

BUY

TP: Rs 46 | ▲ 44%

**GREENPANEL
INDUSTRIES**

Construction Materials

19 June 2020

Strong operational performance marred by MTM losses

Greenpanel Industries' (GREENP) Q4FY20 consolidated revenue grew 36% YoY aided by a 23%/40% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 930bps YoY to 20.9% backed by stronger MDF profitability, spurring EBITDA growth of 145% YoY. Management has refrained from giving out FY21 guidance due to demand uncertainty amid the pandemic. We broadly maintain estimates and restate BUY with an unchanged Mar'21 TP of Rs 46.

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Strong revenue growth: GREENP's revenue grew 36% YoY to Rs 2.4bn, with MDF/plywood up 40%/23%. In the MDF business, volumes rose 38% YoY on better utilisation of new capacity while realisations inched up 1% YoY. In plywood, volumes increased 18% YoY off a low base and realisations remained flat. Management indicated that sales for the quarter were impacted by the lockdown in March.

Ticker/Price	GREENP IN/Rs 32
Market cap	US\$ 51.5mn
Shares o/s	123mn
3M ADV	US\$ 0.0mn
52wk high/low	Rs 61/Rs 24
Promoter/FPI/DII	53%/11%/36%

Source: NSE

Margins swell 930bps YoY: EBITDA margins (ex-forex loss) expanded 930bps YoY to 20.9% aided by higher MDF profitability and better capacity utilisation, resulting in EBITDA growth of 145% YoY. MDF margins rose 110bps YoY to 22.4% backed by better utilisation and lower wastage from the new Andhra Pradesh plant. Plywood margins shrank 750bps YoY to 7.4% due to lower sales of high-margin products such as decorative veneer. Despite robust overall margins, reported PAT dropped 26% YoY to Rs 76mn due to a Rs 138mn MTM loss and Rs 108mn provision post an unfavourable court order on duty refund.

STOCK PERFORMANCE

Source: NSE

Maintain BUY: GREENP has strong growth prospects though the pandemic has given rise to near-term challenges. We find current valuations of 9.1x FY22E attractive and maintain BUY – our Mar'21 TP of Rs 46 is set at 13x FY22E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,766	7,726	10,188
EBITDA (Rs mn)	774	1,437	1,181	1,614
Adj. net profit (Rs mn)	228	253	119	429
Adj. EPS (Rs)	1.9	2.1	1.0	3.5
Adj. EPS growth (%)	NA	11.0	(53.1)	262.1
Adj. ROAE (%)	7.1	3.9	1.8	6.2
Adj. P/E (x)	17.2	15.5	33.0	9.1
EV/EBITDA (x)	NA	4.7	8.0	5.5

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenue	2,378	1,748	36.0	2,356	0.9	8,766	5,991	46.3
COGS	963	812	18.5	1,118	(13.9)	3,919	2,554	53.4
% of sales	40.5	46.5	(600bps)	47.5	(699bps)	44.7	42.6	207bps
Employee expenses	250	215	16.7	254	(1.5)	989	808	22.5
% of sales	10.5	12.3	(175bps)	10.8	(26bps)	11.3	13.5	(220bps)
Operating Expenses	669	518	29.0	623	7.3	2,420	1,856	30.4
% of sales	28.1	29.7	(153bps)	26.5	166bps	27.6	31.0	(336bps)
EBITDA	496	202	145.0	360	37.8	1,437	774	85.8
EBITDA Margin	20.9	11.6	928bps	15.3	559bps	16.4	12.9	349bps
Depreciation/Amortisation	179	161	11.5	171	4.6	692	530	30.4
EBIT	317	42	660.6	188	68.1	746	243	206.6
EBIT Margin	13.3	2.4	1,094bps	8.0	532bps	8.5	4.1	445bps
Net Interest Expenses	72	68	5.9	65	11.1	302	209	44.5
Other Income	10	0	4,698.5	6	61.5	22	25	(10.7)
PBT	255	(26)	NA	130	96.2	466	59	686.6
Tax Expenses	(68)	(28)	144.7	7	NA	(28)	(222)	(87.6)
Net Income before extraordinary items	322	2	21,253.1	123	162.7	494	281	75.6
Extraordinary items	(247)	100	NA	(118)	NA	(349)	65	NA
Reported Net Income	76	102	NA	5	NM	145	346	(58.2)

