

**BUY**

TP: Rs 595 | ▲ 16%

**GREENPANEL  
INDUSTRIES**

| Construction Materials

| 22 July 2022

**MDF remains in the driver's seat**

- Q1 revenue climbed 51% YoY to Rs 4.6bn led by growth of 50%/57% YoY (-1.6%/0.4% QoQ) in MDF/plywood
- Gross margin stood at 61.7% vs. 57.4% in Q1FY22 and 61.1% in Q4FY22; EBITDA margin expanded 565bps YoY (-95bps QoQ) to 28.3%
- Maintain BUY with an unchanged TP of Rs 595 set at 23x FY24E EPS

**Ruchitaa Maheshwari**

research@bobcaps.in

**Strong growth aided by higher MDF realisations and lower base:** GREENP's consolidated Q1FY23 revenue grew 51% YoY (-1.3% QoQ) to Rs 4.6bn with MDF up 50%, as blended realisations increased 39% YoY (flat QoQ). Plywood revenue grew 57% YoY. EBITDA margin stood at 28.3% vs. 22.7% in Q1FY22 (29.3% in Q4FY22) due to a superior product mix, cost optimisation and operating leverage.

**MDF margin down QoQ due to absence of EPCG benefit:** Despite Q1 being a soft quarter, MDF volumes increased 11% YoY and were up 0.4% QoQ. However, the segment's EBITDA margin declined 130bps QoQ to 33.3% as the lack of EPCG (export promotion capital goods) scheme benefits had a negative impact of 220bps, offset partly by a higher gross margin. Management has guided for 26-27% EBITDA margins in 9MFY23 as it anticipates higher chemical prices (crude derivative). Per management, chemical prices have not increased since the start of CY22, and the ability to take price hikes will depend on demand.

**Plywood margin improves QoQ:** In order to counter higher raw material costs, GREENP took a 3% price hike in the plywood segment in Jun'22. This coupled with stronger volumes (+43% YoY, 2% QoQ) drove 230bps QoQ EBITDA margin expansion in the segment to 11.5% (+50bps YoY). Management has guided for an 11-11.5% segmental margin for FY23.

**Brownfield expansion planned at AP plant:** The company plans to expand MDF capacity at its Andhra Pradesh plant by 231,000cbm at a capex of Rs 6bn. Commercial production is scheduled to start by Q2FY25. Management expects the new capacity to generate revenue to the tune of Rs 7.7bn at optimal utilisation, targeted within 3-4 years of commencement.

**Maintain BUY:** GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market coupled with an improving balance sheet and return ratios. The stock is trading at 20x FY24E EPS. We continue to value the stock at 23x FY24E EPS (a 34% discount to CPBI) and retain our TP of Rs 595 with a BUY rating.

**Key changes**

Target	Rating
◀▶	◀▶

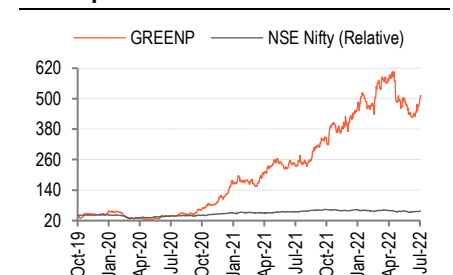
Ticker/Price	GREENP IN/Rs 513
Market cap	US\$ 788.1mn
Free float	47%
3M ADV	US\$ 1.9mn
52wk high/low	Rs 626/Rs 222
Promoter/FPI/DII	53%/6%/41%

Source: NSE | Price as of 22 Jul 2022

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,543	20,553
EBITDA (Rs mn)	4,304	4,700	5,302
Adj. net profit (Rs mn)	2,405	2,673	3,171
Adj. EPS (Rs)	19.6	21.8	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.6	25.4
Adj. P/E (x)	26.2	23.5	19.8
EV/EBITDA (x)	15.7	13.9	11.8
Adj. EPS growth (%)	197.6	11.2	18.6

