

BUY

TP: Rs 295 | ▲ 23%

**GREENPANEL
INDUSTRIES**

Construction Materials

14 May 2021

Stellar performance, maintain BUY

Greenpanel Industries' (GREENP) consolidated Q4FY21 revenue grew 64% YoY aided by a 63%/65% increase in the MDF/plywood segments. Operating margin (ex-forex gains) expanded 375bps YoY, spurring EBITDA growth of 93% YoY. Management has guided for further net debt reduction by Rs 1.5bn in FY22. We raise FY22-FY23 PAT by ~5% each and hike our target P/E to 18x (vs. 15x) due to material improvement in balance sheet, return ratios and profitability. Maintain BUY with a revised Mar'22 TP of Rs 295 (vs. Rs 235).

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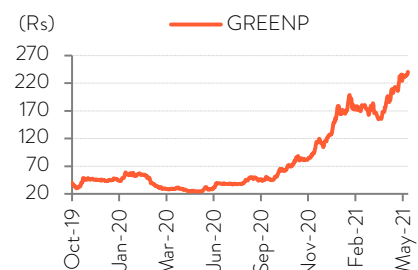
Strong volume growth: GREENP's revenue grew 64% YoY to Rs 3.9bn, with MDF up 63% as the segment's volumes climbed 54%. In plywood, revenue rose 65% YoY as volumes surged 58%. The consolidated print is commendable as the company had a strong base quarter when growth was up 36% YoY. Per management, Q1FY22 could see lockdown headwinds despite a decent April. GREENP has guided for further net debt reduction of Rs 1.5bn in FY22 (~Rs 1.7bn reduction in FY21). Working capital declined 10 days to 35 in FY21.

Robust profitability: EBITDA margin (ex-forex gains) expanded 375bps YoY to 24.6% aided by higher MDF/plywood profitability and better capacity utilisation, resulting in EBITDA/PBT growth of 93%/200% YoY. MDF margins rose 620bps YoY to 28.6% backed by better utilisation; plywood saw 710bps expansion to 15.5% due to cost optimisation and lower wastage. Management believes these margins are sustainable if utilisation levels are maintained.

Maintain BUY: GREENP had a robust FY21 and has strong demand tailwinds when markets reopen due to growing acceptance of readymade furniture and shift of the low-cost plywood market to MDF. Reiterate BUY on strong growth prospects and an improving debt and return ratio profile. Our Mar'22 TP of Rs 295 is based on 18x FY23E P/E.

Ticker/Price	GREENP IN/Rs 240
Market cap	US\$ 402.0mn
Shares o/s	123mn
3M ADV	US\$ 1.6mn
52wk high/low	Rs 245/Rs 24
Promoter/FPI/DII	53%/4%/43%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	5,991	8,766	10,208	13,278	15,782
EBITDA (Rs mn)	774	1,432	2,034	3,056	3,730
Adj. net profit (Rs mn)	228	253	778	1,482	1,998
Adj. EPS (Rs)	1.9	2.1	6.3	12.1	16.3
Adj. EPS growth (%)	NA	11.0	207.4	90.6	34.8
Adj. ROAE (%)	7.1	3.9	11.2	18.4	20.4
Adj. P/E (x)	129.3	116.4	37.9	19.9	14.7
EV/EBITDA (x)	NA	22.6	17.2	11.2	8.7

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	3,888	2,378	63.5	3,169	22.7	10,208	8,766	16.4
COGS	1,783	963	85.2	1,409	26.6	4,629	3,919	18.1
% of sales	45.9	40.5	538bps	44.5	141bps	45.3	44.7	64bps
Employee expenses	292	250	16.4	252	15.8	979	989	(1.0%)
% of sales	7.5	10.5	(303bps)	7.9	(45bps)	9.6	11.3	(169bps)
Operating Expenses	856	669	28.0	812	5.5	2,566	2,420	6.0
% of sales	22.0	28.1	(611bps)	25.6	(359bps)	25.1	27.6	(247bps)
EBITDA	957	496	93.0	697	37.3	2,034	1,437	41.5
EBITDA Margin	24.6	20.9	376bps	22.0	263bps	19.9	16.4	352bps
Depreciation/Amortisation	170	179	(5.2%)	174	(2.3%)	686	692	(0.8%)
EBIT	787	317	148.5	523	50.5	1,347	746	80.7
EBIT Margin	20.2	13.3	693bps	16.5	374bps	13.2	8.5	469bps
Net Interest Expenses	41	72	(42.9%)	69	(40.0%)	247	302	(18.1%)
Other Income	20	10	103.2	4	395.5	34	22	54.3
PBT	766	255	200.9	458	67.1	1,135	466	143.4
Tax Expenses	292	(68)	NA	68	332.4	322	(28)	(1269.5%)
Net Income before extraordinary items	474	322	47.1	391	21.2	813	494	64.7
Forex gain/(loss)	91	(247)	NA	(86)	NA	(125)	(349)	(64.2%)
Reported Net Income	565	76	647.6	305	85.4	688	145	376.1

