

BUY

TP: Rs 230 | ▲ 39%

**GREENPANEL
INDUSTRIES**

Construction Materials

27 January 2021

Significant all-round beat, outlook bright

Greenpanel Industries' (GREENP) Q3FY21 consolidated revenue grew 34.5% YoY aided by a 44% increase in the MDF segment. Operating margins (ex-forex loss) expanded 705bps YoY to 22% backed by stronger MDF profitability, spurring EBITDA growth of 98% YoY. Management has guided for 100-110% utilisation with 25% margins in MDF and net debt reduction to Rs 2.5bn in FY22. We raise FY21-FY23 EBITDA by 13-30% given the beat on revenue and margins. Maintain BUY as we roll to a new Mar'22 TP of Rs 230 (vs. Rs 165).

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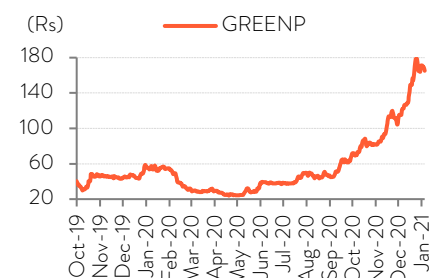
MDF segment leads revenue growth: GREENP's revenue grew 34.5% YoY to Rs 3.2bn, with MDF up 44% as the segment's volumes climbed 43% on the back of demand from small cities and towns. In plywood, volumes increased 12% YoY whereas realisations declined 6%. Management has guided for MDF capacity utilisation of 100-110% in FY22 (vs. ~70% in FY21E) and operating margins of 25%. The company believes segmental margins can improve to ~26.5% in FY23 after backward integration. MDF capacity will rise to ~0.65mn CBM (from ~0.59mn CBM) post debottlenecking by end-Q3FY22.

Strong profitability: EBITDA margins (ex-forex loss) expanded 705bps YoY to 22% aided by higher MDF profitability and better capacity utilisation, resulting in EBITDA/PBT growth of 98%/6x YoY. MDF margins rose 730bps YoY to 24.5% backed by better utilisation; plywood saw 320bps expansion to 14.7% due to cost optimisation and lower wastage. Management has guided for FY22 margins of ~25% in MDF (on higher utilisation) and 15% in plywood.

Maintain BUY: GREENP has strong demand tailwinds due to growing usage of readymade furniture and gradual replacement of low-cost plywood by MDF. We continue to like the company for its strong growth prospects and improving debt and return ratio profile. BUY with a revised Mar'22 TP of Rs 230.

Ticker/Price	GREENP IN/Rs 165
Market cap	US\$ 278.0mn
Shares o/s	123mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 188/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

STOCK PERFORMANCE**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	9,517	13,063	14,984
EBITDA (Rs mn)	774	1,432	1,798	2,932	3,538
Adj. net profit (Rs mn)	228	253	603	1,395	1,853
Adj. EPS (Rs)	1.9	2.1	4.9	11.4	15.1
Adj. EPS growth (%)	NA	11.0	138.3	131.4	32.8
Adj. ROAE (%)	7.1	3.9	8.8	18.0	19.8
Adj. P/E (x)	88.9	80.1	33.6	14.5	10.9
EV/EBITDA (x)	NA	16.1	14.4	8.5	6.7

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	3,169	2,356	34.5	2,249	40.9	6,320	6,388	(1.1)
COGS	1,409	1,110	26.9	957	47.3	2,846	2,956	(3.7)
% of sales	44.5	47.1	(267bps)	42.5	191bps	45.0	46.3	(125bps)
Employee expenses	252	254	(0.9)	226	11.6	687	738	(6.9)
% of sales	7.9	10.8	(284bps)	10.0	(209bps)	10.9	11.6	(68bps)
Operating Expenses	812	640	26.9	599	35.4	1,710	1,752	(2.4)
% of sales	25.6	27.1	(154bps)	26.7	(104bps)	27.1	27.4	(36bps)
EBITDA	697	352	98.0	467	49.2	1,077	941	14.3
EBITDA Margin	22.0	14.9	705bps	20.8	121bps	17.0	14.7	230bps
Depreciation/Amortisation	174	171	1.5	173	0.5	516	512	0.8
EBIT	523	181	189.4	294	77.8	560	429	30.6
EBIT Margin	16.5	7.7	883bps	13.1	342bps	8.9	6.7	215bps
Net Interest Expenses	69	111	(38.0)	68	1.3	206	230	(10.3)
Other Income	4	6	(33.8)	2	107.6	14	13	15.9
PBT	458	76	501.8	228	100.7	369	212	74.1
Tax Expenses	68	7	853.7	(20)	(437.4)	29	40	(26.6)
Net Income before extraordinary items	391	69	465.7	248	57.3	339	172	97.7
Forex gain/(loss)	(86)	(65)	33.9	(65)	33.9	(216)	(102)	110.5
Reported Net Income	305	5	NM	184	65.5	124	69	78.8
Adjusted PAT	378	63	499.4	254	48.8	322	152	111.6