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



## Earnings call highlights

- **MDF export realisations strong:** GREENP's export sales totalled 26,601cbm in Q1FY23, a decline of 23% YoY (+17% QoQ). Export realisations increased by 53% YoY and 8% QoQ to Rs 23,941/cbm.
- **Lower imports eased pressure on domestic MDF prices:** MDF imports have been minimal at 5,000cbm per month and currently pose no threat to domestic players due to (a) price inflation in international MDF, (b) higher ocean freight cost, and (c) increased domestic consumption of the product in the key exporting countries of Vietnam and Indonesia. Management does not expect any anti-dumping duty owing to the low level of imports.
- **MDF volume growth guided at 10-12% for FY23:** Management expects MDF volume growth of 10-12% in FY23. Further, the company indicated that the demand situation remains comfortable as no new capacity is coming on stream, barring CPBI's upcoming 130,000cbm addition in H1FY23.
- **Price hikes in MDF look difficult:** Per management, due to the changing geopolitical situation, rising interest rates globally and increasing raw material costs, the company is not confident of taking price hikes if the demand climate proves unfavourable. For now, GREENP is comfortable with current realisations.
- **Raw material prices up YoY:** Timber prices remained stable in South India sequentially but increased 4% YoY. Prices in North India increased by 4-5% QoQ and 20% YoY. Chemical prices surged 30-35% YoY but were flat QoQ.  
  
Pre-Covid, timber comprised 35% of the raw material cost for MDF and chemicals made up the balance 65%. Post-Covid, this proportion is almost equal.
- **Turns net debt-free:** GREENP's net debt reduced by Rs 770mn during Q1 and the company has turned net debt-free by 30 Jun 2022, as guided.
- **Foreign borrowings of EUR 19.6mn:** GREENP has foreign borrowings of EUR 19.6mn (EUR 22mn before payment of one instalment in Apr'22) from a German bank, which are unhedged and will be paid over five years. The company intends to keep the positions unhedged.
- **Others result highlights:** (1) MDF accounted for 85% of revenue in Q1FY23 on an expanded capacity vs. 85% in Q1FY22. (2) Working capital cycle reduced by 18 days YoY to 16 days as on Jun'22. (3) Value-added products in plywood contributed 12% of revenue in Q1FY23 vs. 8% in Q1FY22. (4) Prelaminated MDF contributed 17.2% and plain MDF 81.3% to total MDF revenue vs. 17.9% and 80.8% respectively in the year-ago quarter.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>4,640</b>	<b>3,083</b>	<b>50.5</b>	<b>4,701</b>	<b>(1.3)</b>	<b>16,250</b>	<b>10,208</b>	<b>59.2</b>
COGS	1,778	1,312	35.5	1,827	(2.7)	6,709	4,629	44.9
% of sales	<b>38.3</b>	<b>42.6</b>	<b>(424bps)</b>	<b>38.9</b>	<b>(54bps)</b>	<b>41.3</b>	<b>45.3</b>	<b>(406bps)</b>
Employee expenses	365	281	29.9	353	3.3	1,284	979	31.2
% of sales	<b>7.9</b>	<b>9.1</b>	<b>(125bps)</b>	<b>7.5</b>	<b>35bps)</b>	<b>7.9</b>	<b>9.6</b>	<b>(169bps)</b>
Operating Expenses	1,182	790	49.6	1,143	3.4	3,953	2,566	54.0
% of sales	<b>25.5</b>	<b>25.6</b>	<b>(15bps)</b>	<b>24.3</b>	<b>116bps)</b>	<b>24.3</b>	<b>25.1</b>	<b>(82bps)</b>
<b>EBITDA</b>	<b>1,315</b>	<b>700</b>	<b>87.9</b>	<b>1,378</b>	<b>(4.6)</b>	<b>4,304</b>	<b>2,034</b>	<b>111.7</b>
EBITDA Margin (%)	28.3	22.7	564bps	29.3	(97bps)	26.5	19.9	656bps
Depreciation/Amortisation	182	173	5.8	183	(0.4)	734	686	6.9
<b>EBIT</b>	<b>1,133</b>	<b>528</b>	<b>114.7</b>	<b>1,195</b>	<b>(5.2)</b>	<b>3,571</b>	<b>1,347</b>	<b>165.0</b>
EBIT Margin (%)	24.4	17.1	730bps	25.4	(100bps)	22.0	13.2	877bps
Net Interest Expenses	26	45	(41.3)	34	(22.4)	171	247	(30.8)
Other Income	72	7	964.9	37	97.5	90	34	159.9
<b>PBT</b>	<b>1,179</b>	<b>490</b>	<b>140.8</b>	<b>1,198</b>	<b>(1.6)</b>	<b>3,489</b>	<b>1,135</b>	<b>207.5</b>
Tax Expenses	403	116	247.6	392	2.9	1,085	322	237.3
<b>Net Income before extraordinary items</b>	<b>776</b>	<b>374</b>	<b>107.6</b>	<b>806</b>	<b>(3.7)</b>	<b>2,405</b>	<b>813</b>	<b>195.8</b>
Forex gain/(loss)	0	(76)	NA	0	NA	0	(125)	NA
Reported PAT	776	297	160.9	806	(3.7)	2,405	688	249.5
<b>Adjusted PAT</b>	<b>776</b>	<b>356</b>	<b>118.2</b>	<b>806</b>	<b>(3.7)</b>	<b>2,405</b>	<b>778</b>	<b>209.3</b>

