

**BUY**

TP: Rs 595 | ▲ 31%

**GREENPANEL  
INDUSTRIES**

| Construction Materials

| 24 January 2022

**Excellent quarter despite lower MDF volumes**

- Q3 revenue climbed 34% YoY to Rs 4.2bn led by 40% growth in MDF and 8% in plywood segment
- Gross margin came in at 57.7% vs. 55.5% in the year-ago quarter; EBITDA margin expanded 420bps to 26.2%
- GREENP trades at 18x FY24E EPS which is attractive given its strong growth prospects. Maintain BUY, TP Rs 595

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**Strong growth aided by higher MDF realisation:** GREENP's consolidated Q3FY22 revenue grew 34% YoY to Rs 4.2bn, with MDF up 40% as blended realisations increased 44% YoY and 19% QoQ. However, plywood revenue grew just 8% YoY. EBITDA margin stood at 26.2% vs. 22% in the year-ago quarter due to a superior product mix, cost optimisation and operating leverage.

**Lower MDF volumes:** During the quarter, the company shut down its Uttarakhand plant for capacity expansion (via debottlenecking) from 0.18mn cbm to 0.26mn cbm. However, this caused a volume loss of 80,000cbm valued at Rs 580mn, which led to a 55% QoQ decline in export volumes (though realisation grew 11.6% QoQ). MDF EBITDA margin improved 100bps QoQ to 32.4% due to higher realisations. We expect margins to improve as the new capacity will come onstream in Q4.

**Plywood margin declines due to higher RM cost:** Plywood earned lower EBITDA margins at 10% (-470bps YoY) due to higher raw material cost and a 2% dip in volumes. Management indicated that the company took a 4% price hike in plywood in Nov22' and was implemented in Dec'21 and, hence, the full benefit was not visible during Q3. Another 3% hike taken in Jan22' will be implemented from Feb'22.

**On a high growth and profit trajectory...:** GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market, improving balance sheet and return ratios. With growth momentum likely to continue and no more significant capex, we expect the company to turn net debt-free in FY23. We model for a revenue/EBITDA/PAT CAGR of 26%/37%/58% over FY21-FY24 aided by better utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage.

**...maintain BUY:** GREENP is trading at ~18x FY24E P/E, 40% lower than Century Ply (~30x). We believe the trading multiple-gap will narrow going forward given strong growth prospects led by domestic and export sales of MDF. We retain our TP of Rs 595 set at 23x FY24E P/E and reiterate BUY.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

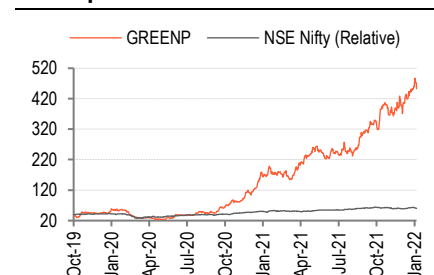
Ticker/Price	GREENP IN/Rs 453
Market cap	US\$ 744.0mn
Free float	47%
3M ADV	US\$ 2.2mn
52wk high/low	Rs 493/Rs 150
Promoter/FPI/DII	53%/4%/43%

Source: NSE | Price as of 24 Jan 2022

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,208	15,266	18,347
EBITDA (Rs mn)	2,077	3,751	4,684
Adj. net profit (Rs mn)	808	1,966	2,662
Adj. EPS (Rs)	6.6	16.0	21.7
Consensus EPS (Rs)	6.6	11.6	16.5
Adj. ROAE (%)	11.6	24.6	27.7
Adj. P/E (x)	68.7	28.2	20.9
EV/EBITDA (x)	29.4	16.0	12.5
Adj. EPS growth (%)	219.4	143.3	35.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



