

BUY

TP: Rs 95 | ▲ 23%

**GREENPANEL
INDUSTRIES**

Construction Materials

02 November 2020

Strong performance; margin traction to continue

Greenpanel Industries (GREENP) reported above-expected Q2FY21 revenue growth of 17% YoY (consolidated), aided by a 26% increase in the MDF segment. Operating margins (ex-forex loss) expanded 485bps YoY to 20.8% backed by stronger MDF profitability, spurring EBITDA growth of 53% YoY. Management expects double-digit growth in H2FY21 with better margins. We upgrade FY21-FY23 EPS estimates by 56-133% due to the positive margin guidance and reiterate BUY as we roll over to a new Dec'21 TP of Rs 95 (vs. Rs 55).

Arun Baid

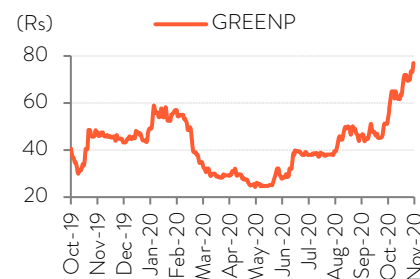
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Strong revenue growth: GREENP's consolidated revenue grew 17% YoY to Rs 2.2bn, with MDF up 26% whereas plywood declined 5%. In the MDF business, volumes rose 31% YoY on better utilisation and higher exports (+88% YoY). In plywood, volumes dipped 4% YoY on sustained lower demand. Management has guided for double-digit topline growth in H2. Net debt has reduced by Rs 320mn in H1; GREENP plans to bring this down by another Rs 500mn to Rs 4.5bn by end-FY21 and to Rs 3bn by FY22.

Ticker/Price	GREENP IN/Rs 77
Market cap	US\$ 126.9mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 77/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

Margins swell 485bps YoY: EBITDA margins (ex-forex loss) expanded 485bps YoY to 20.8% aided by higher MDF profitability and better capacity utilisation – this resulted in EBITDA growth of 53% YoY. MDF margins rose 220bps YoY to 21.8% backed by better utilisation. Plywood margins jumped 430bps YoY to 16.4% due to lower raw material cost and other cost control initiatives. Management expects MDF margins to improve with better capacity utilisation and those for plywood to sustain at ~16% levels going ahead.

STOCK PERFORMANCE

Source: NSE

Maintain BUY: We raise FY21-FY23 EBITDA by 17-25% on a stronger margin outlook, driving a PAT upgrade of 56-133%. We continue to like GREENP for its robust growth outlook and improving D/E and return ratio profile. Maintain BUY with a revised Dec'21 TP of Rs 95, set at an unchanged 13x one-year fwd P/E.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	8,359	10,454	12,233
EBITDA (Rs mn)	774	1,432	1,383	1,910	2,320
Adj. net profit (Rs mn)	228	253	276	669	966
Adj. EPS (Rs)	1.9	2.1	2.3	5.5	7.9
Adj. EPS growth (%)	NA	11.0	9.2	142.2	44.4
Adj. ROAE (%)	7.1	3.9	4.1	9.3	12.0
Adj. P/E (x)	41.4	37.3	34.2	14.1	9.8
EV/EBITDA (x)	NA	8.6	10.9	7.5	5.7