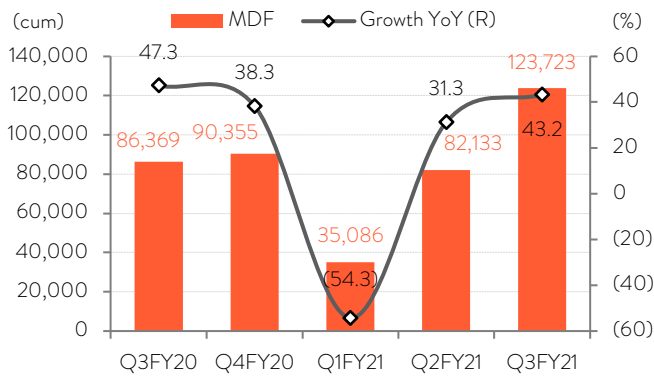
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue								
Plywood & Allied products	621	585	6.0	530	17.1	1,346	1,658	(18.9)
MDF	2,549	1,771	44.0	1,719	48.3	4,974	4,730	5.2
Net revenues	3,169	2,356	34.5	2,249	40.9	6,320	6,388	(1.1)
EBIT								
Plywood & Allied products	97	74	30.6	92	5.1	155	244	(36.5)
MDF	525	202	160.5	288	82.7	675	466	44.8
Total	623	276	125.5	380	63.8	830	710	16.8
EBIT Margin (%)								
Plywood & Allied products	15.7	12.7	295bps	17.4	(179bps)	11.5	14.7	(321bps)
MDF	20.6	11.4	922bps	16.7	388bps	13.6	9.9	372bps

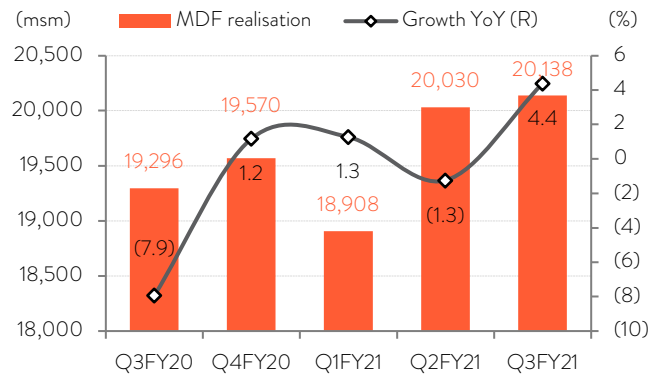
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



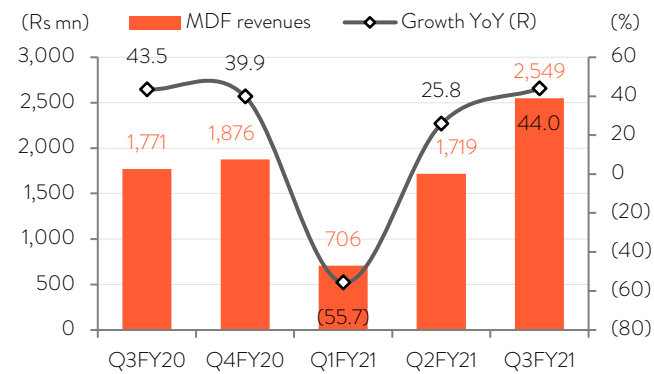
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



