

HOLD

TP: Rs 595 | ▲ 4%

GREENPANEL INDUSTRIES

| Construction Materials

| 06 May 2022

Strong margin expansion despite lower MDF & plywood volumes

- Q4 revenue climbed 21% YoY to Rs 4.7bn led by 31% growth in MDF but plywood revenue declined by 15%
- Gross margin stood at 61.5% vs. 54.1% in the year-ago quarter; EBITDA margin expanded 470bps YoY to 29.3%
- Maintain HOLD with an unchanged TP of Rs 595; recommend using any weakness in the stock as an entry-point

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Strong growth aided by higher MDF realisations: GREENP's consolidated Q4FY22 revenue grew 21% YoY to Rs 4.7bn, with MDF up 31% as blended realisations increased 44% YoY and 8% QoQ. However, plywood revenue declined 15% YoY. EBITDA margin stood at 29.3% vs. 24.6% in the year-ago quarter due to a superior product mix, cost optimisation and operating leverage.

Lower MDF volumes but EBITDA margin expands: MDF volumes declined by 11% YoY due to the recurrence of Covid, state elections and higher inflation. Nevertheless, segmental EBITDA margin improved 600bps YoY to 34.6% on the strength of higher realisations and a superior product mix. For FY22, MDF margins stood at 31% vs. 23% in FY21. Management has guided for ~31% levels in FY23.

Plywood margin declines: Plywood earned a lower Q4 EBITDA margin at 9.2% (-630bps YoY) due to higher raw material cost and a 19% fall in volumes. Management indicated plans for a price hike in Q1FY23 and has guided for a 10-11% segmental EBITDA margin for FY23.

MDF volume growth guided at 15-18% in FY23E: Management expects MDF volume growth of 15-18% in FY23 vs. 30% in FY22. The company looks poised to capitalise on the near-term steady growth from rising acceptance of MDF in the readymade furniture market and the absence of major capacity additions in the industry during FY23 (beyond Rushil Décor's 240,000cbm expansion which has already been absorbed and CPBI's upcoming 130,000cbm addition in H1FY23).

Maintain HOLD: 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. With growth momentum likely to continue and the absence of significant capex, we expect the company to turn net debt-free in FY23. The stock is trading at 22.1x FY24E EPS and has achieved our TP of Rs 595 on 23 Mar 2022. We continue to value GREENP at 23x FY24E EPS (a 33% discount to CPBI) and retain our TP of Rs 595 with a HOLD rating. In our view, any weakness in the stock should be used as an opportunity to enter.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 571
Market cap	US\$ 910.1mn
Free float	47%
3M ADV	US\$ 2.5mn
52wk high/low	Rs 626/Rs 215
Promoter/FPI/DII	53%/6%/41%

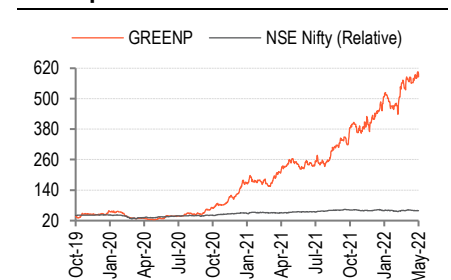
Source: NSE | Price as of 6 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,350	20,545
EBITDA (Rs mn)	4,304	4,685	5,302
Adj. net profit (Rs mn)	2,405	2,662	3,171
Adj. EPS (Rs)	19.6	21.7	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.5	25.4
Adj. P/E (x)	29.1	26.3	22.1
EV/EBITDA (x)	17.3	15.4	13.2
Adj. EPS growth (%)	197.6	10.7	19.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Earnings call highlights