## Earnings call highlights

- **High MDF margin to sustain:** MDF realisation was high during Q3FY22 led by (a) a better product mix, (b) three price hikes during 9MFY22 totalling 17%, and (c) lower discounts in the OEM segment (down from 8-10% to 4-6%). Per management, high MDF realisation will sustain going forward, also aided by higher export realisation and no new immediate capacity.
- **Uttarakhand plant shut for capacity expansion:** During Q3, the Uttarakhand MDF plant was inoperative for 43 days with capacity utilisation at just 56% vs. 108% in Q3FY21. GREENP estimates it lost 80,000cbm of volumes valued at Rs 580mn during the quarter. Per management, the company has applied for insurance to the tune of Rs 80mn-100mn.
- **MDF exports and guidance:** Management expects the proportion of MDF exports to remain high, at 15-20% of segmental volumes in FY22. GREENP exports to the Middle East, South East Asia, UK and Korea, among others. It is also getting enquiries from Germany.
- **RM breakup:** Wood forms ~65% of the total raw material cost for GREENP and has witnessed an 8-10% price increase in the northern region while staying stable in the south. Chemicals form the balance ~35% and have seen a sharp uptick off late. GREENP's price hike should help offset these costs.
- **MDF capacity in India:** Total India MDF capacity has risen from 1.9mn cbm in FY21 (demand: 1.5mn cbm) to 2.3mn cbm currently (demand: 1.7-1.8mn cbm). Capacity is expected to increase to 3mn cbm by FY25, with demand of ~2.5mn cbm.
- **Others:** (1) MDF accounted for 84% of revenue in Q3FY22 vs. 80% in Q2FY21. (2) Working capital investment reduced by 20 days YoY to 13 days as on Dec'21. (3) Net debt reduced by Rs 850mn and stood at Rs 1.4bn. Management aims to be net debt-free by H1FY23. (4) Value-added products contributed 48% of volume and 59% of value. (5) The company had announced an interim dividend of Rs 1.5/sh.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
<b>Net Revenue</b>	<b>4,244</b>	<b>3,169</b>	<b>33.9</b>	<b>4,222</b>	<b>0.5</b>	<b>11,550</b>	<b>6,320</b>	<b>82.8</b>
COGS	1,794	1,409	27.3	1,776	1.0	4,882	2,846	71.6
% of sales	42.3	44.5	(218bps)	42.1	20bps	42.3	45.0	(276bps)
Employee expenses	330	252	30.9	321	2.7	931	687	35.5
% of sales	7.8	7.9	(18bps)	7.6	17bps	8.1	10.9	(281bps)
Operating Expenses	1,010	812	24.4	996	1.4	2,810	1,710	64.3
% of sales	23.8	25.6	(182bps)	23.6	21bps	24.3	27.1	(273bps)
<b>EBITDA</b>	<b>1,111</b>	<b>697</b>	<b>59.4</b>	<b>1,130</b>	<b>(1.7)</b>	<b>2,926</b>	<b>1,077</b>	<b>171.8</b>
<b>EBITDA Margin (%)</b>	<b>26.2</b>	<b>22.0</b>	<b>419bps</b>	<b>26.8</b>	<b>(58bps)</b>	<b>25.3</b>	<b>17.0</b>	<b>830bps</b>
Depreciation/Amortisation	184	174	6.0	193	(4.7)	550	516	6.6
<b>EBIT</b>	<b>927</b>	<b>523</b>	<b>77.2</b>	<b>936</b>	<b>(1.0)</b>	<b>2,376</b>	<b>560</b>	<b>324.1</b>
<b>EBIT Margin (%)</b>	<b>21.8</b>	<b>16.5</b>	<b>533bps</b>	<b>22.2</b>	<b>(34bps)</b>	<b>20.6</b>	<b>8.9</b>	<b>1171bps</b>
Net Interest Expenses	13	69	(80.6)	17	(23.9)	137	206	(33.5)
Other Income	23	4	464.7	23	(2.2)	53	14	265.1
<b>PBT</b>	<b>936</b>	<b>458</b>	<b>104.2</b>	<b>942</b>	<b>(0.6)</b>	<b>2,292</b>	<b>369</b>	<b>521.7</b>
Tax Expenses	305	68	351.8	271	12.5	693	29	2251.0
<b>Net Income before extraordinary items</b>	<b>631</b>	<b>391</b>	<b>61.4</b>	<b>671</b>	<b>(5.9)</b>	<b>1,599</b>	<b>339</b>	<b>371.5</b>
Forex gain/(loss)	0	(86)	(100.0)	52	(100.0)	0	(216)	(100.0)
Reported Net Income	631	305	107.1	723	(12.7)	1,599	124	1194.2
<b>Adjusted PAT</b>	<b>631</b>	<b>378</b>	<b>66.8</b>	<b>686</b>	<b>(8.0)</b>	<b>1,599</b>	<b>322</b>	<b>396.7</b>