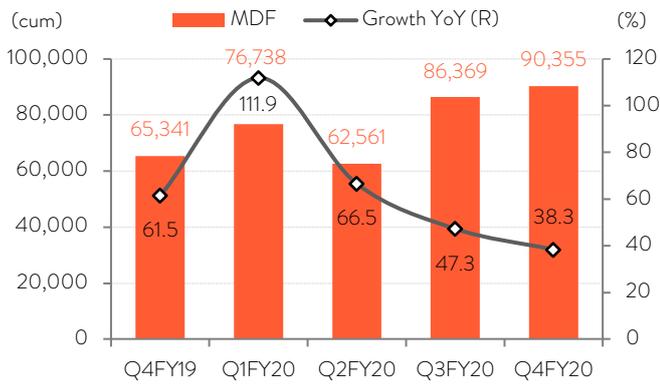
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Plywood & Allied products	501	406	23.3	585	(14.4)	2,159	1,415	52.6
MDF	1,876	1,342	39.9	1,771	6.0	6,606	4,576	44.4
Net revenues	2,378	1,748	36.0	2,356	0.9	8,766	5,991	46.3
Profit before interest & tax								
Plywood & Allied products	43	69	(37.8)	74	(42.5)	287	204	40.6
MDF	339	190	78.9	202	68.1	805	494	63.1
Total	382	258	47.8	276	38.3	1,092	698	56.5
EBIT Margin (%)								
Plywood & Allied products	8.5	16.9	(839bps)	12.7	(418bps)	13.3	14.4	(114bps)
MDF	18.1	14.1	394bps	11.4	668bps	12.2	10.8	140bps

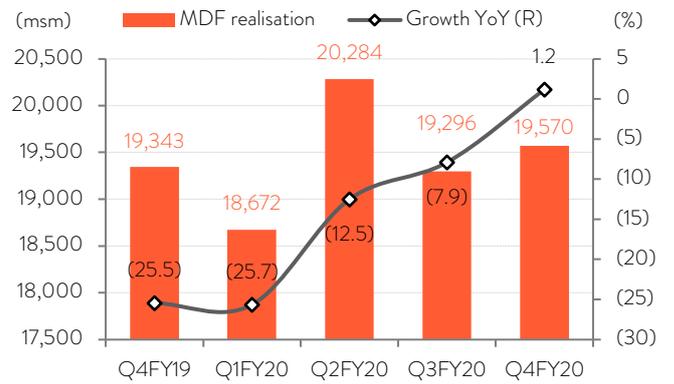
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



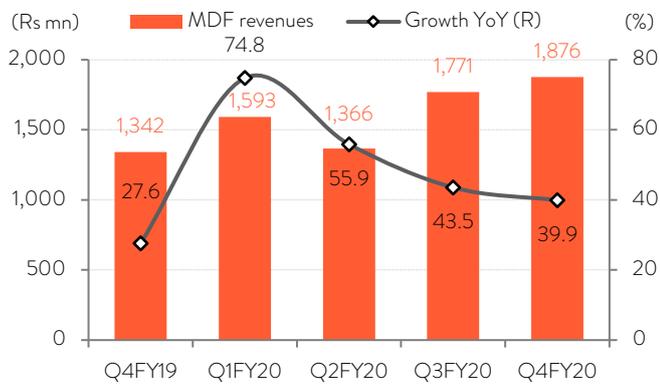
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



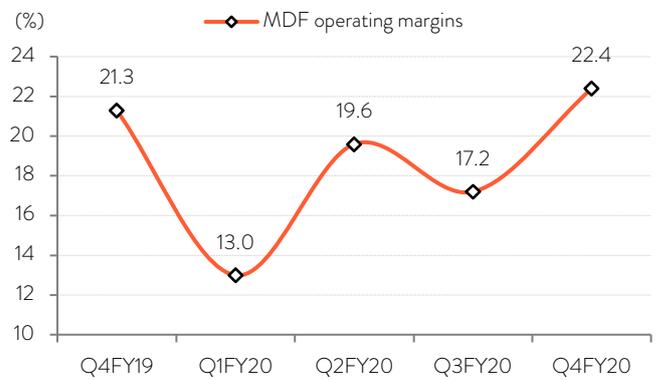
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