- **MDF exports and guidance for FY23:** Management expects MDF exports to remain high at 120,000-125,000cbm in FY23. Further, if domestic demand slows down, export volumes will rise further. GREENP exports to the Middle East, South East Asia, the UK and Korea, among others. It is also receiving enquiries from Germany.
- **Lower imports eased pressure on domestic MDF prices:** MDF imports have reduced and currently pose no threat to domestic players 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.
- **OEM exposure has reduced considerably:** The company has considerably reduced its exposure to OEMs from 30-32% of domestic MDF revenue a year ago to 15-16% currently. This has further helped in improving MDF margins in Q4FY22.
- **Capex plan for FY23:** The capex plan will be finalised in May/Jun'22 for the planned MDF capacity expansion in Andhra Pradesh.
- **MDF capacity in India:** India's 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 rise to 3mn cbm by FY25, with demand of ~2.5mn cbm.
- **Others result highlights:** (1) MDF accounted for 85% of revenue in Q4FY22 vs. 78% in Q4FY21. (2) Working capital cycle reduced by 19 days YoY to 16 days as on Mar'22. (3) Net debt reduced by Rs 840mn to Rs 0.6bn. Management aims to be net debt-free by Jun'22. (4) Value-added products contributed 13% of revenue in Q4FY22 vs. 11% in Q4FY21. (5) The term loan from LBBW has been prepaid to the extent of EUR 9mn in FY22 which substantially brought down the company's debt and foreign currency exposure.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Revenue	4,701	3,888	20.9	4,244	10.8	16,250	10,208	59.2
COGS	1,827	1,783	2.5	1,794	1.8	6,709	4,629	44.9
% of sales	38.9	45.9	(700bps)	42.3	(341bps)	41.3	45.3	(406bps)
Employee expenses	353	292	21.1	330	7.1	1,284	979	31.2
% of sales	7.5	7.5	1bps	7.8	(26bps)	7.9	9.6	(169bps)
Operating Expenses	1,143	856	33.5	1,010	13.2	3,953	2,566	54.0
% of sales	24.3	22.0	229bps	23.8	52bps	24.3	25.1	(82bps)
EBITDA	1,378	957	44.0	1,111	24.1	4,304	2,034	111.7
EBITDA Margin (%)	29.3	24.6	470bps	26.2	314bps	26.5	19.9	656bps
Depreciation/Amortisation	183	170	7.8	184	(0.6)	734	686	6.9
EBIT	1,195	787	51.8	927	29.0	3,571	1,347	165.0
EBIT Margin (%)	25.4	20.2	518bps	21.8	359bps	22.0	13.2	877bps
Net Interest Expenses	34	41	(17.7)	13	154.8	171	247	(30.8)
Other Income	37	20	83.6	23	61.1	90	34	159.9
PBT	1,198	766	56.4	936	28.0	3,489	1,135	207.5
Tax Expenses	392	292	34.2	305	28.4	1,085	322	237.3
Reported PAT	806	474	70.1	631	27.8	2,405	813	195.8