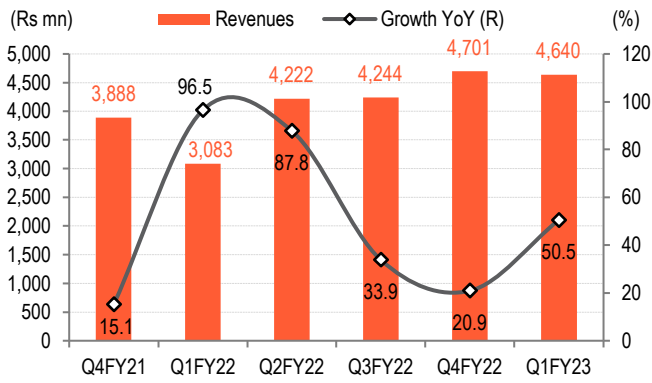
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated segmental performance**

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue</b>								
Plywood & Allied products	709	453	56.4	706	0.4	2,562	2,174	17.9
MDF & Allied products	3,931	2,630	49.5	3,995	(1.6)	13,688	8,034	70.4
Total	4,640	3,083	50.5	4,701	(1.3)	16,250	10,208	59.2
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
<b>Net revenues</b>	<b>4,640</b>	<b>3,083</b>	<b>50.5</b>	<b>4,701</b>	<b>(1.3)</b>	<b>16,250</b>	<b>10,208</b>	<b>59.2</b>
<b>EBIT</b>								
Plywood & Allied products	98	54	80.7	79	25.1	325	297	9.5
MDF & Allied products	1,285	582	120.7	1,314	(2.2)	3,922	1,483	164.5
<b>Total</b>	<b>1,384</b>	<b>637</b>	<b>117.3</b>	<b>1,393</b>	<b>(0.6)</b>	<b>4,247</b>	<b>1,780</b>	<b>138.6</b>
<b>EBIT Margin (%)</b>								
Plywood & Allied products	13.9	12.0	186bps	11.1	273bps	12.7	13.6	(96bps)
MDF & Allied products	32.7	22.1	1055bps	32.9	(20bps)	28.7	18.5	1019bps

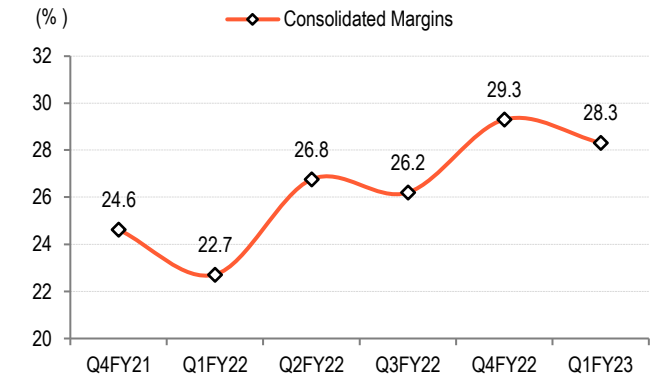
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



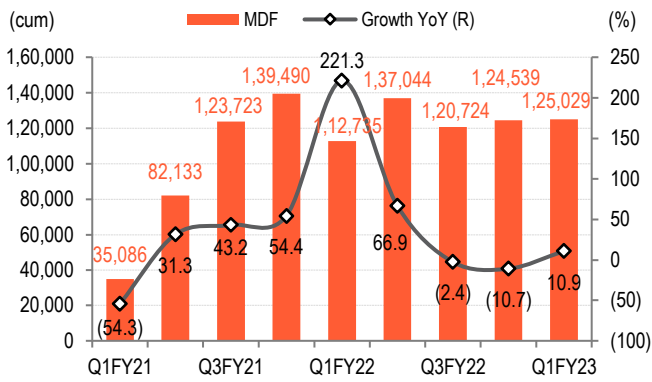
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA margin**



