

**HOLD**

TP: Rs 395 | ▲ 12%

**GREENPANEL  
INDUSTRIES**

| Construction Materials

| 28 October 2021

**Strong quarter led by MDF; cut to HOLD on limited upside**

- Q2 revenue climbed ~88% YoY to Rs 4.2bn led by ~103% growth in MDF and ~38% in plywood
- Gross profit up 89% YoY at Rs 2.5bn – 55% of that earned in full-year FY21; EBITDA margin up 600bps
- We raise FY22/FY23 PAT 15%/11% on robust demand and have a new TP of Rs 395 (vs. Rs 315); cut from BUY to HOLD on limited upside

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**Strong growth aided by MDF segment:** GREENP's consolidated Q2FY22 revenue grew 88% YoY to Rs 4.2bn, with MDF up 103% as the segment's volumes climbed 67% and blended realisations up 22% YoY/13% QoQ. In plywood, revenue grew 38% YoY as volumes increased 22% and blended realisations rose 13% YoY/8% QoQ. In MDF, demand was driven by both exports (+69% YoY) and domestic sales (+65%). As per management, export demand remains strong even now, supporting elevated sales in Q3 as well. Export/domestic realisations improved 31%/19% YoY.

**Operating margin improves:** EBITDA margin (ex-forex losses) stood at 26.8% vs. 20.8% in the year-ago quarter aided by higher MDF and plywood profitability and better capacity utilisation. MDF EBIT margin expanded to 28.4% (vs. 16.7% in Q2FY21) backed by better utilisation (95% vs. 61%) and price hikes. Plywood earned lower 15.3% margins (vs. 17.4%) due to higher RM cost. Management indicated that the company has taken a price hike in plywood, the benefit of which will be visible in Q3.

**Growth outlook:** Management believes MDF margins are sustainable given price hikes in the domestic segment, and could expand further if utilisation levels hold. Export realisations should improve in Q3 vs. Q2 which had old orders fulfilled at lower rates. However, with onset of the festive season (Durga Puja in Oct and Diwali in Nov), Q3 will not witness similar growth. GREENP is expanding capacity by 1,20,000cbm which will come onstream in Q4FY22 and should propel growth thereon.

**Earnings upgraded...:** Healthy domestic MDF demand, rising exports and the uptick in prices are likely to contain rising RM costs, in our view. Plywood too has seen healthy demand while price hike benefits should flow in Q3. GREENP continues to focus on capacity debottlenecking which will aid volume growth (20% increase in capacity) and product mix optimisation, thus enabling further improvement in margins. We raise FY22/FY23/FY24 PAT 15%/11%/6% on robust demand and realisations.

**...but upside limited:** We roll over to a new Sep'22 TP of Rs 395 (vs. Rs 315) based on 20x (vs. 18x) one-year forward P/E, which is a ~20% discount to peers. Current valuations look full at 19.2x FY23E P/E – downgrade to HOLD.

**Key changes**

Target	Rating
▲	▼

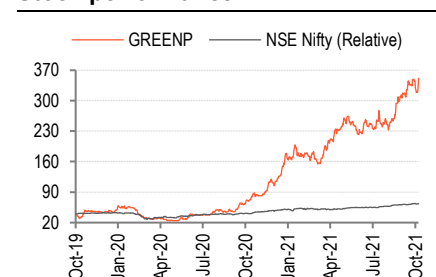
Ticker/Price	GREENP IN/Rs 351
Market cap	US\$ 574.1mn
Free float	47%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 359/Rs 67
Promoter/FPI/DII	53%/3%/44%

Source: NSE | Price as of 27 Oct 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,208	14,275	16,627
EBITDA (Rs mn)	2,077	3,404	4,082
Adj. net profit (Rs mn)	808	1,723	2,241
Adj. EPS (Rs)	6.6	14.1	18.3
Consensus EPS (Rs)	6.6	11.6	16.5
Adj. ROAE (%)	11.6	21.1	22.1
Adj. P/E (x)	53.3	25.0	19.2
EV/EBITDA (x)	23.4	14.0	11.3
Adj. EPS growth (%)	219.4	113.2	30.0

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



## Earnings highlights

- **Company-level margin improvement:** GREENP's Q2FY22 EBITDA margin expanded 600bps YoY to 26.8% aided by (a) operating leverage, (b) better export and domestic realisations, (c) higher contribution of value-added products, and (d) lower discounts in the OEM segment (down from 8-10% to 4-6%). Management pointed to an industry-wide MDF shortage post pandemic due to global plant shutdowns and a lack of upcoming capacity. GREENP believes margins can expand ahead due to better realisations in both export and domestic markets.