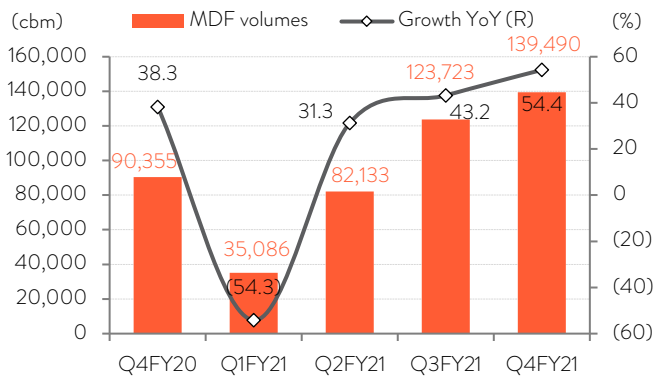
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue								
Plywood & Allied products	828	501	65.2	621	33.5	2,174	2,159	0.7
MDF	3,060	1,876	63.1	2,549	20.0	8,034	6,606	21.6
Total	3,888	2,378	63.5	3,169	22.7	10,208	8,766	16.4
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
Net revenues	3,888	2,378	63.5	3,169	22.7	10,208	8,766	16.4
EBIT								
Plywood & Allied products	142	43	231.1	97	45.7	297	287	3.4
MDF	808	339	138.3	525	53.8	1,483	805	84.2
Total	950	382	148.7	623	52.5	1,780	1,092	62.9
EBIT Margin (%)								
Plywood & Allied products	17.1	8.5	856bps	15.7	144bps	13.6	13.3	35bps
MDF	26.4	18.1	834bps	20.6	580bps	18.5	12.2	627bps

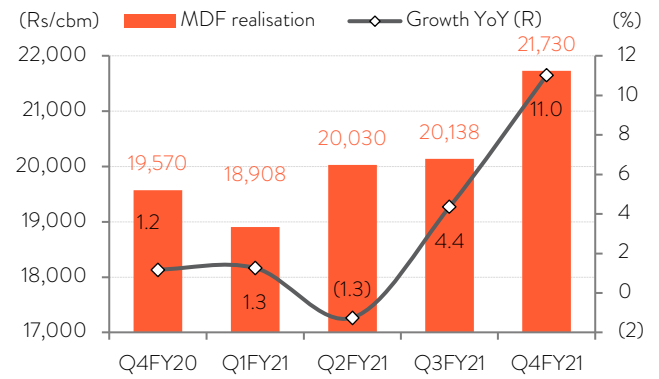
Source: Company, BOBCAPS Research

FIG 1 – QUARTERLY MDF VOLUMES



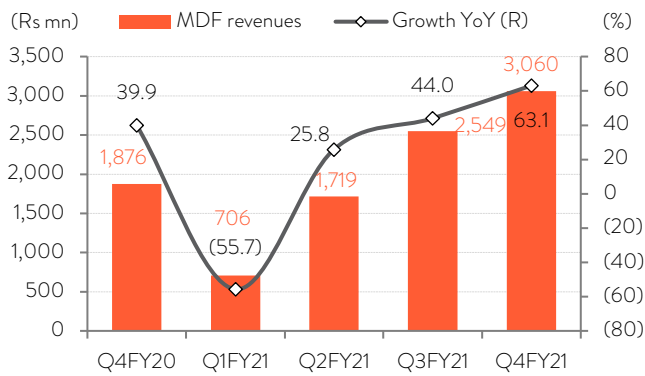
Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY MDF REALISATION



