

**BUY**

TP: Rs 595 | ▲ 56%

**GREENPANEL  
INDUSTRIES**

Construction Materials

09 November 2022

## Domestic demand remains healthy

- Q2 revenue increased 8% YoY to Rs 4.6bn led by 14% growth in MDF, though plywood business was down 17%
- Gross margin declined 80bps YoY to 58.7% and EBITDA margin fell 125bps to 25.5%
- Valuations attractive at 15x FY24E EPS; maintain BUY with an unchanged TP of Rs 595

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**Steady quarter:** GREENP's consolidated Q2FY23 revenue grew 8% YoY (-1% QoQ) to Rs 4.6bn as blended MDF realisations increased 28% YoY (flat QoQ). MDF revenue grew 13.5% YoY whereas plywood fell 17%. Consolidated EBITDA margin declined to 25.5% vs. 26.8% in Q2FY22 (28.3% in Q1FY23) due to lower plywood volumes and higher cost inflation. Management has guided for revenue of Rs 1.9bn-1.95bn in FY23.

**Slowdown in exports hurt MDF volumes:** Domestic MDF demand remained robust, but MDF exports dropped 41% YoY, pulling down volumes by 8%. Export realisation increased 21% YoY to Rs 22,906/cbm and domestic realisation grew 24% to Rs 33,554/cbm. However, the segment's EBITDA margin declined 100bps YoY and 290bps QoQ to 30.4% due to high raw material costs. As MDF continues to earn high margins compared to the historical 25-27% levels, we believe the industry will refrain from price hikes in the near future, in turn safeguarding volumes.

Management has guided for domestic MDF volume growth of 12% and flat exports in FY23 (14-15% blended growth in FY24). EBITDA margin is expected to be similar to Q2 levels of 30% for FY23 and at 27-28% in the long term.

**Plywood margin declines:** During Q2, plywood volumes fell 22% YoY and 19% QoQ. Lower volumes and higher raw material cost induced a 630bps YoY contraction in segmental operating margin to 7.3%. The company took a 2% price hike in Jul'22 which was insufficient to absorb cost inflation. Management has lowered its plywood margin guidance to 10% from 11-11.5% for FY23.

**Maintain BUY:** The stock is trading at ~15x FY24E EPS which is attractive given GREENP's strong growth prospects, leadership position in MDF, and an improving balance sheet and return ratios. We continue to value the stock at 23x FY24E EPS (a 34% discount to peer CPBI) and retain our TP of Rs 595 with a BUY rating.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 381
Market cap	US\$ 572.3mn
Free float	47%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 626/Rs 350
Promoter/FPI/DII	53%/6%/41%

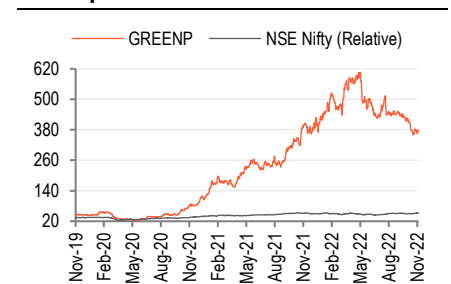
Source: NSE | Price as of 7 Nov 2022

## 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)	19.4	17.5	14.7
EV/EBITDA (x)	11.9	10.4	8.8
Adj. EPS growth (%)	197.6	11.2	18.6