Q2 gross margin rose 50bps QoQ owing to price hikes taken in MDF and a higher share of MDF sales which earn better margins. Management guided MDF margins to sustain going forward. However, the company could not absorb the rise in raw material cost pertaining to plywood. It hiked plywood prices in October, the benefit of which will be visible from Q3FY22. Management sees sustainable margins in the plywood business at 14-14.5%

- **RM breakup:** Wood forms ~65% of the total raw material for GREENP and has witnessed a price increase in the northern region to the tune of 8-10% while staying stable in the south. Chemicals form the balance ~35% and have seen a sharp uptick off late. GREENP's October price hike should help offset these costs.
- **New capacity to come onstream in Q4:** Through debottlenecking, the company is expanding capacity by 20%, adding 1,20,000cbm which will come onstream in Q4FY22 at a capex of ~Rs 230mn and machinery of ~Rs 200mn. Management expects the expanded capacity to achieve utilisation of 90-95% in H2FY23.
- **MDF exports and guidance:** Exports accounted for ~33% of the company's MDF volume sales and ~25% of MDF revenue in Q2. Management expects the proportion of exports to remain high and has guided for volumes of 60,000cbm in H2FY22. GREENP exports to the Middle East, South East Asia, UK and Korea, among others. It is also getting enquiries from Germany.
- **MDF imports:** 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. International MDF prices have risen due to higher freight cost and a rise in raw material costs globally. Going forward, imports are likely to remain subdued.
- **MDF capacity in India:** Currently, MDF capacity in the industry is 2.3mn cbm and is expected to increase to 3mn cbm by FY25.
- **Distribution network:** About 68% of domestic MDF sales in Q2 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. GREENP has already added 250 dealers in H1FY22.
- **Others:** (1) The company had an MTM forex gain of Rs 52mn in Q2 and forex loss of Rs 25mn in H1FY22. (2) MDF accounted for 82% of revenue in Q2FY22 vs. 76% in Q2FY21.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
<b>Net Revenue</b>	<b>4,222</b>	<b>2,249</b>	<b>87.8</b>	<b>3,083</b>	<b>36.9</b>	<b>7,305</b>	<b>3,150</b>	<b>131.9</b>
COGS	1,776	957	85.7	1,312	35.3	3,089	1,437	114.9
% of sales	42.1	42.5	(47bps)	42.6	(50bps)	42.3	45.6	(334bps)
Employee expenses	321	226	42.2	281	14.3	602	436	38.1
% of sales	7.6	10.0	(243bps)	9.1	(150bps)	8.2	13.8	(559bps)
Operating Expenses	996	599	66.1	790	26.0	1,786	898	98.8
% of sales	23.6	26.7	(307bps)	25.6	(204bps)	24.4	28.5	(407bps)
<b>EBITDA</b>	<b>1,130</b>	<b>467</b>	<b>141.8</b>	<b>700</b>	<b>61.3</b>	<b>1,830</b>	<b>380</b>	<b>382.0</b>
EBITDA Margin (%)	26.8	20.8	598bps	22.7	404bps	25.0	12.0	1,300bps
Depreciation/Amortisation	193	173	11.8	173	12.1	366	342	6.9
<b>EBIT</b>	<b>936</b>	<b>294</b>	<b>218.3</b>	<b>528</b>	<b>77.4</b>	<b>1,464</b>	<b>37</b>	<b>3,837.1</b>
EBIT Margin (%)	22.2	13.1	909bps	17.1	506bps	20.0	1.2	1,886bps
Net Interest Expenses	17	68	(74.2)	45	(61.0)	62	138	(54.8)
Other Income	23	2	1,099.2	7	242.3	30	10	188.0
<b>PBT</b>	<b>942</b>	<b>228</b>	<b>312.4</b>	<b>490</b>	<b>92.3</b>	<b>1,432</b>	<b>(90)</b>	<b>(1,692.9)</b>
Tax Expenses	271	(20)	(1,455.4)	116	134.0	387	(38)	(1,116.7)
<b>Net Income before extraordinary items</b>	<b>671</b>	<b>248</b>	<b>169.9</b>	<b>374</b>	<b>79.4</b>	<b>1,044</b>	<b>(52)</b>	<b>(2,117.0)</b>
Forex gain/(loss)	52	(65)	(180.6)	(76)	(168.1)	(24)	(129)	(81.2)
Reported Net Income	723	184	292.8	297	142.9	1,020	(181)	(663.6)
<b>Adjusted PAT</b>	<b>686</b>	<b>254</b>	<b>169.8</b>	<b>356</b>	<b>92.7</b>	<b>1,044</b>	<b>(107)</b>	<b>(1,080.2)</b>