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenue	2,249	1,921	17.1	902	149.4	3,150	4,032	(21.9)
COGS	957	834	14.7	480	99.1	1,437	1,856	(22.6)
% of sales	42.5	43.4	(88bps)	53.3	(1,075bps)	45.6	46.0	(41bps)
Employee expenses	226	249	(9.4)	210	7.5	436	484	(10.1)
% of sales	10.0	13.0	(293bps)	23.3	(1,324bps)	13.8	12.0	182bps
Operating Expenses	599	532	12.7	294	103.8	898	1,110	(19.1)
% of sales	26.7	27.7	(104bps)	32.6	(596bps)	28.5	27.5	97bps
EBITDA	467	306	52.6	(83)	(664.3)	380	582	(34.7)
EBITDA Margin	20.8	15.9	484bps	(9.2)	2,996bps	12.0	14.4	(238bps)
Depreciation/Amortisation	173	181	(4.2)	169	2.2	342	341	0.4
EBIT	294	126	134.3	(252)	(216.6)	37	241	(84.5)
EBIT Margin	13.1	6.5	655bps	(28.0)	4,105bps	1.2	6.0	(479bps)
Net Interest Expenses	68	81	(16.0)	70	(3.1)	138	156	(11.9)
Other Income	2	1	63.4	4	(47.6)	10	6	63.0
PBT	228	46	394.6	(318)	(171.8)	(90)	91	(199.0)
Tax Expenses	(20)	25	(181.4)	(18)	10.8	(38)	33	(215.3)
Net Income before extraordinary items	248	22	1,050.6	(300)	(182.8)	(52)	58	(189.6)
Forex gain/(loss)	(65)	16	(494.7)	(65)	(0.3)	(129)	7	(2,018.2)
Reported Net Income	184	38	384.9	(365)	(150.4)	(181)	65	(380.6)
Adjusted PAT	254	30	738.8	(317)	(180.2)	(107)	60	(276.9)

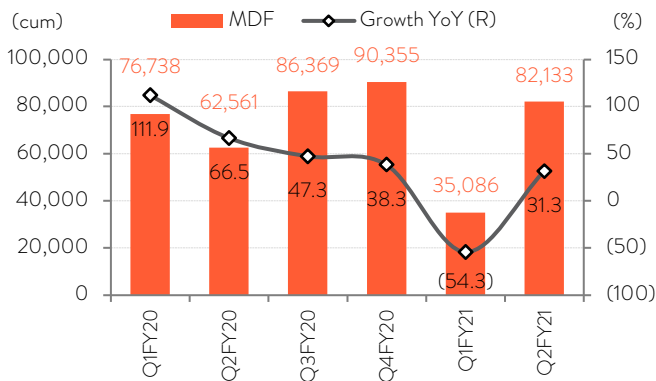
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenue								
Plywood & Allied products	530	555	(4.5)	195	171.7	725	1,073	(32.4)
MDF	1,719	1,366	25.8	706	143.3	2,425	2,959	(18.0)
Total	2,249	1,921	17.1	902	149.4	3,150	4,032	(21.9)
EBIT								
Plywood & Allied products	92	76	21.1	(35)	(366.9)	58	170	(66.0)
MDF	288	143	100.8	(138)	(308.5)	150	264	(43.4)
Total	380	220	73.1	(173)	(320.2)	207	434	(52.2)
EBIT Margin (%)								
Plywood & Allied products	17.4	13.8	368bps	(17.8)	3,521bps	8.0	15.8	(785bps)
MDF	16.7	10.5	625bps	(19.5)	3,626bps	6.2	8.9	(277bps)

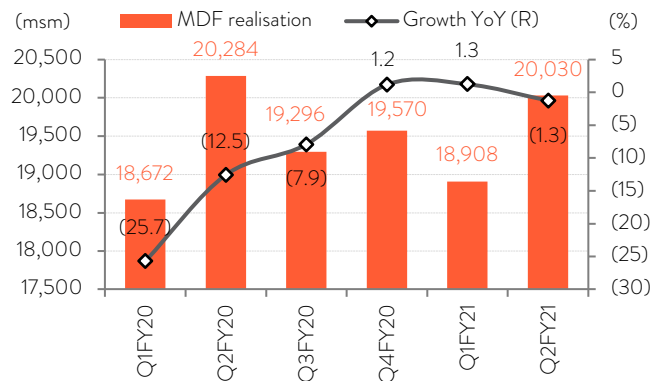
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



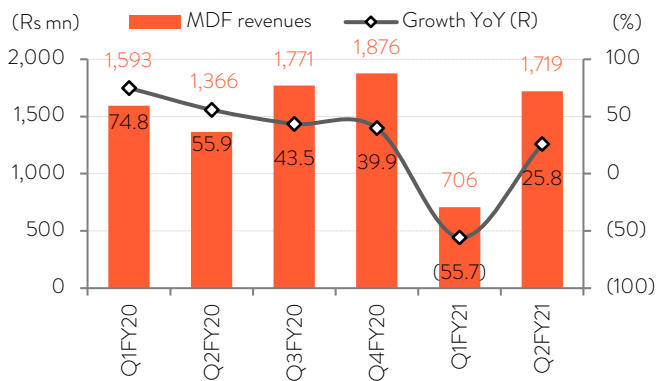
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