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Earnings call highlights

- **MDF realisations:** GREENP's blended MDF realisations increased by 28% YoY (flat QoQ) to Rs 31,299/cbm in Q2FY23. Export realisations rose 21% YoY (-4% QoQ) to Rs 22,906/cbm, while the domestic realisations grew 24% YoY (flat QoQ) to Rs 33,554/cbm. Exports earned lower realisations than the domestic business owing to insignificant contribution from value-added products.
- **MDF volumes:** Export sales totalled 26,737cbm in Q2FY23, a decline of 41% YoY (flat QoQ). Domestic volumes grew 4% YoY (-10% QoQ) to 95,980cbm.
- **Plywood realisations:** During Q2, plywood realisations increased 7% YoY (+6% QoQ) to Rs 299/sqm.
- **Raw material prices:** Due to an increase in timber prices, the company took a 2% price hike in plywood in Jul'22. Per management, raw-material like resin prices has been softening but timber prices continue to remain at current levels.
- **Brownfield expansion:** GREENP 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 Q1FY25. Management expects the new capacity to generate revenue to the tune of Rs 7.7bn at optimal utilisation, targeted in FY27.
- **Domestic MDF capacity:** Per management, total MDF capacity in India operated by GREENP, GIL, CPBI and Action Tesa is expected to increase from ~2.34mn cbm in FY22 (demand: ~2mn cbm) to 2.43mn cbm in FY23 and ~3.4mn cbm by FY25 (demand: ~2.5mn cbm). GREENP expects the increase in capacity to be fully absorbed by FY26/FY27.
- **MDF imports:** MDF imports have been minimal in the last two years 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. However, imports have risen during the last couple of months owing to large domestic capacity available in North India and imports into the southern and western parts of India. Domestic MDF is priced 8-10% higher than imports. Most of the imports are for thin MDF whereas that for pre-laminated MDF is very low.
- **Net debt:** After a Rs 420mn reduction in debt in Q2FY23, GREENP is net debt positive with a cash surplus of Rs 590mn as on Sep'22. The company had also made payments of Rs 300mn toward MDF expansion during the quarter.
- **Tax rate:** GREENP expects a 25% tax rate in FY24.
- **Others result highlights:** (1) MDF accounted for 87% of revenue in Q2FY23 on an expanded capacity vs. 82% in Q2FY22. (2) Working capital investment increased by 10 days YoY to 24 days in Sep'22. (3) Value-added products in plywood contributed 12% of revenue in H1FY23 vs. 10% in H1FY22. (4) A&P expenses are guided at 1.25% of sales for FY23 – an addition of 1-1.5% over FY23-FY24.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
<b>Net Revenue</b>	<b>4,573</b>	<b>4,222</b>	<b>8.3</b>	<b>4,640</b>	<b>(1.4)</b>	<b>9,213</b>	<b>7,305</b>	<b>26.1</b>
COGS	1,887	1,776	6.2	1,778	6.1	3,665	3,089	18.7
% of sales	41.3	42.1	(80bps)	38.3	294bps	39.8	42.3	(250bps)
Employee expenses	361	321	12.6	365	(0.9)	726	602	20.7
% of sales	7.9	7.6	30bps	7.9	4bps	7.9	8.2	(36bps)
Operating Expenses	1,157	996	16.3	1,182	(2.1)	2,339	1,786	31.0
% of sales	25.3	23.6	173bps	25.5	(16bps)	25.4	24.4	95bps
<b>EBITDA</b>	<b>1,167</b>	<b>1,130</b>	<b>3.3</b>	<b>1,315</b>	<b>(11.3)</b>	<b>2,483</b>	<b>1,830</b>	<b>35.7</b>
EBITDA Margin (%)	25.5	26.8	(123bps)	28.3	(283bps)	26.9	25.0	190bps
Depreciation/Amortisation	182	193	(5.8)	182	(0.1)	365	366	(0.3)
<b>EBIT</b>	<b>985</b>	<b>936</b>	<b>5.2</b>	<b>1,133</b>	<b>(13.1)</b>	<b>2,118</b>	<b>1,464</b>	<b>44.7</b>
EBIT Margin (%)	21.5	22.2	(64bps)	24.4	(288bps)	23.0	20.0	295bps
Net Interest Expenses	18	17	2.6	26	(31.8)	44	62	(28.9)
Other Income	76	23	227.5	72	5.3	149	30	394.2
<b>PBT</b>	<b>1,043</b>	<b>942</b>	<b>10.7</b>	<b>1,179</b>	<b>(11.5)</b>	<b>2,222</b>	<b>1,432</b>	<b>55.2</b>
Tax Expenses	380	271	39.9	403	(5.8)	783	387	102.1
<b>Net Income before extraordinary items</b>	<b>664</b>	<b>671</b>	<b>(1.0)</b>	<b>776</b>	<b>(14.5)</b>	<b>1,440</b>	<b>1,044</b>	<b>37.8</b>
Forex gain/(loss)	0	52	(100.0)	0	-	0	(24)	(100.0)
Exceptional item	61	0	-	0	-	61	0	-
<b>Reported PAT</b>	<b>725</b>	<b>723</b>	<b>0.3</b>	<b>776</b>	<b>(6.6)</b>	<b>1,440</b>	<b>1,020</b>	<b>41.1</b>