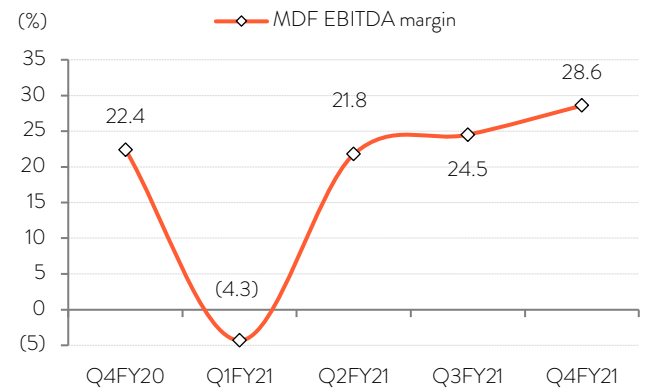
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF REVENUES



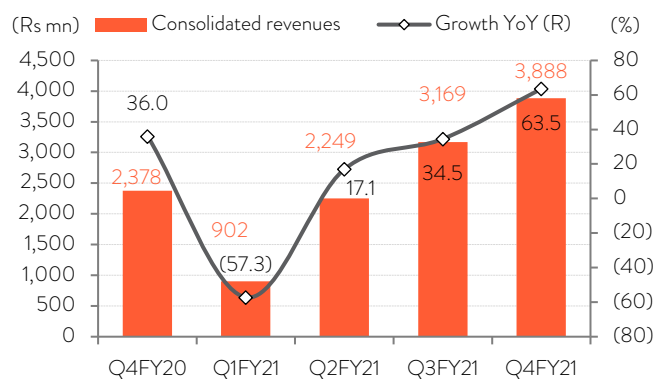
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF EBITDA MARGIN



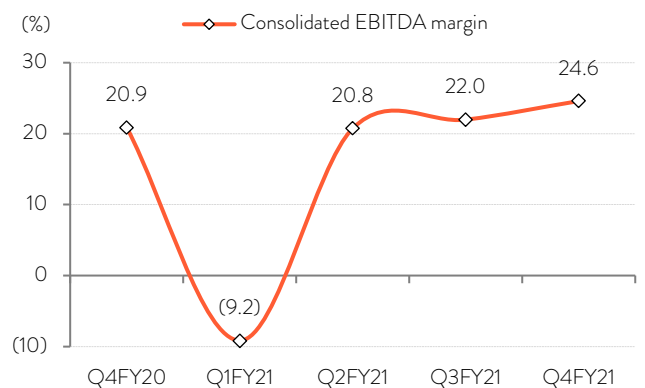
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Q1FY22 will be affected by Covid-19 lockdowns despite a decent performance in April. Management refrained from putting out guidance due to resurgence of the pandemic.
- Q4FY21 gross margin was affected by higher raw material prices in MDF segment. The company has taken price increases during the quarter and a further hike of 4% in May which should cover the rising cost and protect gross margins.
- GREENP believes current margins are sustainable if capacity utilisation is maintained.
- During Q4, the company had an MTM forex gain of Rs 90.7mn.
- Exports accounted for 22% of the company's MDF volume sales and ~15% of MDF revenues in FY21.
- International prices of MDF have increased due to demand from other geographies. Thus, India is no longer a preferred destination for exports from other countries.
- As per management, countervailing duty on MDF as directed by the Commerce Ministry will be more beneficial than anti-dumping duty.
- Management believes the domestic demand preference for readymade furniture was growing before Covid-19 and has only been accentuated by the pandemic.
- GREENP's 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.
- In FY21, the company derived 35%/46% of sales volume/revenue from value-added products.
- About 65% of revenue came from retail and 35% from OEMs for the year.
- Net debt has been reduced by ~Rs 1.7bn in FY21 to Rs 3.76bn. The company aims to bring this down further by Rs 1.5bn in FY22.
- Working capital cycle has decreased by 10 days YoY to 35 days in FY21 and management believes this level is sustainable.

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.