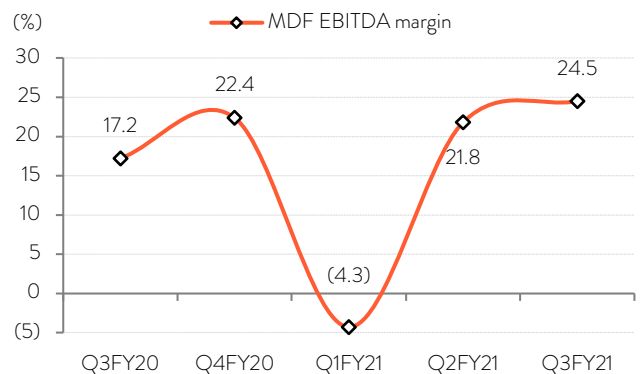
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



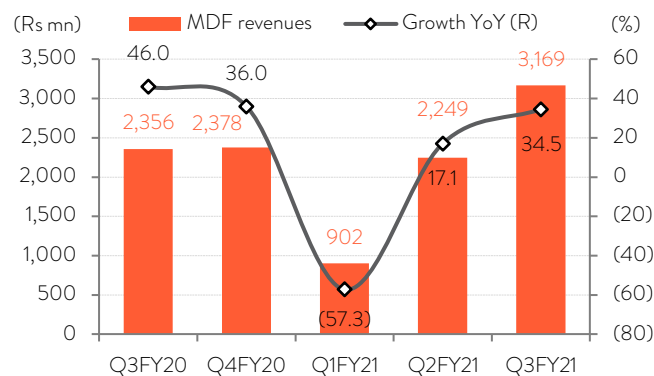
Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



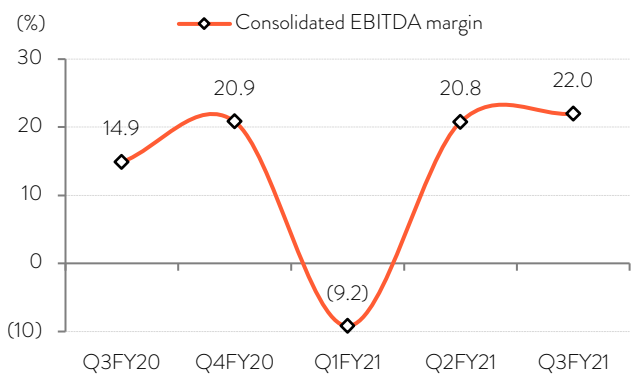
Source: Company, BOBCAPS Research

FIG 7 – QUARTERLY CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Demand for MDF has been strong driven by smaller towns and cities. The company expects to have MDF capacity utilisation of 100% in Q4FY21 and 100-110% in FY22.
- MDF capacity will increase to ~0.65mn CBM from ~0.59mn CBM by end-Q3FY22 at a capex of Rs 550mn. This outlay includes some spending towards backward integration which management estimates will result in cost savings of ~Rs 60mn from FY23.
- MDF margins are guided at ~25% in FY22 (plywood at 15%), with a likely rise to ~26.5% in FY23 given benefits of backward integration.
- GREENP has taken a price increase of ~3% in MDF during December-January across India. It took another hike of 2-3% in mid-Jan'21 in all markets, except South India, to negate the increased raw material cost. Per management, these hikes cover the higher cost burden.
- Management expects MDF demand to remain strong due to the growing acceptance of readymade furniture on account of Covid-19 and replacement of low-cost plywood. Also, lower imports are aiding demand for domestic players.
- The company does not anticipate any significant price erosion in MDF due to the current demand-supply situation as well as the absence of large upcoming capacities besides that of Rushil Décor in FY22.
- Despite holding export orders of ~30,000cbm, GREENP believes the sales may not go through due to container availability issues.
- Exports accounted for 27% of MDF volume sales and ~19% of MDF revenues in 9MFY21.
- During the quarter, GREENP had an MTM forex loss of ~Rs 86.4mn.
- Gross debt has been reduced by ~Rs 700mn in 9MFY21 to Rs 4.7bn. The company aims to bring net debt down to Rs 4bn by end-FY21 (currently ~Rs 4.5bn) and further to Rs 2.5bn in FY22.
- Working capital cycle has decreased by 10 days YoY to 33 days.
- Management expects post-tax ROCE of 18-18.5% in FY22.

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 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.