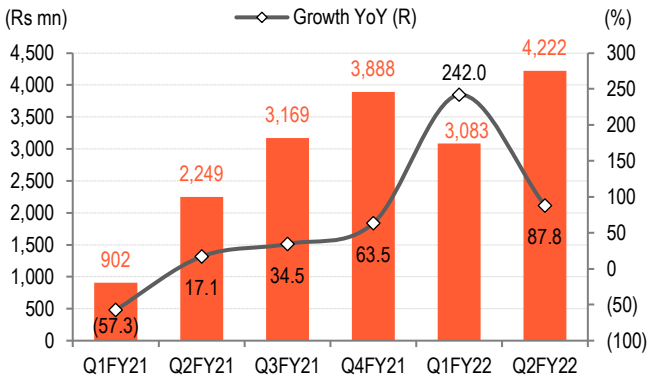
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated segmental revenues**

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
<b>Revenue</b>								
Plywood & Allied products	732	530	38.1	453	61.5	1,185	725	63.5
MDF	3,490	1,719	103.1	2,630	32.7	6,120	2,425	152.3
Total	4,222	2,249	87.8	3,083	36.9	7,305	3,150	131.9
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
<b>Net revenues</b>	<b>4,222</b>	<b>2,249</b>	<b>87.8</b>	<b>3,083</b>	<b>36.9</b>	<b>7,305</b>	<b>3,150</b>	<b>131.9</b>
<b>EBIT</b>								
Plywood & Allied products	112	92	21.2	54	105.7	167	58	188.0
MDF	992	288	245.1	582	70.4	1,575	150	952.4
<b>Total</b>	<b>1,104</b>	<b>380</b>	<b>190.6</b>	<b>637</b>	<b>73.4</b>	<b>1,741</b>	<b>207</b>	<b>739.4</b>
<b>EBIT Margin (%)</b>								
Plywood & Allied products	15.3	17.4	(214bps)	12.0	329bps	14.0	8.0	607bps
MDF	28.4	16.7	1,170bps	22.1	629bps	25.7	6.2	1,956bps

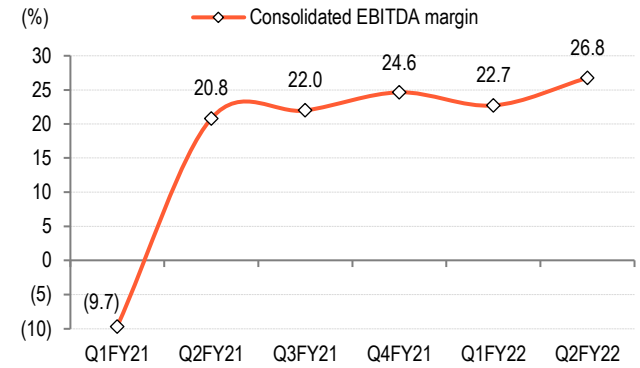
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



