT					
Plywood & Allied products	54	(35)	(257.2)	142	(61.5)
MDF	582	(138)	(522.2)	808	(27.9)
Total	637	(173)	(469.0)	950	(32.9)
EBIT Margin (%)					
Plywood & Allied products	12.0	(17.8)	2,977bps	17.1	(508bps)
MDF	22.1	(19.5)	4,167bps	26.4	(427bps)

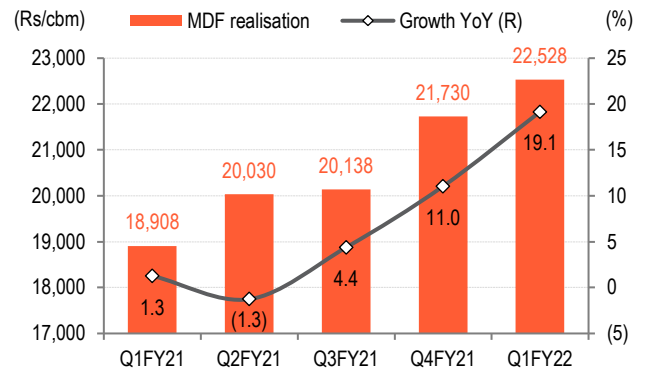
Source: Company, BOBCAPS Research

Fig 3 – Quarterly MDF volumes



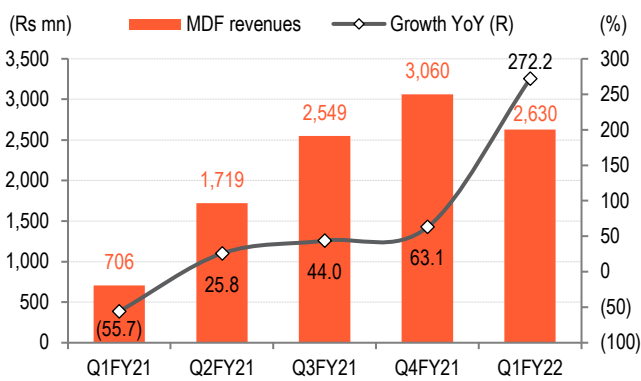
Source: Company, BOBCAPS Research

Fig 4 – Quarterly MDF realisation



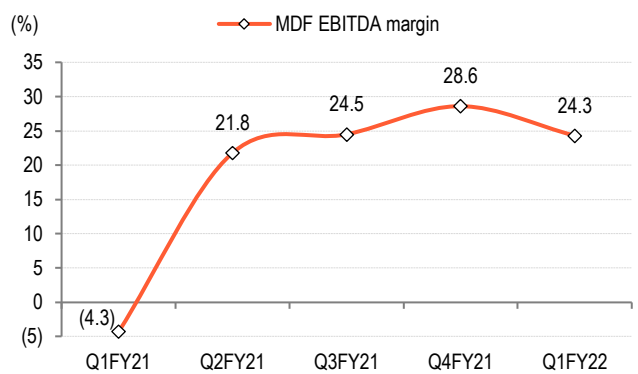
Source: Company, BOBCAPS Research

Fig 5 – Quarterly MDF revenues



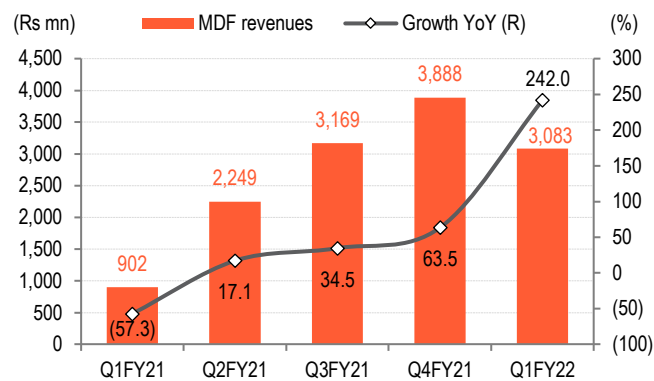
Source: Company, BOBCAPS Research

Fig 6 – Quarterly MDF EBITDA margin



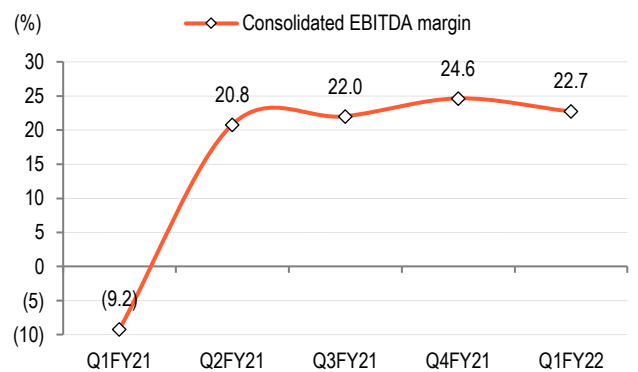
Source: Company, BOBCAPS Research

Fig 7 – Quarterly consolidated revenues



Source: Company, BOBCAPS Research

Fig 8 – Consolidated EBITDA margin



Source: Company, BOBCAPS Research

Earnings call highlights

- Q1FY22 sales were affected due to lockdowns during some portion of the quarter.
- GREENP's Q1 gross margin increased QoQ due to price hikes taken in MDF and a higher share of MDF sales which earn better margins.
- International MDF prices have increased and the company expects ~20% higher export realisations in Q2FY22 at Rs 18,000-18,500/cbm. Prices have risen due to higher freight cost and increased raw material costs globally.
- During Q1, the company had an MTM forex loss of Rs 76.4mn.
- Exports accounted for 31% of the company's MDF volume sales and 21% of MDF revenue in Q1. Management expects the proportion of exports to remain high in Q2 as well.
- GREENP believes margins can increase going ahead due to better realisations in both export and domestic markets.
- The company is not seeing any pressure from imports given higher international prices of MDF and an increase in freight and container charges, raising the landed cost of imported products.
- As per management, countervailing duty on MDF as directed by the Commerce Ministry will be more beneficial than an anti-dumping duty.
- GREENP's MDF capacity will increase to ~0.66mn CBM from ~0.59mn CBM by end-Q3FY22 at a capex of Rs 550mn.
- About 68% of domestic Q1 MDF sales came from the retail segment and 32% from OEMs. The company aims to increase the retail proportion to ~80% over the next two years.
- About 800 dealers will be added in the MDF segment over the next two years which should aid retail segment growth.
- Working capital cycle has decreased by 56 days YoY to 33 days in Q1.
- The company does not intend to incur any further capex toward setting up new capacities till its net debt is brought down to ~Rs 2bn.

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 was commissioned in Jul'18 with a capacity of 360,000cbm per year and is the biggest MDF plant in Asia.