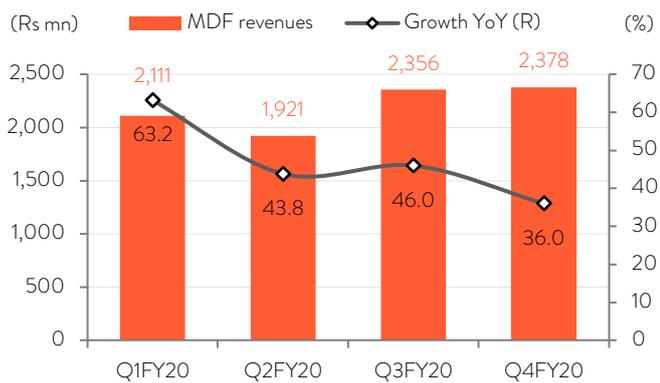
Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



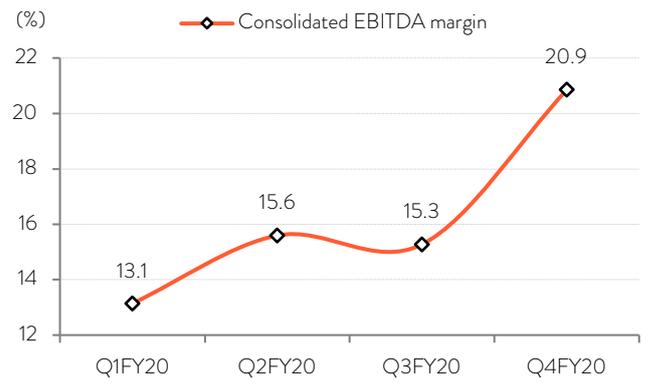
Source: Company, BOBCAPS Research

FIG 7 – CONSOLIDATED REVENUES & YOY GROWTH



Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- MTM loss of Rs 138.4mn in Q4FY20 (Rs 42.4mn booked in other expenses and Rs 95.9mn in interest cost) was primarily due to adverse movement in the euro. The company has ~Rs 3bn in euro loans that have not been hedged due to the high cost of hedging prevailing in forex markets.
- GREENP repaid long-term debt of Rs 890mn in FY20, but unfavourable currency movement saw a sum of Rs 260mn added to total debt. In FY21, scheduled debt repayment stands at Rs 550mn. The company has reduced long-term debt from ~Rs 5.3bn in Mar'19 to Rs 4.7bn as of Mar'20.
- Of the total long-term debt, it has EUR 37.8mn of unhedged debt at an average interest rate of 0.5%, US\$ 9.9mn of hedged debt at 7.5-8%, and a rupee loan of Rs 800mn at an average cost of 9-9.5%.
- The company availed of moratorium on loans worth ~Rs 215mn during the lockdown period.
- Working capital cycle has decreased by 20 days YoY primarily due to a reduction in inventory (16 days) and partly due to lower debtor days (2 days). The company believes the current working capital cycle is sustainable.
- Cost rationalisation in employee cost will result in 15% cost savings.
- Due to Covid-19 volatility, management has not proffered guidance for FY21.
- The government has started investigations into the subsidy given on MDF imports and a decision is likely in a few months.
- GREENP is not facing pricing pressure in domestic MDF markets. It does not expect any price cuts by competition in the near-term considering demand uncertainties.
- Exports accounted for 33% of MDF volume sales and ~22% of MDF revenues in FY20.
- The company's MDF currently finds more demand in the commercial real estate market. But growing acceptance of readymade furniture in residential markets should aid pick up here as well.
- GREENP has no significant capex plans for FY21 and envisages yearly maintenance capex of Rs 50mn.

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. Post a strong operational Q4FY20 performance from GREENP, we broadly maintain estimates and retain our Mar'21 target price of Rs 46, set at an unchanged 13x FY22E P/E. Maintain BUY.