GREENP had a robust FY21 and enjoys strong demand tailwinds due to growing usage of readymade furniture, gradual replacement of low-cost plywood by MDF and imposition of duties on imports, thus benefiting domestic players. We raise our FY22-FY23 PAT estimates by ~5% each considering the better-than-expected margin performance from both MDF and plywood.

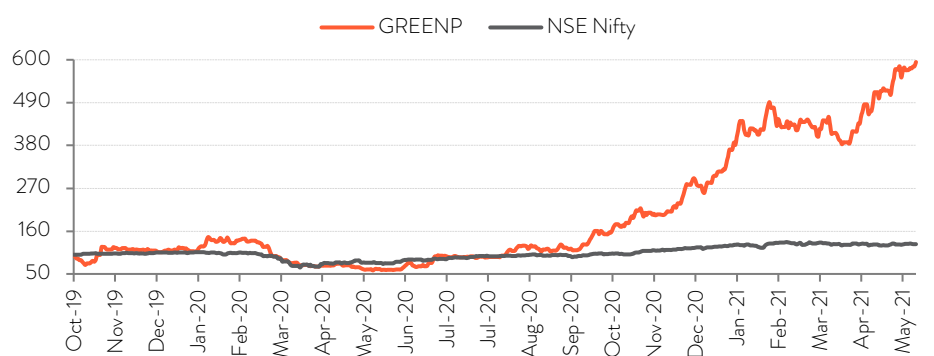
We also upgrade our target FY23E P/E to 18x from 15x (i.e. ~10% discount to plywood players from ~25% earlier) due to significant improvement in the balance sheet (debt and return ratios), capacity utilisation and operating margins. Maintain BUY with a revised Mar'22 target price of Rs 295 (earlier Rs 235).

FIG 7 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	13,278	15,782	13,174	15,227	0.8	3.6
EBITDA	3,056	3,730	2,965	3,622	3.1	3.0
PAT	1,482	1,998	1,418	1,913	4.5	4.5

Source: BOBCAPS Research

FIG 8 – 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	FY21P	FY22E	FY23E
Total revenue	5,991	8,766	10,208	13,278	15,782
EBITDA	774	1,432	2,034	3,056	3,730
Depreciation	(530)	(692)	(686)	(743)	(754)
EBIT	244	740	1,347	2,313	2,976
Net interest income/(expenses)	(246)	(302)	(247)	(240)	(180)
Other income/(expenses)	8	22	34	45	58
Exceptional items	118	(343)	(125)	0	0
EBT	6	460	1,135	2,117	2,854
Income taxes	222	28	(322)	(635)	(856)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	346	145	688	1,482	1,998
Adjustments	(118)	108	89	0	0
Adjusted net profit	228	253	778	1,482	1,998

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	816	1,207	1,297	1,673	1,989
Other current liabilities	1,197	1,036	1,172	1,528	1,816
Provisions	126	120	96	159	174
Debt funds	5,865	5,611	4,482	2,912	1,712
Other liabilities	121	69	202	202	202
Equity capital	123	123	123	123	123
Reserves & surplus	6,332	6,494	7,181	8,663	10,661
Shareholders' fund	6,455	6,616	7,304	8,786	10,784
Total liabilities and equities	14,580	14,658	14,552	15,261	16,676
Cash and cash eq.	199	115	720	378	1,616
Accounts receivables	456	705	778	1,055	1,254
Inventories	1,345	1,539	1,494	2,001	2,378
Other current assets	1,167	1,131	783	1,091	1,297
Net fixed assets	11,368	11,107	10,741	10,733	10,130
CWIP	38	57	36	0	0
Intangible assets	7	4	2	2	2
Total assets	14,580	14,658	14,552	15,261	16,676

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	836	1,374	2,225	2,751
Interest expenses	302	247	240	180
Non-cash adjustments	(235)	0	0	0
Changes in working capital	(183)	523	(297)	(164)
Other operating cash flows	0	0	0	0
Cash flow from operations	720	2,145	2,169	2,768
Capital expenditures	(242)	(127)	(700)	(150)
Change in investments	0	0	0	0
Other investing cash flows	0	0	0	0
Cash flow from investing	(242)	(127)	(700)	(150)
Equities issued/Others	0	0	0	0
Debt raised/repaid	(255)	(1,128)	(1,570)	(1,200)
Interest expenses	(302)	(247)	(240)	(180)
Dividends paid	0	0	0	0
Other financing cash flows	(4)	(37)	0	0
Cash flow from financing	(561)	(1,413)	(1,810)	(1,380)
Changes in cash and cash eq.	(83)	604	(341)	1,237
Closing cash and cash eq.	115	720	378	1,616