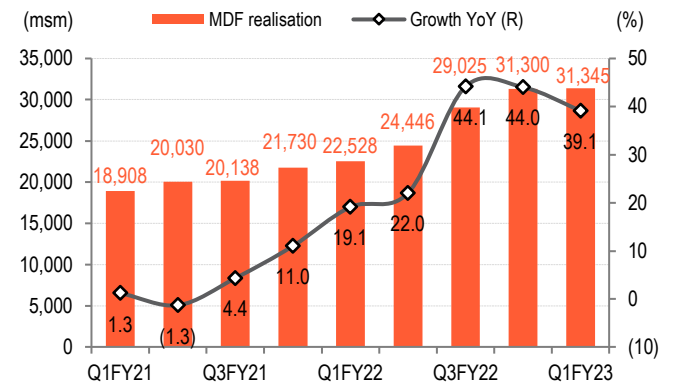
Source: Company, BOBCAPS Research

**Fig 5 – MDF volumes**



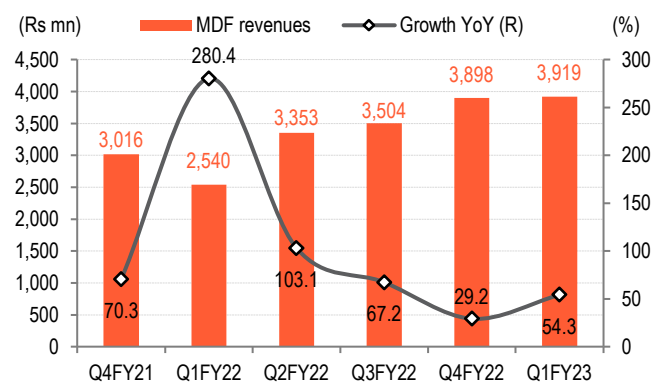
Source: Company, BOBCAPS Research

**Fig 6 – MDF realisation**



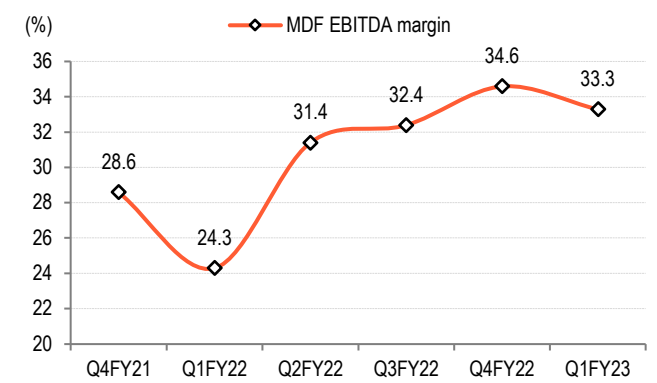
Source: Company, BOBCAPS Research

**Fig 7 – MDF revenue**



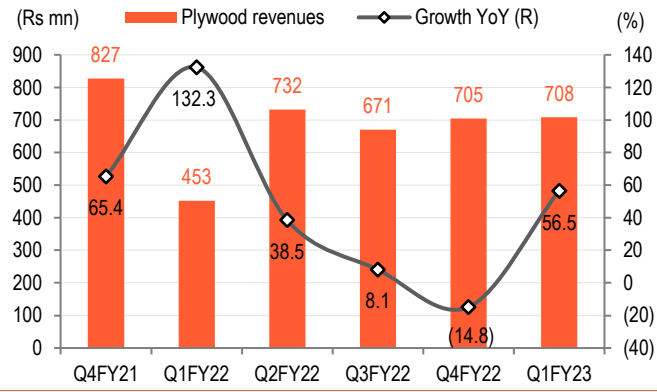
Source: Company, BOBCAPS Research

**Fig 8 – MDF EBITDA margin**



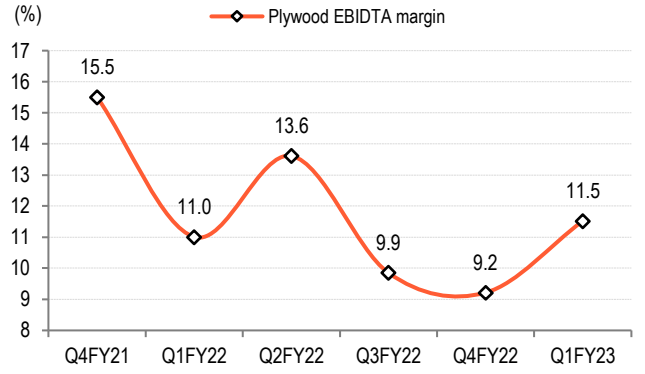
Source: Company, BOBCAPS Research

**Fig 9 – Plywood revenue**



Source: Company, BOBCAPS Research

**Fig 10 – Plywood EBITDA margin**



Source: Company, BOBCAPS Research

## Valuation methodology

GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market coupled with an improving balance sheet and return ratios. We model for a revenue/EBITDA/PAT CAGR of ~13%/11%/15% over FY22-FY24 aided by better capacity utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage. The company has turned net debt-free during Q1FY23, as guided. The stock is trading at 20x FY24E EPS. We continue to value it at 23x FY24E EPS (a 34% discount to CPBI) and retain our TP of Rs 595 with a BUY rating.

## Key risks

Key downside risks to our estimates are:

- increasing competition from the informal sector,
- slowdown in economic revival and in housing demand,
- significant pickup in MDF imports,
- steep fall in MDF margins and export realisations, and
- sharp uptick in chemical and wood costs.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.6	573	735	BUY
Cera Sanitaryware	CRS IN	0.7	4,563	5,225	BUY
Greenpanel Industries	GREENP IN	0.8	513	595	BUY
Greenply Industries	MTLM IN	0.3	178	260	BUY
Kajaria Ceramics	KJC IN	2.2	1,128	1,460	BUY
Pidilite Industries	PIDI IN	15.0	2,358	1,870	SELL
Somany Ceramics	SOMC IN	0.3	622	835	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Jul 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>8,766</b>	<b>10,208</b>	<b>16,250</b>	<b>18,543</b>	<b>20,553</b>
EBITDA	1,432	2,077	4,304	4,700	5,302
Depreciation	(692)	(686)	(734)	(754)	(771)
EBIT	740	1,391	3,571	3,947	4,531
Net interest inc./(exp.)	(302)	(247)	(171)	(180)	(90)
Other inc./(exp.)	22	31	90	52	89
Exceptional items	(343)	(165)	0	0	0