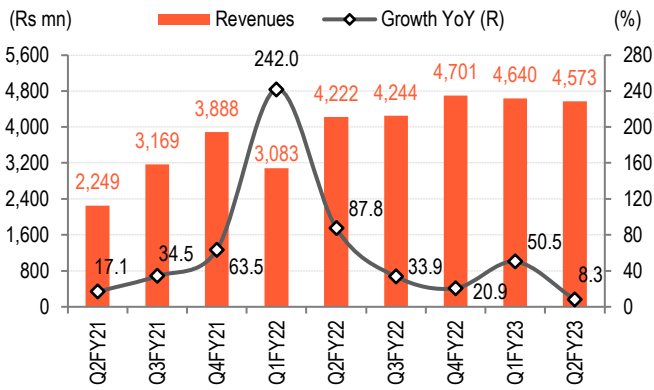
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated segmental performance**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
<b>Revenue</b>								
Plywood & Allied products	611	732	(16.6)	709	(13.9)	1,320	1,185	11.3
MDF & Allied products	3,962	3,490	13.5	3,931	0.8	7,893	6,120	29.0
<b>Total</b>	<b>4,573</b>	<b>4,222</b>	<b>8.3</b>	<b>4,640</b>	<b>(1.4)</b>	<b>9,213</b>	<b>7,305</b>	<b>26.1</b>
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
<b>Net revenues</b>	<b>4,573</b>	<b>4,222</b>	<b>8.3</b>	<b>4,640</b>	<b>(1.4)</b>	<b>9,213</b>	<b>7,305</b>	<b>26.1</b>
<b>EBIT</b>								
Plywood & Allied products	58	112	(48.6)	98	(41.5)	156	167	(6.3)
MDF & Allied products	1,177	992	18.6	1,285	(8.4)	2,463	1,575	56.4
<b>Total</b>	<b>1,235</b>	<b>1,104</b>	<b>11.8</b>	<b>1,384</b>	<b>(10.7)</b>	<b>2,619</b>	<b>1,741</b>	<b>50.4</b>
<b>EBIT Margin (%)</b>								
Plywood & Allied products	9.4	15.3	(588bps)	13.9	(445bps)	11.8	14.0	(223bps)
MDF & Allied products	29.7	28.4	128bps	32.7	(298bps)	31.2	25.7	547bps

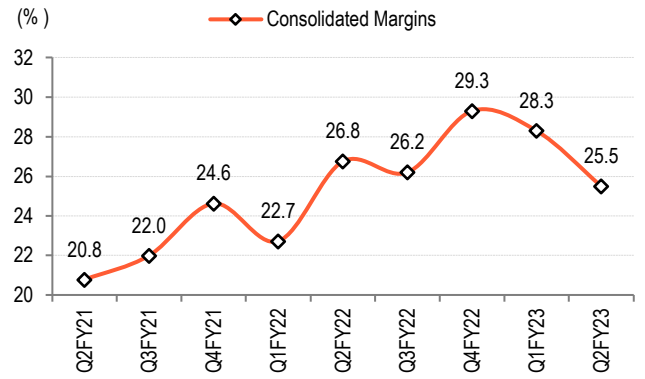
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