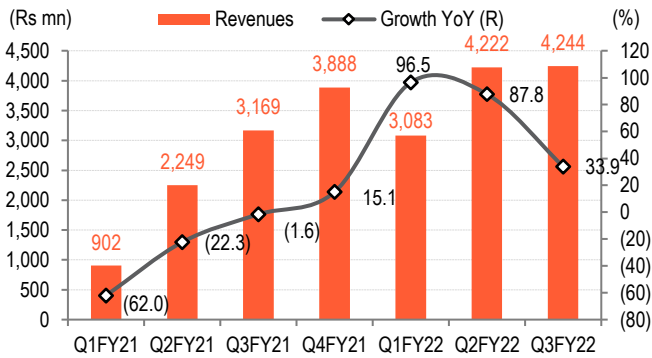
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated segmental revenues**

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
<b>Revenue</b>								
Plywood & Allied products	671	621	8.1	732	(8.3)	1,856	1,346	38.0
MDF	3,573	2,549	40.2	3,490	2.4	9,693	4,974	94.9
<b>Total</b>	<b>4,244</b>	<b>3,169</b>	<b>33.9</b>	<b>4,222</b>	<b>0.5</b>	<b>11,550</b>	<b>6,320</b>	<b>82.8</b>
Less: Inter Segment revenue	0	0	-	0	-	0	0	-
<b>Net revenues</b>	<b>4,244</b>	<b>3,169</b>	<b>33.9</b>	<b>4,222</b>	<b>0.5</b>	<b>11,550</b>	<b>6,320</b>	<b>82.8</b>
<b>EBIT</b>								
Plywood & Allied products	80	97	(18.0)	112	(28.9)	246	155	58.9
MDF	1,033	525	96.7	992	4.1	2,608	675	286.4
<b>Total</b>	<b>1,113</b>	<b>623</b>	<b>78.8</b>	<b>1,104</b>	<b>0.8</b>	<b>2,854</b>	<b>830</b>	<b>243.9</b>
<b>EBIT Margin (%)</b>								
Plywood & Allied products	11.9	15.7	(378bps)	15.3	(343bps)	13.3	11.5	175bps
MDF	28.9	20.6	830bps	28.4	48bps	26.9	13.6	1334bps

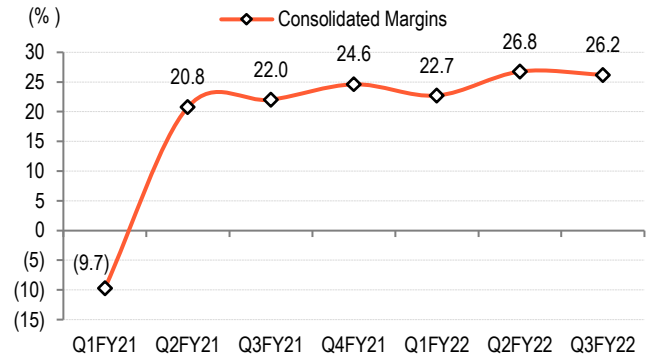
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



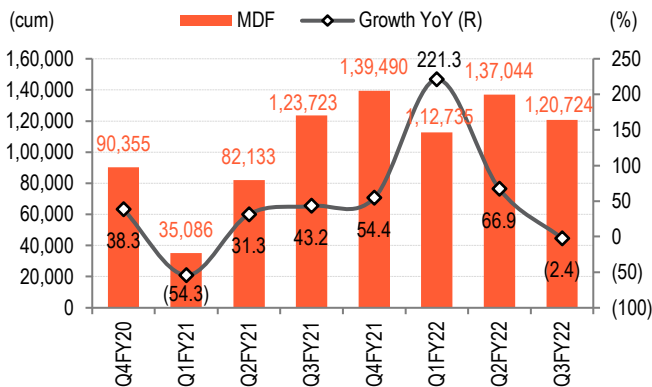
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA margin**