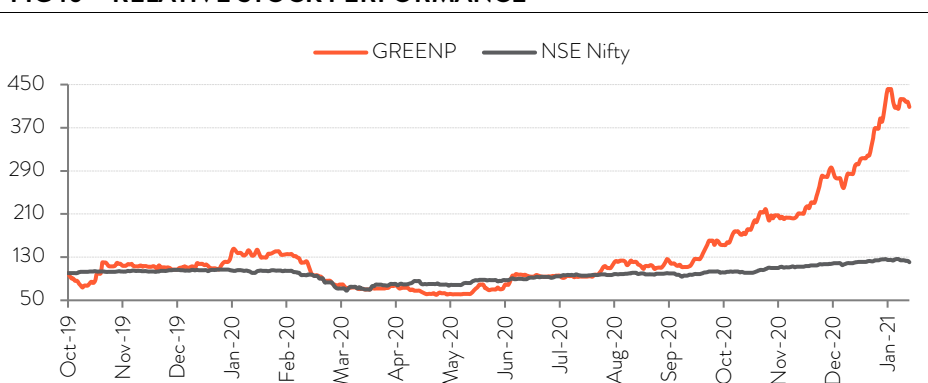
We raise our FY21-FY23 revenue estimates for GREENP by 5-15% due to a faster-than-expected demand revival post pandemic headwinds. EBITDA estimates for this period have been increased by 13-30% on higher MDF utilisation guidance, resulting in a 40-58% earnings upgrade. We continue to like the company for its strong growth prospects, improving debt profile and expected surge in return ratios, which are likely to fuel a rerating. On rollover, we have a revised Mar'22 target price of Rs 230 (earlier Rs 165), based on an unchanged 15x target P/E. Maintain BUY.

FIG 9 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	9,517	13,063	14,984	9,046	11,352	13,667	5.2	15.1	9.6
EBITDA	1,798	2,932	3,538	1,597	2,258	2,881	12.6	29.9	22.8
PAT	651	1,395	1,853	423	882	1,327	54.0	58.2	39.7

Source: BOBCAPS Research

FIG 10 – RELATIVE STOCK PERFORMANCE



Source: NSE

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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	5,991	8,766	9,517	13,063	14,984
EBITDA	774	1,432	1,798	2,932	3,538
Depreciation	(530)	(692)	(701)	(743)	(754)
EBIT	244	740	1,097	2,189	2,784
Net interest income/(expenses)	(246)	(302)	(283)	(231)	(200)
Other income/(expenses)	8	22	24	35	64
Exceptional items	118	(343)	(216)	0	0
EBT	6	460	838	1,993	2,648
Income taxes	222	28	(187)	(598)	(794)
Reported net profit	346	145	435	1,395	1,853
Adjustments	(118)	108	168	0	0
Adjusted net profit	228	253	603	1,395	1,853

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	816	1,207	1,356	1,825	2,094
Other current liabilities	1,197	1,036	1,330	1,825	2,094
Provisions	126	120	124	157	165
Debt funds	5,865	5,611	4,151	3,181	2,381
Other liabilities	121	69	105	344	662
Equity capital	123	123	123	123	123
Reserves & surplus	6,332	6,494	6,929	8,324	10,178
Shareholders' fund	6,455	6,616	7,052	8,447	10,300
Total liabilities and equities	14,580	14,658	14,117	15,779	17,695
Cash and cash eq.	199	115	59	446	2,265
Accounts receivables	456	705	652	931	1,067
Inventories	1,345	1,539	1,564	2,147	2,463
Other current assets	1,167	1,131	1,225	1,682	1,929
Net fixed assets	11,368	11,107	10,612	10,569	9,966
CWIP	38	57	0	0	0
Intangible assets	7	4	4	4	4
Total assets	14,580	14,658	14,117	15,779	17,695

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	836	1,136	2,138	2,607
Interest expenses	302	283	231	200
Non-cash adjustments	(235)	0	0	0
Changes in working capital	(183)	380	(320)	(155)
Cash flow from operations	720	1,800	2,049	2,652
Capital expenditures	(242)	(150)	(700)	(150)
Other investing cash flows	0	36	239	318
Cash flow from investing	(242)	(114)	(461)	168
Debt raised/repaid	(255)	(1,459)	(970)	(800)
Interest expenses	(302)	(283)	(231)	(200)
Other financing cash flows	(4)	0	0	0
Cash flow from financing	(561)	(1,743)	(1,201)	(1,000)
Changes in cash and cash eq.	(83)	(57)	387	1,820
Closing cash and cash eq.	115	59	446	2,265