EBT	460	1,175	3,489	3,819	4,530
Income taxes	28	(322)	(1,085)	(1,146)	(1,359)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>145</b>	<b>688</b>	<b>2,405</b>	<b>2,673</b>	<b>3,171</b>
Adjustments	108	120	0	0	0
<b>Adjusted net profit</b>	<b>253</b>	<b>808</b>	<b>2,405</b>	<b>2,673</b>	<b>3,171</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	1,207	1,297	1,378	2,337	2,590
Other current liabilities	1,036	1,186	879	2,134	2,365
Provisions	120	96	141	185	206
Debt funds	5,611	4,469	2,826	1,712	532
Other liabilities	69	202	682	682	1,226
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	9,394	11,258	13,470
Shareholders' fund	6,616	7,304	9,516	11,381	13,593
<b>Total liab. and equities</b>	<b>14,658</b>	<b>14,552</b>	<b>15,424</b>	<b>18,432</b>	<b>20,512</b>
Cash and cash eq.	115	720	2,226	2,802	4,714
Accounts receivables	705	778	414	1,473	1,633
Inventories	1,539	1,494	1,658	2,794	3,097
Other current assets	1,131	783	743	1,524	1,689
Investments	0	0	0	0	0
Net fixed assets	11,107	10,741	10,380	9,776	9,315
CWIP	57	36	0	60	61
Intangible assets	4	2	2	2	2
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>14,658</b>	<b>14,552</b>	<b>15,424</b>	<b>18,432</b>	<b>20,512</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>720</b>	<b>2,158</b>	<b>3,368</b>	<b>2,889</b>	<b>3,909</b>
Capital expenditures	(242)	(127)	(337)	(210)	(311)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	481	0	544
<b>Cash flow from investing</b>	<b>(242)</b>	<b>(127)</b>	<b>144</b>	<b>(210)</b>	<b>232</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(255)	(1,142)	(1,642)	(1,114)	(1,180)
Interest expenses	(302)	(247)	(171)	(180)	(90)
Dividends paid	(44)	(208)	(1,698)	(809)	(959)
Other financing cash flows	(4)	(37)	0	0	0
<b>Cash flow from financing</b>	<b>(605)</b>	<b>(1,634)</b>	<b>(3,512)</b>	<b>(2,103)</b>	<b>(2,229)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(127)</b>	<b>396</b>	<b>0</b>	<b>576</b>	<b>1,912</b>
<b>Closing cash &amp; cash eq.</b>	<b>72</b>	<b>512</b>	<b>720</b>	<b>2,802</b>	<b>4,714</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	1.2	5.6	19.6	21.8	25.9
Adjusted EPS	2.1	6.6	19.6	21.8	25.9
Dividend per share	0.3	1.4	4.9	5.5	6.5
Book value per share	54.0	59.6	77.6	92.8	110.8