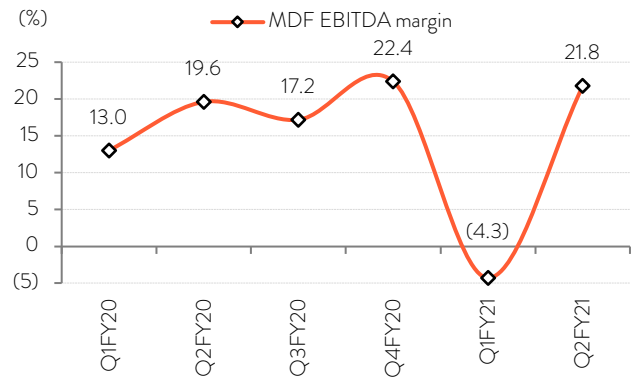
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



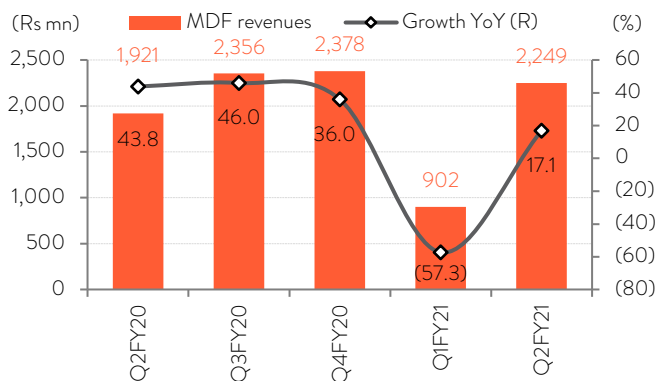
Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



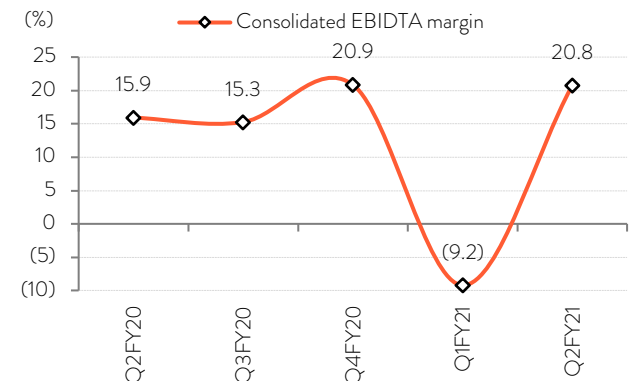
Source: Company, BOBCAPS Research

FIG 7 – QUARTERLY CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Growth has improved MoM every month in Q2FY21 and these demand trends have sustained into October as well.
- Management expects double-digit growth in H2FY21 with improving margin trends.
- Plywood segment EBITDA margins stood at 16.4% in Q2 and the company expects these to sustain at ~16% going ahead as well.
- MDF operating margins should increase as capacity utilisation improves.
- MDF demand during the quarter was largely from small towns and cities, aiding growth. Management expects demand to remain strong due to increased acceptance of readymade furniture on account of Covid-19.
- The company is not facing pricing pressure in domestic MDF markets and does not expect any price cuts by competition in the near-term considering demand uncertainties.
- Commissioning of an upcoming MDF plant by competitor Rushil Décor has been delayed to Apr'21.
- Exports accounted for 32% of MDF volume sales and ~23% of MDF revenues in H1FY21. The company is not looking to increase exports beyond these levels as they are less profitable.
- During the quarter, GREENP had a forex loss of ~Rs 64.5mn.
- Net debt has been reduced by Rs 320mn in H1 and gross debt-to-equity is now at 0.74x.
- Working capital cycle has decreased by 21 days YoY primarily due to a reduction in inventory (by 10 days) and partly due to lower debtor days (by 9 days).
- Annual capex for FY21 is planned at Rs 100mn and for FY22 at Rs 100mn-150mn.
- Cash tax outflow for FY21/FY22 will be 17.5% of PBT but the effective tax rate will be different due to deferred tax.