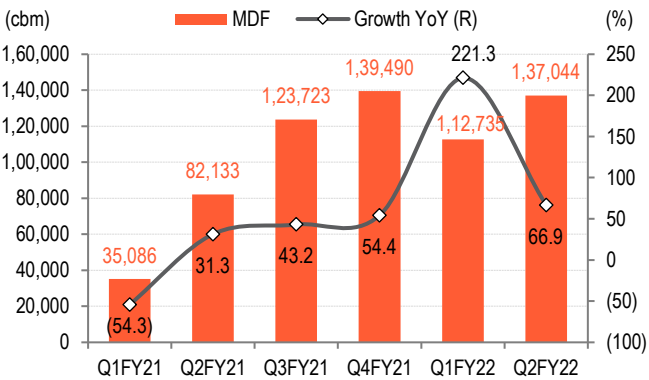
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA trend**



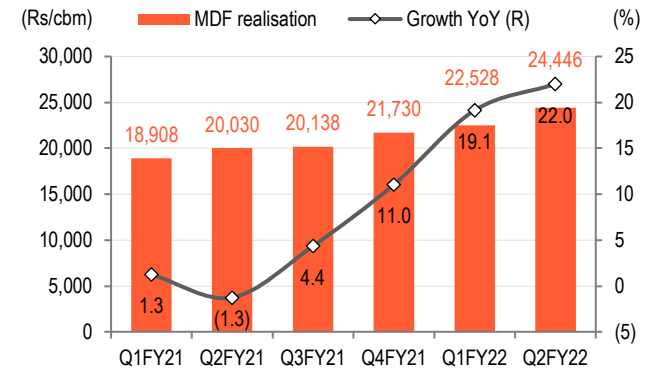
Source: Company, BOBCAPS Research

**Fig 5 – MDF volume trend**



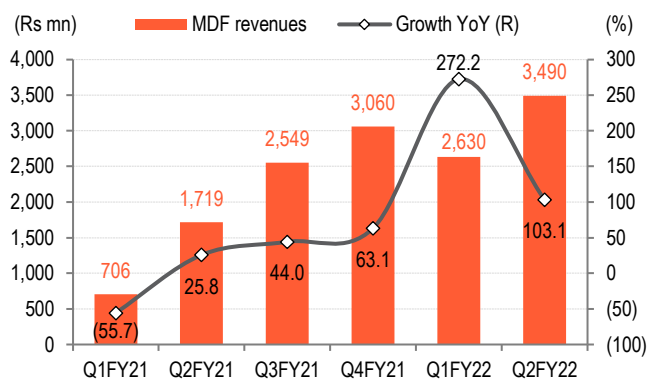
Source: Company, BOBCAPS Research

**Fig 6 – MDF realisation trend**



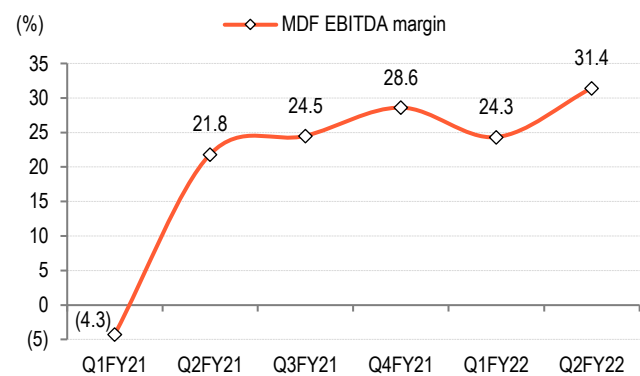
Source: Company, BOBCAPS Research

**Fig 7 – MDF revenue**



Source: Company, BOBCAPS Research

**Fig 8 – MDF EBITDA margin**



Source: Company, BOBCAPS Research

## Valuation methodology

The healthy domestic demand for MDF, sharp jump in exports along with uptick in prices are likely to contain the rising raw material costs, in our view. Plywood too has seen healthy demand while price hike benefits should flow in next quarter. GREENP continues to focus on capacity debottlenecking which will aid volume growth and product mix optimisation, thus supporting further improvement in margins.

We raise our FY22/FY23/FY24 PAT estimates 15%/11%/6% on robust demand and realisations, and also increase our target one-year forward P/E multiple from 18x to 20x, which is a ~20% discount to our target multiples for plywood peers. On rollover, we arrive at a new Sep'22 TP of Rs 395 (vs. Rs 315). The stock has run up 62% over the past six months and current valuations look full at 19.2 FY23E P/E – we thus downgrade our rating from BUY to HOLD.