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	7.5	6.7	4.2	3.5	3.1
EV/EBITDA	45.9	33.0	15.7	13.9	11.8
Adjusted P/E	248.8	77.9	26.2	23.5	19.8
P/BV	9.5	8.6	6.6	5.5	4.6

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	216.0	80.0	68.9	70.0	70.0
Interest burden (PBT/EBIT)	15.8	72.6	97.7	96.8	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	22.0	21.3	22.0
Asset turnover (Rev./Avg TA)	60.0	69.9	108.4	109.5	105.5
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.8	1.6	1.6
Adjusted ROAE	3.9	11.6	28.6	25.6	25.4

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	46.3	16.4	59.2	14.1	10.8
EBITDA	84.8	45.1	107.2	9.2	12.8
Adjusted EPS	11.0	219.4	197.6	11.2	18.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	20.4	26.5	25.3	25.8
EBIT margin	8.4	13.6	22.0	21.3	22.0
Adjusted profit margin	2.9	7.9	14.8	14.4	15.4
Adjusted ROAE	3.9	11.6	28.6	25.6	25.4
ROCE	6.0	7.9	20.4	21.7	23.3
<b>Working capital days (days)</b>					
Receivables	24	27	13	19	28
Inventory	134	120	86	103	124
Payables	50	56	41	49	59
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.7	1.1	1.2	1.4
Current ratio	1.0	1.1	1.4	1.8	2.1
Net interest coverage ratio	2.5	5.6	20.9	21.9	50.5
Adjusted debt/equity	0.8	0.5	0.1	(0.1)	(0.3)

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

## Disclaimer

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

**BUY** – Expected return >+15%

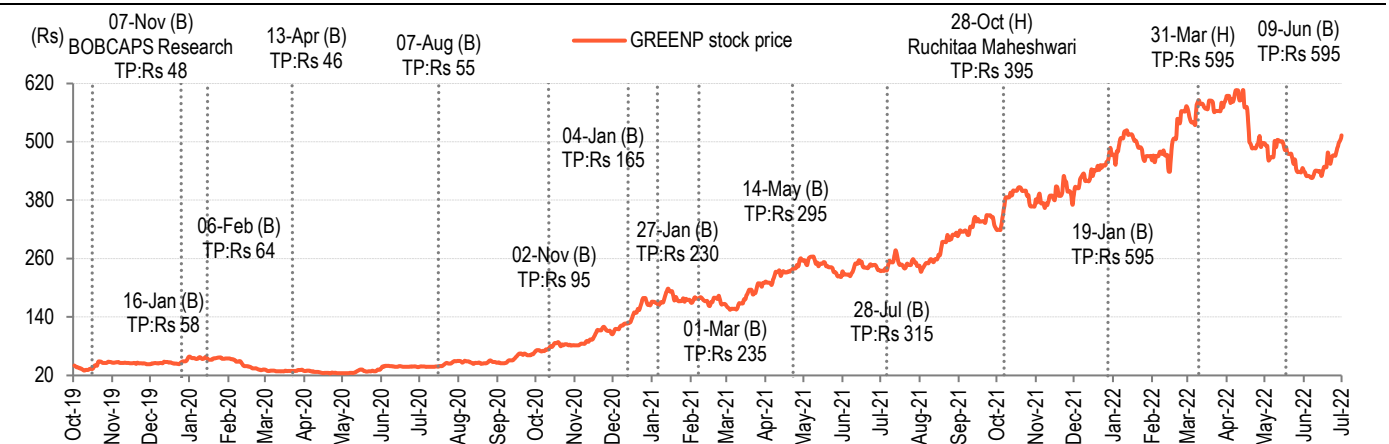
**HOLD** – Expected return from -6% to +15%

**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

### Rating distribution

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