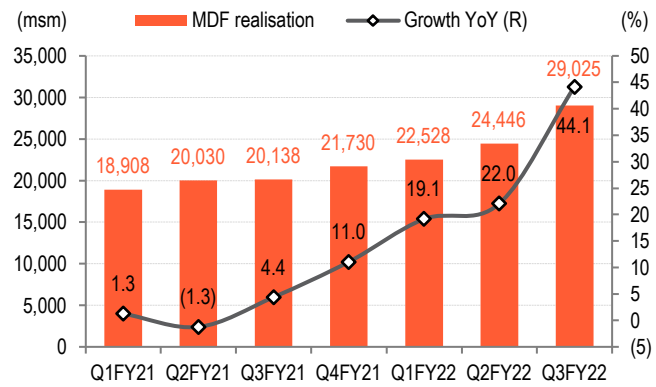
Source: Company, BOBCAPS Research

**Fig 5 – MDF volumes**



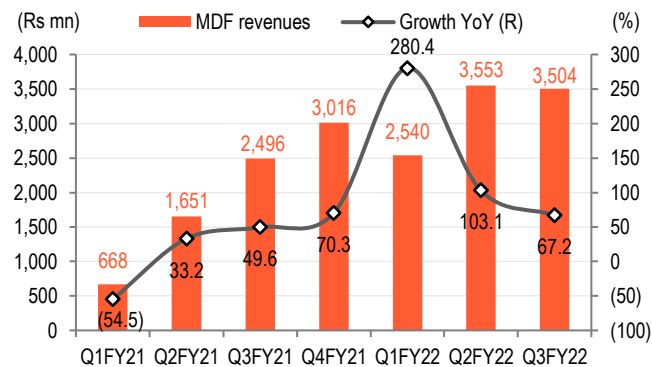
Source: Company, BOBCAPS Research

**Fig 6 – MDF realisation**



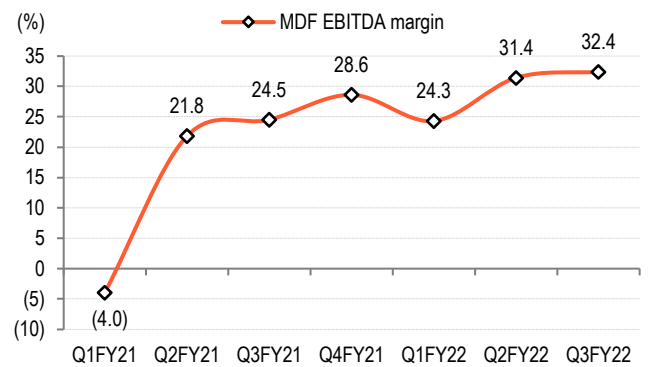
Source: Company, BOBCAPS Research

**Fig 7 – MDF revenue**



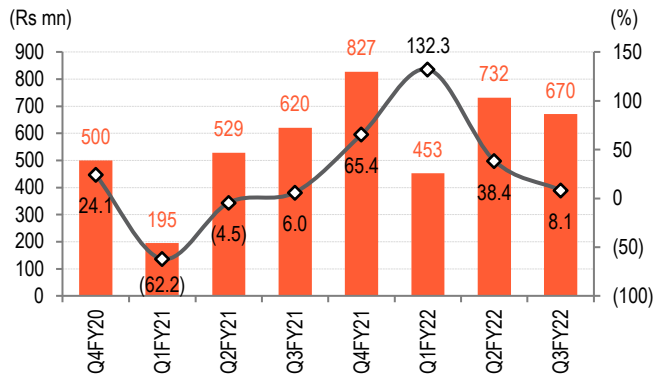
Source: Company, BOBCAPS Research

**Fig 8 – MDF EBITDA margin**



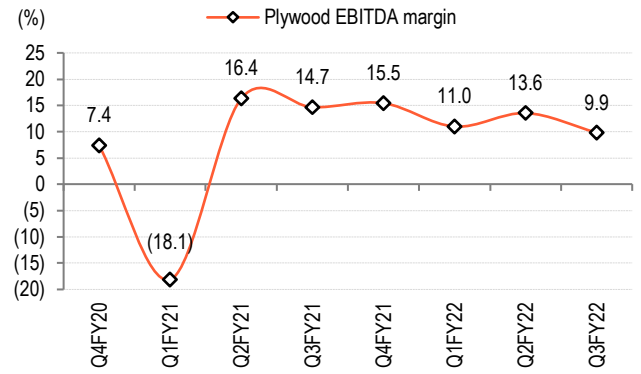
Source: Company, BOBCAPS Research

**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, an improving balance sheet and rising return ratios. With growth momentum likely to continue and no more significant capex, we expect the company to turn net debt-free in FY23. We model for a revenue/EBITDA/PAT CAGR of 26%/37%/58% over FY21-FY24 aided by better capacity utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage.

The stock is trading at 18x FY24E P/E, 40% lower than Century Ply (~30x). We believe the trading multiple-gap will narrow going forward given strong growth prospects led by domestic and export sales of MDF. We retain our TP of Rs 595 set at 23x FY24E P/E and reiterate BUY.