FIG 9 – 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; and
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E
Total revenue	5,991	8,766	7,726	10,188
EBITDA	774	1,437	1,181	1,614
Depreciation	(530)	(692)	(701)	(710)
EBIT	244	746	480	904
Net interest income/(expenses)	(246)	(302)	(320)	(277)
Other income/(expenses)	8	22	12	14
Exceptional items	118	(349)	0	0
EBT	6	466	172	641
Income taxes	222	28	(53)	(211)
Extraordinary items	0	0	0	0
Min. int./Inc. from associates	0	0	0	0
Reported net profit	346	145	119	429
Adjustments	(118)	108	0	0
Adjusted net profit	228	253	119	429

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E
Accounts payables	816	1,207	1,016	1,396
Other current liabilities	1,197	1,218	1,080	1,423
Provisions	126	120	100	122
Debt funds	5,865	5,428	4,901	4,031
Other liabilities	121	69	91	187
Equity capital	123	123	123	123
Reserves & surplus	6,332	6,494	6,612	7,042
Shareholders' fund	6,455	6,616	6,735	7,164
Total liabilities and equities	14,580	14,658	13,923	14,324
Cash and cash eq.	199	115	258	331
Accounts receivables	456	705	656	837
Inventories	1,345	1,539	1,397	1,786
Other current assets	1,167	1,131	995	1,312
Investments	0	0	0	0
Net fixed assets	11,375	11,111	10,617	10,057
CWIP	38	57	0	0
Intangible assets	0	0	0	0
Deferred tax assets, net	0	0	0	0
Other assets	0	0	0	0
Total assets	14,580	14,658	13,923	14,324

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20P	FY21E	FY22E
Net income + Depreciation	836	820	1,139
Interest expenses	302	320	277
Non-cash adjustments	(241)	0	0
Changes in working capital	(1)	(22)	(142)
Other operating cash flows	0	0	0
Cash flow from operations	897	1,118	1,274
Capital expenditures	(242)	(150)	(150)
Change in investments	0	0	0
Other investing cash flows	0	22	96
Cash flow from investing	(242)	(128)	(54)
Equities issued/Others	0	0	0
Debt raised/repaid	(437)	(527)	(870)
Interest expenses	(302)	(320)	(277)
Dividends paid	0	0	0
Other financing cash flows	1	0	0
Cash flow from financing	(738)	(847)	(1,147)
Changes in cash and cash eq.	(84)	143	73
Closing cash and cash eq.	115	258	331

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E
Reported EPS	2.8	1.2	1.0	3.5
Adjusted EPS	1.9	2.1	1.0	3.5
Dividend per share	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	54.9	58.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E
EV/Sales	NA	0.8	1.2	0.9
EV/EBITDA	NA	4.7	8.0	5.5
Adjusted P/E	17.2	15.5	33.0	9.1
P/BV	0.6	0.6	0.6	0.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	184.0	216.1	69.0	67.0
Interest burden (PBT/EBIT)	50.7	15.7	35.8	70.9
EBIT margin (EBIT/Revenue)	4.1	8.5	6.2	8.9
Asset turnover (Revenue/Avg TA)	82.2	60.0	54.1	72.1
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	2.0
Adjusted ROAE	7.1	3.9	1.8	6.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E
YoY growth (%)				
Revenue	NA	46.3	(11.9)	31.9
EBITDA	NA	85.6	(17.9)	36.7
Adjusted EPS	NA	11.0	(53.1)	262.1
Profitability & Return ratios (%)				
EBITDA margin	12.9	16.4	15.3	15.8
EBIT margin	4.1	8.5	6.2	8.9
Adjusted profit margin	3.8	2.9	1.5	4.2
Adjusted ROAE	7.1	3.9	1.8	6.2
ROCE	4.0	6.1	2.8	5.3
Working capital days (days)				
Receivables	14	24	32	27
Inventory	96	134	158	129
Payables	29	50	62	51
Ratios (x)				
Gross asset turnover	0.9	0.6	0.5	0.7
Current ratio	0.9	1.1	1.1	1.2
Net interest coverage ratio	1.0	2.5	1.5	3.3
Adjusted debt/equity	0.9	0.8	0.7	0.5

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)

HISTORICAL RATINGS AND TARGET PRICE: GREENPANEL INDUSTRIES (GREENP IN)



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

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