**Fig 9 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	14,275	16,627	18,160	13,526	15,976	17,883	5.5	4.0	1.6
EBITDA	3,404	4,082	4,468	3,075	3,759	4,276	10.7	8.6	4.5
EBITDA margin (%)	23.9	24.6	24.6	22.7	23.5	23.9	120bps	110bps	70bps
PAT	1,723	2,241	2,587	1,493	2,014	2,453	15.4	11.3	5.5

Source: BOBCAPS Research

**Fig 10 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
MDF volumes (CBM)	380,532	540,000	615,600	654,000
YoY (%)	20.4	41.9	14.0	6.2
MDF Revenues (Rs mn)	7,833	11,538	13,382	14,491
YoY (%)	27.6	47.3	16.0	8.3
MDF margins (%)	20.9	26.0	26.82	27.0
Plywood volumes (MSM)	7.9	10.2	12.1	13.7
YoY (%)	(7.5)	29.3	18.6	13.0
Plywood Revenues (Rs mn)	2016	2738	3246	3669
YoY (%)	(5.7)	35.8	18.6	13.0
Plywood margins (%)	12.6	14.8	15.2	15.3

Source: Company, 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	1,393	21.5	22.8	29.6	18.9	23.3	47
Greenply Ind	MTLM IN	HOLD	230	18.7	9.2	11.3	23.0	22.9	20
Greenpanel Industries	GREENP IN	HOLD	395	27.6	14.1	18.3	21.1	22.1	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Cera Sanitaryware	CRS IN	HOLD	5,893	17.1	109.8	134.9	15.4	16.9	40
Astral	ASTRA IN	SELL	1,210	16.3	20.2	25.2	20.3	22.6	48
Finolex Ind	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Ind	SI IN	BUY	2,735	22.7	76.2	91.2	28.5	29.9	30

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- fall in RM costs,
- sharp increase in housing demand,
- significant jump in MDF and plywood realisations, and
- robust export demand.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>8,766</b>	<b>10,208</b>	<b>14,275</b>	<b>16,627</b>	<b>18,160</b>
EBITDA	1,432	2,077	3,404	4,082	4,468
Depreciation	(692)	(686)	(743)	(754)	(771)
EBIT	740	1,391	2,661	3,329	3,697
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	2,462	3,201	3,696
Income taxes	28	(322)	(738)	(960)	(1,109)
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>1,723</b>	<b>2,241</b>	<b>2,587</b>
Adjustments	108	120	0	0	0
<b>Adjusted net profit</b>	<b>253</b>	<b>808</b>	<b>1,723</b>	<b>2,241</b>	<b>2,587</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,207	1,297	1,799	2,096	2,289
Other current liabilities	1,036	1,186	1,643	1,913	2,090
Provisions	120	96	143	166	182
Debt funds	5,611	4,469	2,912	1,712	532
Other liabilities	69	202	202	202	645
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	8,904	11,145	12,949
Shareholders' fund	6,616	7,304	9,027	11,267	13,072
<b>Total liab. and equities</b>	<b>14,658</b>	<b>14,552</b>	<b>15,725</b>	<b>17,357</b>	<b>18,810</b>
Cash and cash eq.	115	720	347	1,615	2,970
Accounts receivables	705	778	1,134	1,321	1,443
Inventories	1,539	1,494	2,151	2,506	2,737
Other current assets	1,131	783	1,173	1,367	1,493
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
<b>Total assets</b>	<b>14,658</b>	<b>14,552</b>	<b>15,541</b>	<b>16,940</b>	<b>18,253</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>720</b>	<b>2,158</b>	<b>2,308</b>	<b>3,030</b>	<b>3,354</b>
Capital expenditures	(242)	(127)	(700)	(150)	(250)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	444
<b>Cash flow from investing</b>	<b>(242)</b>	<b>(127)</b>	<b>(700)</b>	<b>(150)</b>	<b>194</b>
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	(783)
Other financing cash flows	(4)	(37)	0	0	0
<b>Cash flow from financing</b>	<b>(561)</b>	<b>(1,426)</b>	<b>(1,796)</b>	<b>(1,380)</b>	<b>(2,052)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(83)</b>	<b>604</b>	<b>(188)</b>	<b>1,500</b>	<b>1,495</b>
<b>Closing cash &amp; cash eq.</b>	<b>115</b>	<b>720</b>	<b>532</b>	<b>1,847</b>	<b>3,110</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	1.2	5.6	14.1	18.3	21.1
Adjusted EPS	2.1	6.6	14.1	18.3	21.1
Dividend per share	0.0	0.0	0.0	0.0	5.3
Book value per share	54.0	59.6	73.6	91.9	106.6