**Fig 11 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
MDF volumes (CBM)	380,532	564,000	639,600	668,400
YoY (%)	20.4	48.2	13.4	4.5
MDF revenues (Rs mn)	7,833	12,528	15,102	16,873
YoY (%)	27.6	60.0	20.5	11.7
MDF margins (%)	20.9	26.7	27.8	28.1
Plywood volumes (msm)	7.9	10.2	12.1	13.7
YoY (%)	(7.5)	29.3	18.6	13.0
Plywood revenues (Rs mn)	2,016	2,738	3,246	3,669
YoY (%)	(5.7)	35.8	18.6	13.0
Plywood margins (%)	12.6	14.8	15.2	15.3

Source: Company, BOBCAPS Research

**Fig 12 – 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	BUY	1,460	21.5	22.8	29.6	18.9	23.3	40
Somany Ceramics	SOMC IN	BUY	1,140	19.0	20.5	32.8	12.5	17.3	25
Greenply Ind	MTLM IN	BUY	260	18.0	7.7	10.2	19.7	21.4	22
Century Plyboard	CPBI IN	HOLD	735	23.8	13.6	16.7	22.1	22.1	35
Greenpanel Ind	GREENP	BUY	595	34.0	16.0	21.7	23.7	25.1	23
Cera Sanitaryware	CRS IN	BUY	5,590	17.1	109.8	134.9	15.4	16.9	35
Astral	ASTRA IN	HOLD	2,465	22.3	22.5	29.5	22.5	26.0	65
Finolex Ind	FNXP IN	HOLD	220	7.7	10.2	9.4	19.0	15.9	22
Supreme Ind	SI IN	HOLD	2,535	15.7	74.7	80.7	28.0	26.7	30

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- increasing competition from the informal sector,
- slowdown in economic revival and in housing demand,
- significant pick-up 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
Cera Sanitaryware	CRS IN	0.8	4,446	5,590	BUY
Greenpanel Industries	GREENP IN	0.7	453	595	BUY
Greenply Industries	MTLM IN	0.3	198	260	BUY
Kajaria Ceramics	KJC IN	2.6	1,229	1,460	BUY
Pidilite Industries	PIDI IN	18.0	2,640	2,445	SELL
Somany Ceramics	SOMC IN	0.5	844	1,140	BUY

Source: BOBCAPS Research, NSE | Price as of 24 Jan 2022

## 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>15,266</b>	<b>18,347</b>	<b>20,542</b>
EBITDA	1,432	2,077	3,751	4,684	5,301
Depreciation	(692)	(686)	(743)	(754)	(771)
EBIT	740	1,391	3,008	3,931	4,530
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	2,808	3,803	4,530
Income taxes	28	(322)	(843)	(1,141)	(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>1,966</b>	<b>2,662</b>	<b>3,171</b>
Adjustments	108	120	0	0	0
<b>Adjusted net profit</b>	<b>253</b>	<b>808</b>	<b>1,966</b>	<b>2,662</b>	<b>3,171</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,207	1,297	1,924	2,312	2,589
Other current liabilities	1,036	1,186	1,757	2,111	2,364
Provisions	120	96	153	183	205
Debt funds	5,611	4,469	2,912	1,712	532
Other liabilities	69	202	202	202	745
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	8,552	10,409	12,621
Shareholders' fund	6,616	7,304	8,675	10,532	12,743
<b>Total liab. and equities</b>	<b>14,658</b>	<b>14,552</b>	<b>15,622</b>	<b>17,053</b>	<b>19,179</b>
Cash and cash eq.	115	720	653	2,468	4,367
Accounts receivables	705	778	1,213	1,458	1,632
Inventories	1,539	1,494	2,300	2,765	3,095
Other current assets	1,131	783	1,255	1,508	1,688
Investments	0	0	0	0	0
Net fixed assets	11,107	10,741	10,733	10,191	9,732
CWIP	57	36	61	62	63
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>16,217</b>	<b>18,453</b>	<b>20,579</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>2,490</b>	<b>3,407</b>	<b>3,897</b>
Capital expenditures	(242)	(127)	(761)	(212)	(313)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	544
<b>Cash flow from investing</b>	<b>(242)</b>	<b>(127)</b>	<b>(761)</b>	<b>(212)</b>	<b>230</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	(44)	(208)	(595)	(805)	(959)
Other financing cash flows	(4)	(37)	0	0	0
<b>Cash flow from financing</b>	<b>(605)</b>	<b>(1,634)</b>	<b>(2,391)</b>	<b>(2,186)</b>	<b>(2,229)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(127)</b>	<b>396</b>	<b>(662)</b>	<b>1,010</b>	<b>1,899</b>
<b>Closing cash &amp; cash eq.</b>	<b>72</b>	<b>512</b>	<b>58</b>	<b>1,662</b>	<b>4,367</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	1.2	5.6	16.0	21.7	25.9
Adjusted EPS	2.1	6.6	16.0	21.7	25.9
Dividend per share	0.3	1.4	4.0	5.4	6.5
Book value per share	54.0	59.6	70.7	85.9	103.9