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	2.8	1.2	5.6	12.1	16.3
Adjusted EPS	1.9	2.1	6.3	12.1	16.3
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	59.6	71.6	87.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	4.9	3.7	3.4	2.6	2.1
EV/EBITDA	38.0	22.6	17.2	11.2	8.7
Adjusted P/E	129.3	116.4	37.9	19.9	14.7
P/BV	4.6	4.5	4.0	3.4	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	184.0	216.0	77.0	70.0	70.0
Interest burden (PBT/EBIT)	50.7	15.8	74.9	91.5	95.9
EBIT margin (EBIT/Revenue)	4.1	8.4	13.2	17.4	18.9
Asset turnover (Revenue/Avg TA)	82.2	60.0	69.9	89.1	98.8
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	1.9	1.6
Adjusted ROAE	7.1	3.9	11.2	18.4	20.4

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	NA	46.3	16.4	30.1	18.9
EBITDA	NA	84.8	42.1	50.3	22.0
Adjusted EPS	NA	11.0	207.4	90.6	34.8
Profitability & Return ratios (%)					
EBITDA margin	12.9	16.3	19.9	23.0	23.6
EBIT margin	4.1	8.4	13.2	17.4	18.9
Adjusted profit margin	3.8	2.9	7.6	11.2	12.7
Adjusted ROAE	7.1	3.9	11.2	18.4	20.4
ROCE	4.0	6.0	7.6	13.8	17.2
Working capital days (days)					
Receivables	14	24	27	25	27
Inventory	96	134	120	111	116
Payables	29	50	56	53	55
Ratios (x)					
Gross asset turnover	0.9	0.6	0.7	0.9	1.0
Current ratio	0.9	1.0	1.1	1.2	1.6
Net interest coverage ratio	1.0	2.5	5.5	9.6	16.5
Adjusted debt/equity	0.9	0.8	0.5	0.3	0.0

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

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

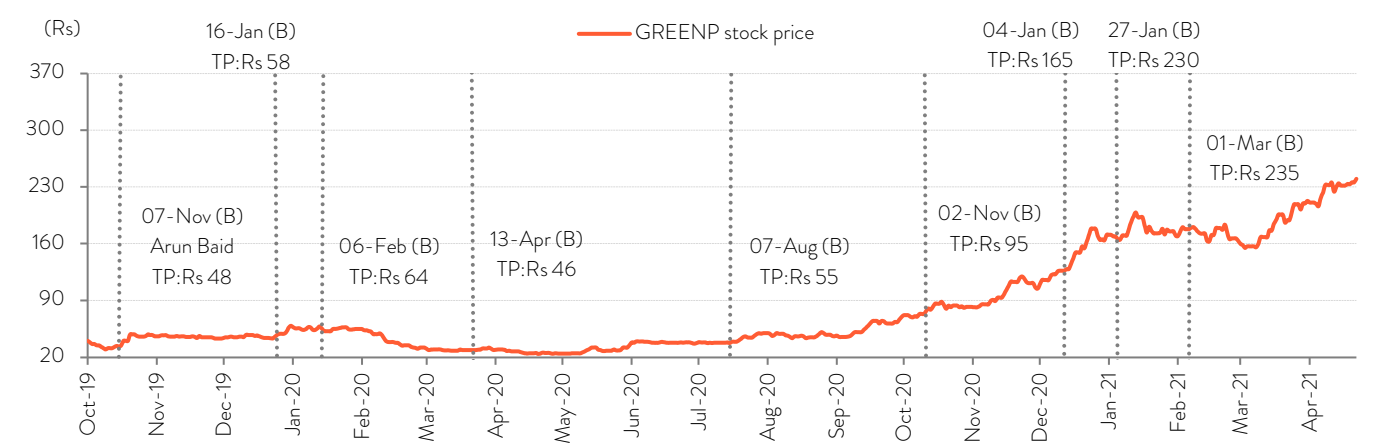
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

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