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.2	4.8	3.3	2.8	2.4
EV/EBITDA	32.1	23.4	14.0	11.3	9.9
Adjusted P/E	170.3	53.3	25.0	19.2	16.7
P/BV	6.5	5.9	4.8	3.8	3.3

### 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	92.5	96.2	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	18.6	20.0	20.4
Asset turnover (Rev./Avg TA)	60.0	69.9	94.9	102.4	103.2
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.8	1.6	1.4
Adjusted ROAE	3.9	11.6	21.1	22.1	21.3

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	46.3	16.4	39.8	16.5	9.2
EBITDA	84.8	45.1	63.9	19.9	9.4
Adjusted EPS	11.0	219.4	113.2	30.0	15.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	20.4	23.8	24.6	24.6
EBIT margin	8.4	13.6	18.6	20.0	20.4
Adjusted profit margin	2.9	7.9	12.1	13.5	14.2
Adjusted ROAE	3.9	11.6	21.1	22.1	21.3
ROCE	6.0	7.9	15.7	18.7	19.5
<b>Working capital days (days)</b>					
Receivables	24	27	24	27	28
Inventory	134	120	108	118	121
Payables	50	56	52	57	58
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.7	1.0	1.1	1.2
Current ratio	1.0	1.1	1.2	1.6	1.9
Net interest coverage ratio	2.5	5.6	11.1	18.5	41.2
Adjusted debt/equity	0.8	0.5	0.3	0.0	(0.2)

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

## Disclaimer

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

**BUY** – Expected return >+15%

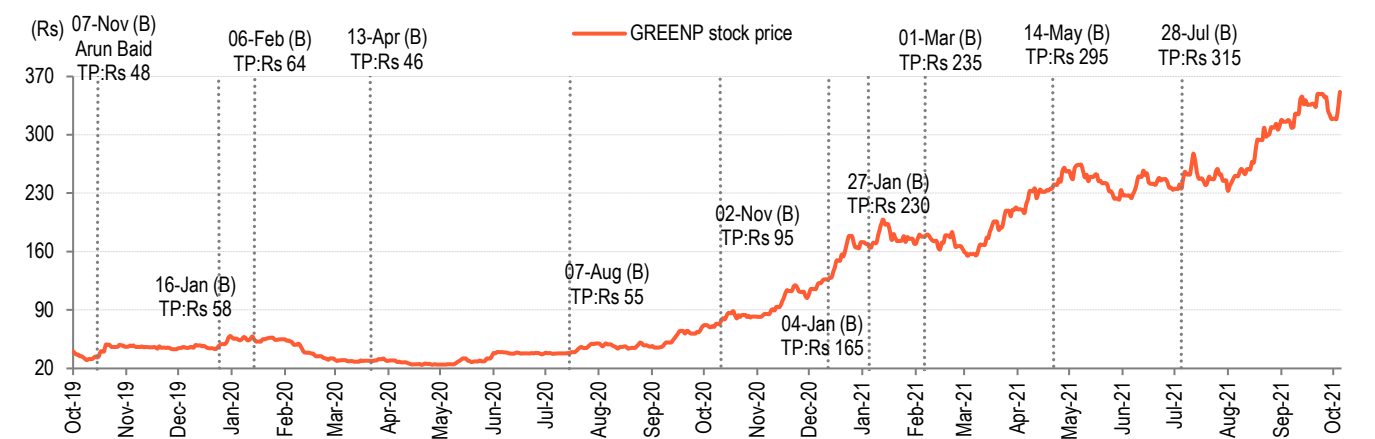
**HOLD** – Expected return from -6% to +15%

**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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