GREENP had a strong Q1FY22 and enjoys significant demand tailwinds due to growing usage of readymade furniture, gradual replacement of low-cost plywood by MDF and imposition of duties on imports, thus benefiting domestic players. We keep our earnings estimates largely unchanged and roll over to a revised Jun'22 TP of Rs 315 (earlier Rs 295), set at an unchanged 18x one-year forward P/E – a ~20% discount to the target multiples of plywood peers. Maintain BUY given strong growth prospects, an improving balance sheet and rising return ratios.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	13,526	15,976	13,278	15,782	1.9	1.2
EBITDA	3075	3,759	3,056	3,730	0.6	0.8
PAT	1,493	2,014	1,482	1,998	0.7	0.8

Source: BOBCAPS Research

Fig 10 – Key assumptions

Particulars	FY21	FY22E	FY23E	FY24E
MDF volumes (CBM)	3,80,431	5,18,400	6,01,800	6,60,000
YoY (%)	20.4	36.3	16.1	9.7
MDF Revenues (Rs mn)	7,831	10,918	12,885	14,388
YoY (%)	27.4	39.4	18.0	11.7
MDF margins (%)	23.0	24.8	25.7	26.1
Plywood volumes (MSM)	8.48	10.19	12.08	13.65
YoY (%)	(0.4)	20.1	18.6	13.0
Plywood Revenues (Rs mn)	2,171	2,607	3,091	3,494
YoY (%)	0.8	20.1	18.6	13.0
Plywood margins (%)	12.4	13.9	14.5	14.7

Source: BOBCAPS Research

Fig 11 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	950	19.0	24	29.6	19.9	23.3	32
Somany Ceramics	SOMC IN	BUY	640	16.4	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	HOLD	230	18.7	9.2	11.3	23.0	22.9	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4145	16.1	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	175	1.0	6.8	7.3	12.9	13.0	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

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;
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability; and
- worsening of the pandemic, leading to a demand slowdown.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	8,766	10,208	13,526	15,976	17,883
EBITDA	1,432	2,077	3,075	3,759	4,276
Depreciation	(692)	(686)	(743)	(754)	(771)
EBIT	740	1,391	2,332	3,005	3,505
Net interest inc./(exp.)	(302)	(247)	(240)	(180)	(90)
Other inc./(exp.)	22	31	40	52	89
Exceptional items	(343)	(165)	0	0	0
EBT	460	1,175	2,132	2,877	3,504
Income taxes	28	(322)	(640)	(863)	(1,051)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	145	688	1,493	2,014	2,453
Adjustments	108	120	0	0	0
Adjusted net profit	253	808	1,493	2,014	2,453

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,207	1,297	1,705	2,013	2,254
Other current liabilities	1,036	1,186	1,556	1,838	2,058
Provisions	120	96	135	160	179
Debt funds	5,611	4,469	2,912	1,712	532
Other liabilities	69	202	202	202	622
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	8,674	10,688	12,399
Shareholders' fund	6,616	7,304	8,796	10,810	12,521
Total liab. and equities	14,658	14,552	15,307	16,736	18,166
Cash and cash eq.	115	720	347	1,615	2,970
Accounts receivables	705	778	1,075	1,269	1,421
Inventories	1,539	1,494	2,038	2,407	2,695
Other current assets	1,131	783	1,112	1,313	1,470
Investments	0	0	0	0	0
Net fixed assets	11,107	10,741	10,733	10,130	9,609
CWIP	57	36	0	0	0
Intangible assets	4	2	2	2	2
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	14,658	14,552	15,307	16,736	18,166