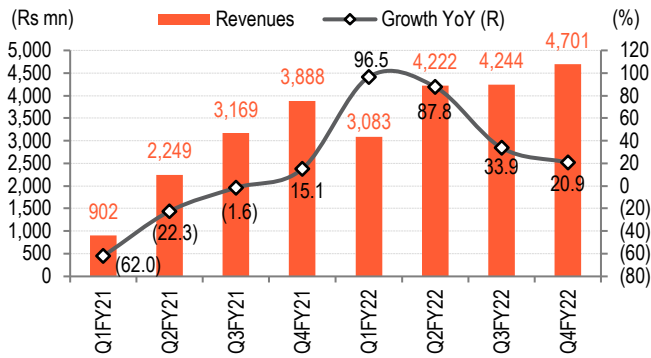
Source: Company, BOBCAPS Research

Fig 2 – Consolidated segmental performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
Plywood & Allied products	706	828	(14.8)	671	5.2	2,562	2,174	17.9
MDF & Allied products	3,995	3,060	30.6	3,573	11.8	13,688	8,034	70.4
Total	4,701	3,888	20.9	4,244	10.8	16,250	10,208	59.2
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
Net revenues	4,701	3,888	20.9	4,244	10.8	16,250	10,208	59.2
EBIT								
Plywood & Allied products	79	142	(44.5)	80	(1.3)	325	297	9.5
MDF & Allied products	1,314	808	62.6	1,033	27.2	3,922	1,483	164.5
Total	1,393	950	46.7	1,113	25.1	4,247	1,780	138.6
EBIT Margin (%)								
Plywood & Allied products	11.1	17.1	(595bps)	11.9	(74bps)	12.7	13.6	(96bps)
MDF & Allied products	32.9	26.4	648bps	28.9	398bps	28.7	18.5	1,019bps