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.

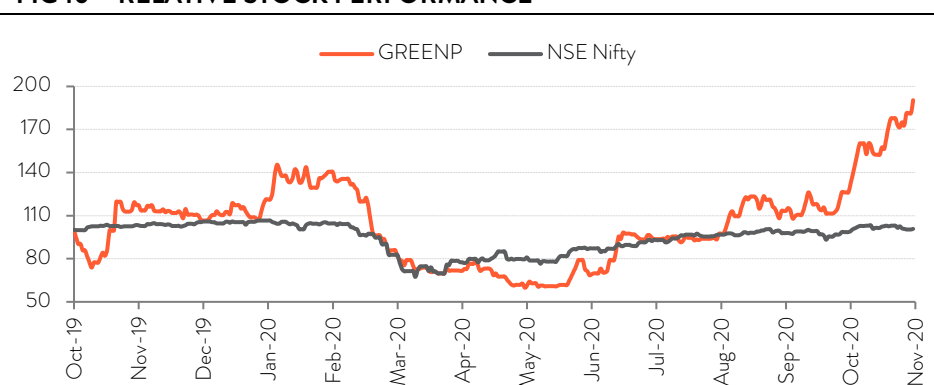
Following a strong Q2FY21 operational performance and positive MDF/plywood margin guidance, we increase FY21-FY23 EBITDA estimates by 17-25% and PAT estimates by 56-133%. Maintain BUY as we roll forward to a revised Dec'21 target price of Rs 95 (earlier Rs 55), based on an unchanged 13x one-year forward P/E. We believe GREENP could see a significant rerating if management delivers on margins going ahead.

FIG 9 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	8,359	10,454	12,233	7,726	10,188	11,465	8.2	2.6	6.7
EBITDA	1,383	1,910	2,320	1,181	1,614	1,857	17.1	18.3	25.0
PAT	276	669	966	119	429	605	133.1	56.0	59.8

Source: BOBCAPS Research

FIG 10 – 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;
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability; and
- fall in demand due to the continued effect of Covid-19.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	5,991	8,766	8,359	10,454	12,233
EBITDA	774	1,432	1,383	1,910	2,320
Depreciation	(530)	(692)	(701)	(710)	(721)
EBIT	244	740	682	1,200	1,600
Net interest income/(expenses)	(246)	(302)	(293)	(236)	(203)
Other income/(expenses)	8	22	24	35	46
Exceptional items	118	(343)	0	0	0
EBT	6	460	412	999	1,442
Income taxes	222	28	(136)	(330)	(476)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	346	145	276	669	966
Adjustments	(118)	108	0	0	0
Adjusted net profit	228	253	276	669	966

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	816	1,207	1,099	1,375	1,609
Other current liabilities	1,197	1,036	1,168	1,461	1,709
Provisions	126	120	109	125	135
Debt funds	5,865	5,611	4,481	3,381	2,431
Other liabilities	121	69	131	281	497
Equity capital	123	123	123	123	123
Reserves & surplus	6,332	6,494	6,770	7,440	8,406
Shareholders' fund	6,455	6,616	6,893	7,562	8,529
Total liabilities and equities	14,580	14,658	13,881	14,185	14,910
Cash and cash eq.	199	115	58	176	798
Accounts receivables	456	705	710	859	1,005
Inventories	1,345	1,539	1,420	1,747	2,044
Other current assets	1,167	1,131	1,076	1,346	1,575
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	13,881	14,185	14,910

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	836	977	1,380	1,687
Interest expenses	302	293	236	203
Non-cash adjustments	(235)	0	0	0
Changes in working capital	(183)	182	(161)	(181)
Other operating cash flows	0	0	0	0
Cash flow from operations	720	1,452	1,454	1,709
Capital expenditures	(242)	(150)	(150)	(150)
Change in investments	0	0	0	0
Other investing cash flows	0	62	150	216
Cash flow from investing	(242)	(88)	0	66
Equities issued/Others	0	0	0	0
Debt raised/repaid	(255)	(1,129)	(1,100)	(950)
Interest expenses	(302)	(293)	(236)	(203)
Dividends paid	0	0	0	0
Other financing cash flows	(5)	0	0	0
Cash flow from financing	(561)	(1,422)	(1,336)	(1,153)
Changes in cash and cash eq.	(84)	(58)	118	622
Closing cash and cash eq.	115	58	176	798