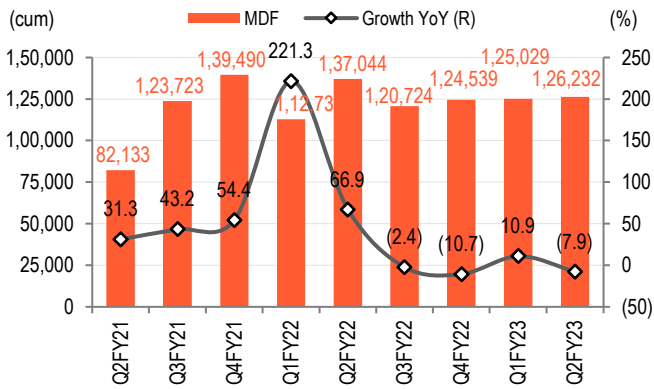
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA margin**



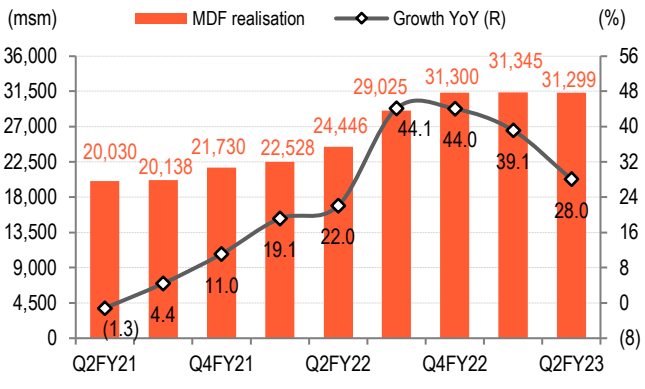
Source: Company, BOBCAPS Research

**Fig 5 – MDF volumes**



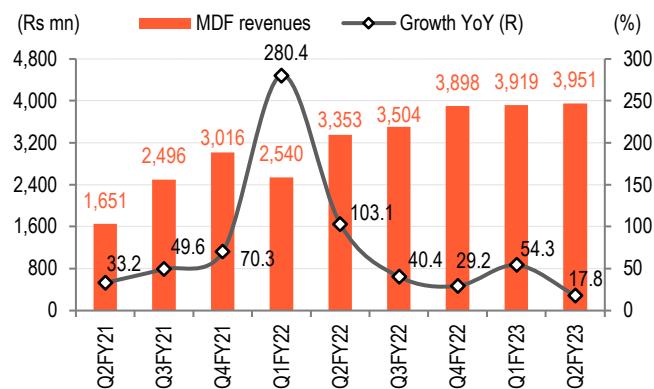
Source: Company, BOBCAPS Research

**Fig 6 – MDF realisation**



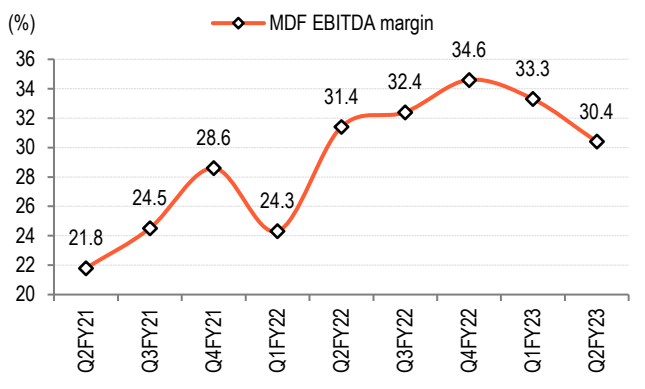
Source: Company, BOBCAPS Research

**Fig 7 – MDF revenue**



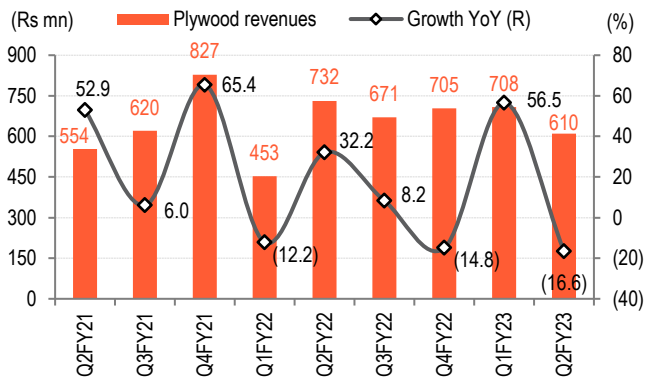
Source: Company, BOBCAPS Research

**Fig 8 – MDF EBITDA margin**



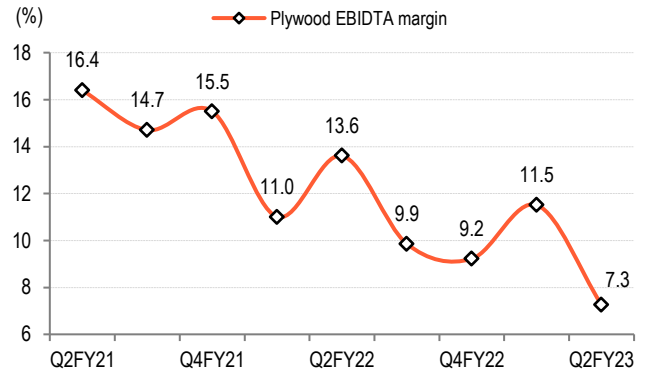
Source: Company, BOBCAPS Research

**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 stock is trading at an attractive valuation of ~15x FY24E EPS. We continue to value GREENP at 23x FY24E EPS (a 34% discount to peer 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	588	735	BUY
Cera Sanitaryware	CRS IN	0.9	5,482	5,225	HOLD