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	720	2,158	2,124	2,798	3,197
Capital expenditures	(242)	(127)	(700)	(150)	(250)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	420
Cash flow from investing	(242)	(127)	(700)	(150)	170
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(255)	(1,142)	(1,556)	(1,200)	(1,180)
Interest expenses	(302)	(247)	(240)	(180)	(90)
Dividends paid	0	0	0	0	(742)
Other financing cash flows	(4)	(37)	0	0	0
Cash flow from financing	(561)	(1,426)	(1,796)	(1,380)	(2,012)
Chg in cash & cash eq.	(83)	604	(373)	1,268	1,356
Closing cash & cash eq.	115	720	347	1,615	2,970

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	1.2	5.6	12.2	16.4	20.0
Adjusted EPS	2.1	6.6	12.2	16.4	20.0
Dividend per share	0.0	0.0	0.0	0.0	5.0
Book value per share	54.0	59.6	71.7	88.2	102.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	3.8	3.5	2.6	2.1	1.8
EV/EBITDA	23.1	17.3	11.3	8.9	7.4
Adjusted P/E	119.7	37.5	20.3	15.0	12.3
P/BV	4.6	4.1	3.4	2.8	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	216.0	80.0	70.0	70.0	70.0
Interest burden (PBT/EBIT)	15.8	72.6	91.4	95.7	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	17.2	18.8	19.6
Asset turnover (Rev./Avg TA)	60.0	69.9	90.6	99.7	102.5
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.9	1.6	1.5
Adjusted ROAE	3.9	11.6	18.5	20.5	21.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	46.3	16.4	32.5	18.1	11.9
EBITDA	84.8	45.1	48.0	22.2	13.8
Adjusted EPS	11.0	219.4	84.7	34.9	21.8
Profitability & Return ratios (%)					
EBITDA margin	16.3	20.4	22.7	23.5	23.9
EBIT margin	8.4	13.6	17.2	18.8	19.6
Adjusted profit margin	2.9	7.9	11.0	12.6	13.7
Adjusted ROAE	3.9	11.6	18.5	20.5	21.0
ROCE	6.0	7.9	13.9	17.4	19.2
Working capital days (days)					
Receivables	24	27	25	27	27
Inventory	134	120	109	116	119
Payables	50	56	52	56	57
Ratios (x)					
Gross asset turnover	0.6	0.7	0.9	1.0	1.2
Current ratio	1.0	1.1	1.2	1.6	1.9
Net interest coverage ratio	2.5	5.6	9.7	16.7	39.0
Adjusted debt/equity	0.8	0.5	0.3	0.0	(0.2)

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

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

BUY – Expected return >+15%

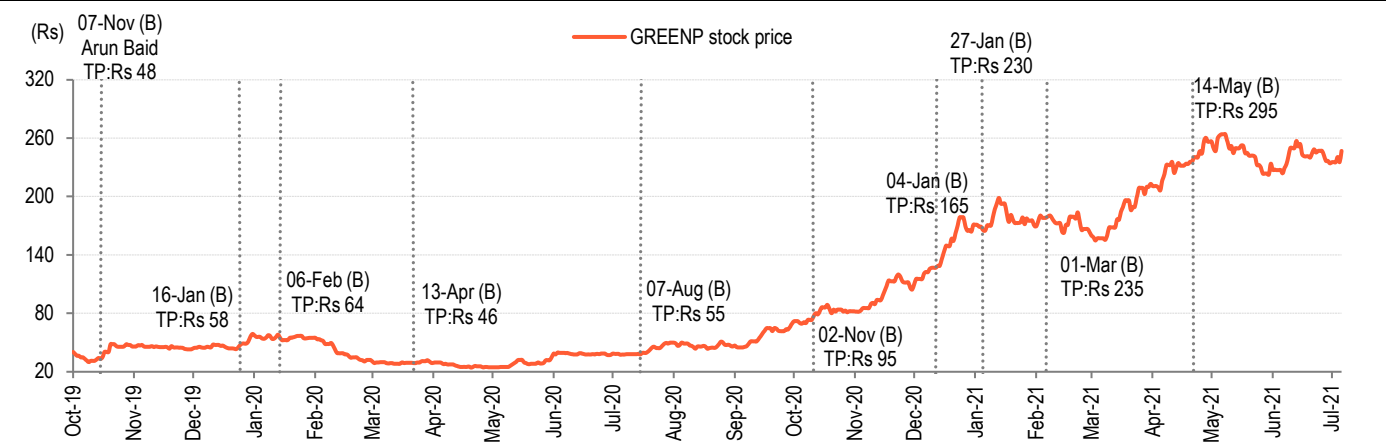
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): GREENPANEL INDUSTRIES (GREENP IN)



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

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