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	2.8	1.2	2.3	5.5	7.9
Adjusted EPS	1.9	2.1	2.3	5.5	7.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	56.2	61.7	69.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.6	1.4	1.8	1.4	1.1
EV/EBITDA	12.2	8.6	10.9	7.5	5.7
Adjusted P/E	41.4	37.3	34.2	14.1	9.8
P/BV	1.5	1.4	1.4	1.2	1.1

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	60.5	83.3	90.2
EBIT margin (EBIT/Revenue)	4.1	8.4	8.2	11.5	13.1
Asset turnover (Revenue/Avg TA)	82.2	60.0	58.6	74.5	84.1
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	1.9	1.8
Adjusted ROAE	7.1	3.9	4.1	9.3	12.0

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	NA	46.3	(4.6)	25.1	17.0
EBITDA	NA	84.8	(3.4)	38.1	21.5
Adjusted EPS	NA	11.0	9.2	142.2	44.4
Profitability & Return ratios (%)					
EBITDA margin	12.9	16.3	16.5	18.3	19.0
EBIT margin	4.1	8.4	8.2	11.5	13.1
Adjusted profit margin	3.8	2.9	3.3	6.4	7.9
Adjusted ROAE	7.1	3.9	4.1	9.3	12.0
ROCE	4.0	6.0	3.9	7.2	9.8
Working capital days (days)					
Receivables	14	24	31	27	28
Inventory	96	134	148	126	129
Payables	29	50	60	53	55
Ratios (x)					
Gross asset turnover	0.9	0.6	0.6	0.7	0.8
Current ratio	0.9	1.0	1.1	1.3	1.5
Net interest coverage ratio	1.0	2.5	2.3	5.1	7.9
Adjusted debt/equity	0.9	0.8	0.6	0.4	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

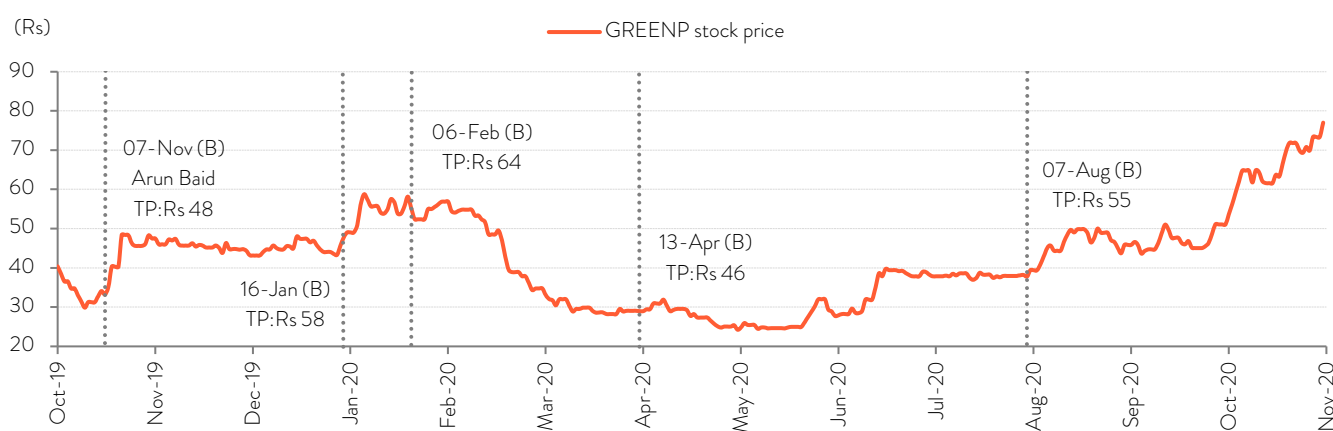
ADD – Expected return from >+5% to +15%

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 (GREEN IN)



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

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