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	6.7	6.0	3.9	3.2	2.7
EV/EBITDA	40.8	29.4	16.0	12.5	10.6
Adjusted P/E	219.5	68.7	28.2	20.9	17.5
P/BV	8.4	7.6	6.4	5.3	4.4

### 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	93.4	96.7	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	19.7	21.4	22.1
Asset turnover (Rev./Avg TA)	60.0	69.9	99.2	105.8	105.3
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.9	1.8	1.7
<b>Adjusted ROAE</b>	<b>3.9</b>	<b>11.6</b>	<b>24.6</b>	<b>27.7</b>	<b>27.2</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	46.3	16.4	49.6	20.2	12.0
EBITDA	84.8	45.1	80.6	24.9	13.2
Adjusted EPS	11.0	219.4	143.3	35.4	19.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	20.4	24.6	25.5	25.8
EBIT margin	8.4	13.6	19.7	21.4	22.1
Adjusted profit margin	2.9	7.9	12.9	14.5	15.4
Adjusted ROAE	3.9	11.6	24.6	27.7	27.2
ROCE	6.0	7.9	18.0	23.1	24.9
<b>Working capital days (days)</b>					
Receivables	24	27	24	27	27
Inventory	134	120	105	117	121
Payables	50	56	51	57	59
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.7	1.0	1.2	1.3
Current ratio	1.0	1.1	1.3	1.8	2.1
Net interest coverage ratio	2.5	5.6	12.5	21.8	50.5
<b>Adjusted debt/equity</b>	<b>0.8</b>	<b>0.5</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(0.3)</b>

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



## Disclaimer

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

**BUY** – Expected return >+15%

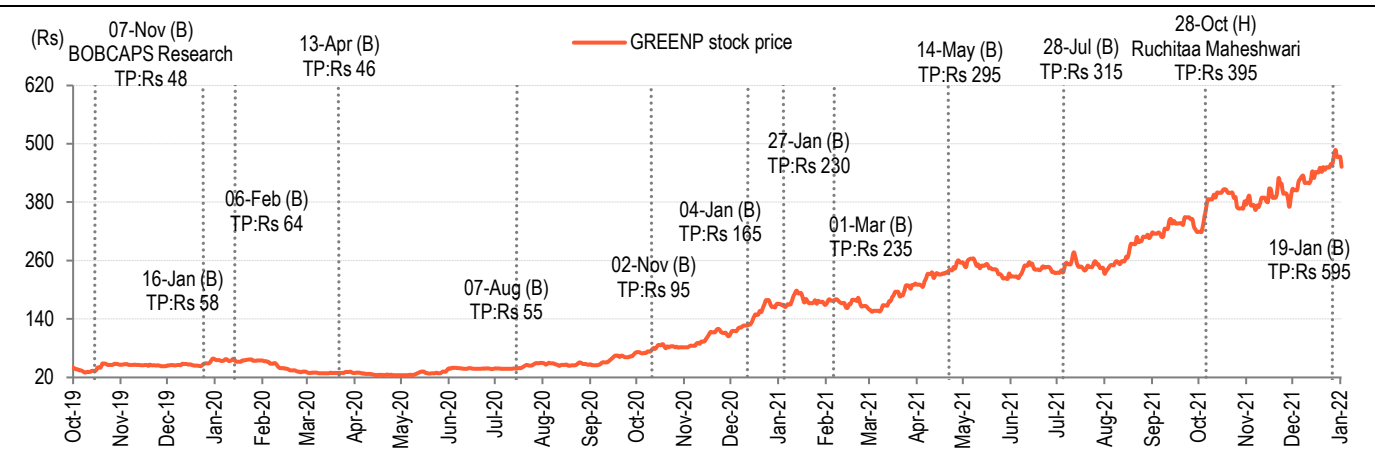
**HOLD** – Expected return from -6% to +15%

**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

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