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	2.8	1.2	3.6	11.4	15.1
Adjusted EPS	1.9	2.1	4.9	11.4	15.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	57.5	68.9	84.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.4	2.6	2.7	1.9	1.6
EV/EBITDA	26.2	16.1	14.4	8.5	6.7
Adjusted P/E	88.9	80.1	33.6	14.5	10.9
P/BV	3.1	3.1	2.9	2.4	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	184.0	216.0	96.9	70.0	70.0
Interest burden (PBT/EBIT)	50.7	15.8	56.7	91.1	95.1
EBIT margin (EBIT/Revenue)	4.1	8.4	11.5	16.8	18.6
Asset turnover (Revenue/Avg TA)	82.2	60.0	66.1	87.4	89.5
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	1.9	1.8
Adjusted ROAE	7.1	3.9	8.8	18.0	19.8

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	8.6	37.3	14.7
EBITDA	NA	84.8	25.6	63.0	20.7
Adjusted EPS	NA	11.0	138.3	131.4	32.8
Profitability & Return ratios (%)					
EBITDA margin	12.9	16.3	18.9	22.4	23.6
EBIT margin	4.1	8.4	11.5	16.8	18.6
Adjusted profit margin	3.8	2.9	6.3	10.7	12.4
Adjusted ROAE	7.1	3.9	8.8	18.0	19.8
ROCE	4.0	6.0	6.6	13.4	16.0
Working capital days (days)					
Receivables	14	24	26	22	24
Inventory	96	134	136	119	128
Payables	29	50	61	57	62
Ratios (x)					
Gross asset turnover	0.9	0.6	0.7	0.9	1.0
Current ratio	0.9	1.0	1.1	1.3	1.8
Net interest coverage ratio	1.0	2.5	3.9	9.5	13.9
Adjusted debt/equity	0.9	0.8	0.6	0.3	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

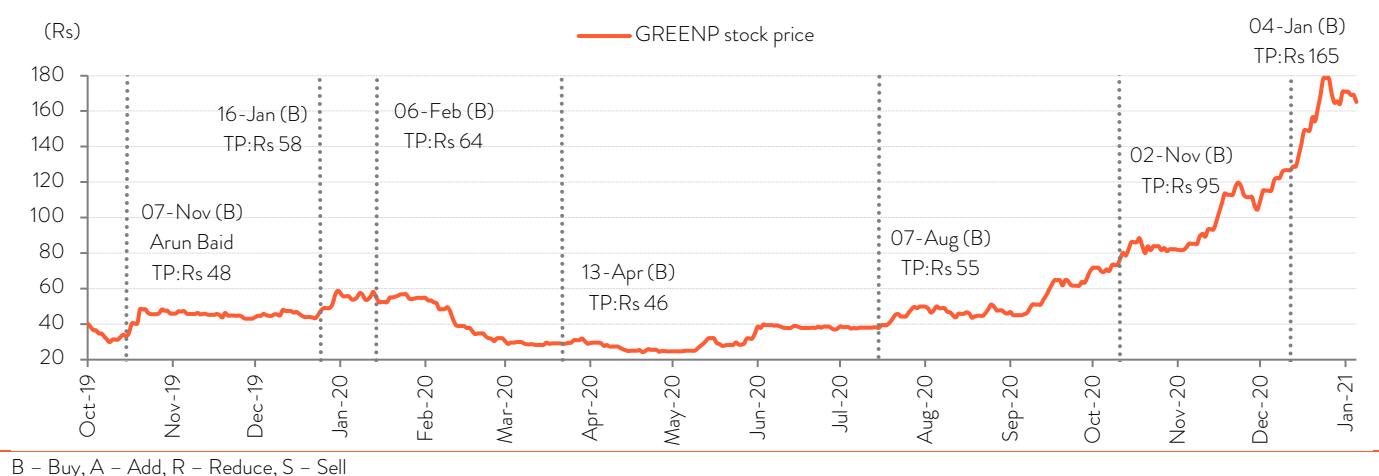
ADD – Expected return from >+5% to +15%

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 (GREENP IN)



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