Greenpanel Industries	GREENP IN	0.6	381	595	BUY
Greenply Industries	MTLM IN	0.3	171	235	BUY
Kajaria Ceramics	KJC IN	2.1	1,061	1,325	BUY
Pidilite Industries	PIDI IN	16.4	2,629	1,870	SELL
Somany Ceramics	SOMC IN	0.3	542	830	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Nov 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	5.7	5.1	3.2	2.6	2.3
EV/EBITDA	34.6	25.2	11.9	10.4	8.8
Adjusted P/E	184.7	57.8	19.4	17.5	14.7
P/BV	7.1	6.4	4.9	4.1	3.4

### 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

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

**BUY** – Expected return >+15%

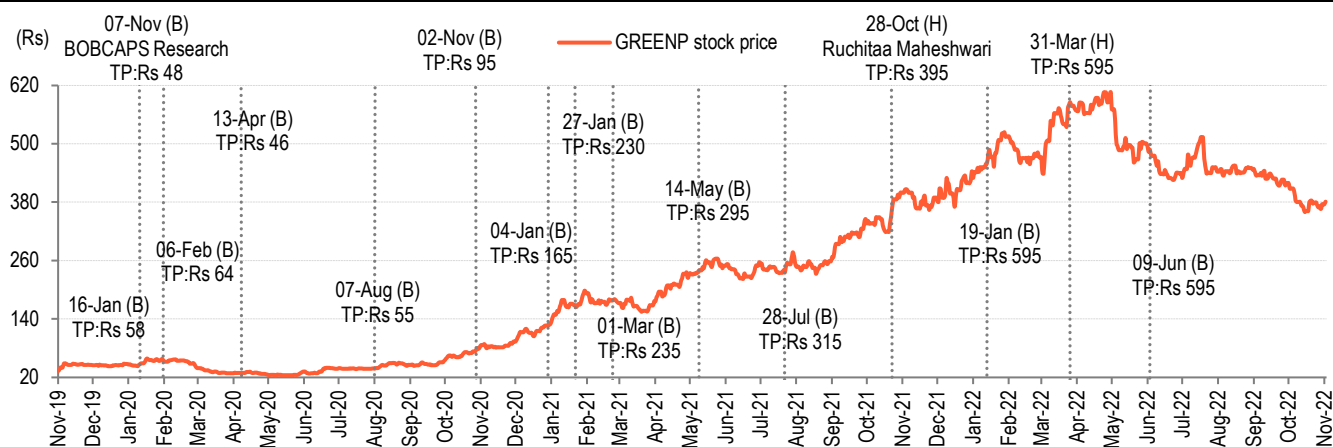
**HOLD** – Expected return from -6% to +15%

**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

### Analyst certification

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