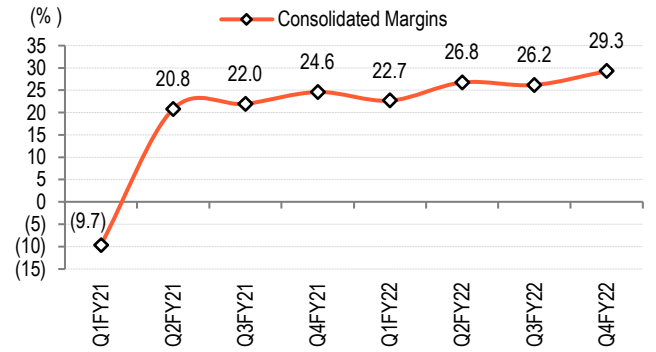
Source: Company, BOBCAPS Research

Fig 3 – Consolidated revenue growth



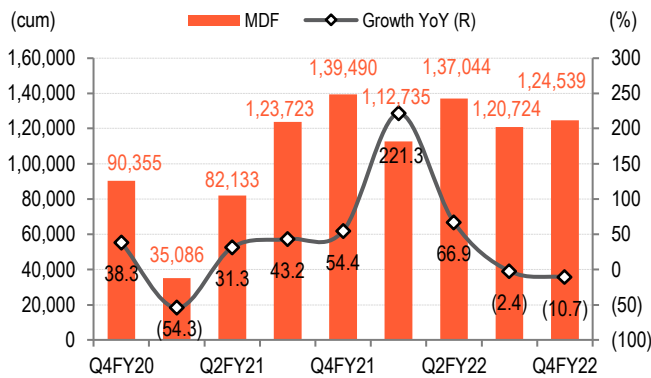
Source: Company, BOBCAPS Research

Fig 4 – Consolidated EBITDA margin



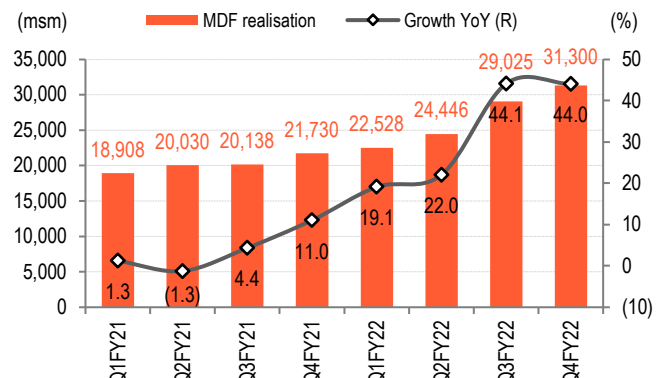
Source: Company, BOBCAPS Research

Fig 5 – MDF volumes



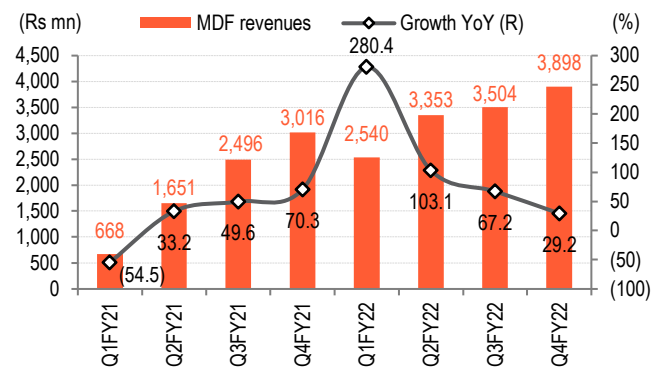
Source: Company, BOBCAPS Research

Fig 6 – MDF realization



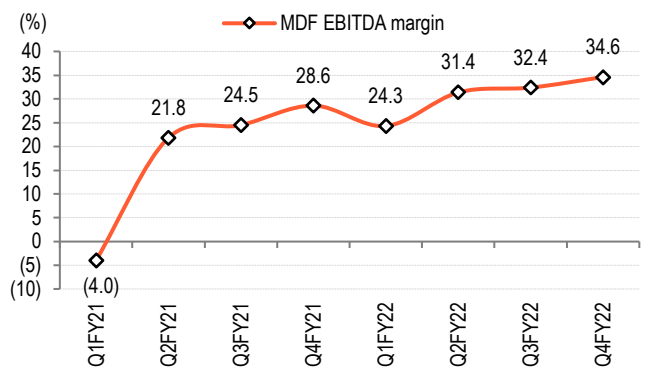
Source: Company, BOBCAPS Research

Fig 7 – MDF revenue



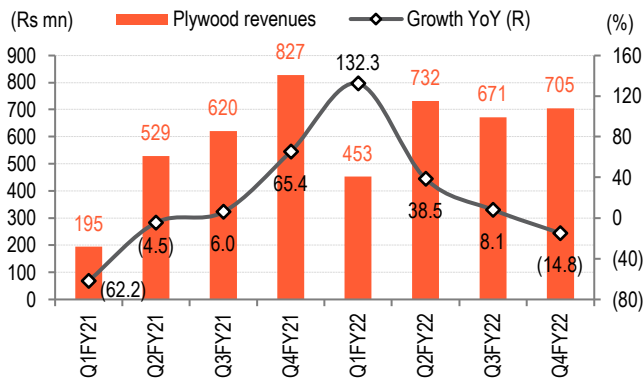
Source: Company, BOBCAPS Research

Fig 8 – MDF EBITDA margin



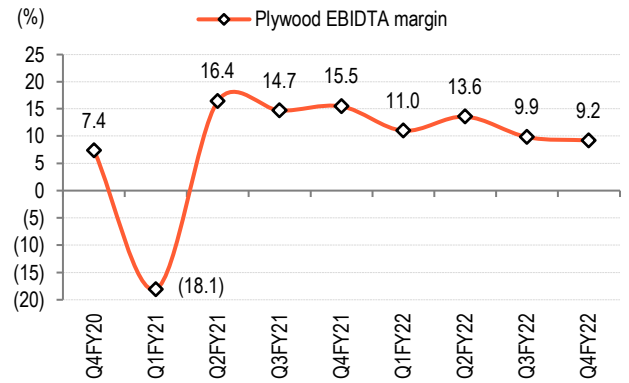
Source: Company, BOBCAPS Research

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 26%/37%/58% over FY21-FY24 aided by better capacity utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage. With growth momentum likely to continue and the absence of significant capex, we expect the company to turn net debt-free in FY23.

GREENP is trading at 22.1x FY24E EPS and has achieved our TP of Rs 595 on 23 Mar 2022. We continue to value the stock at 23x FY24E EPS (a 33% discount to CPBI) and retain our TP of Rs 595 with a HOLD rating. In our view, any weakness in the stock should be used as an opportunity to enter.

Fig 11 – Key assumptions

Parameter	FY21	FY22	FY23E	FY24E
MDF volumes (CBM)	380,430	495,041	570,000	660,000
YoY (%)	20.4	30.1	15.1	15.8
MDF revenues (Rs mn)	7,840	13,292	15,102	16,873
YoY (%)	27.8	69.5	13.6	11.7
MDF margins (%)	20.9	27.3	27.7	28.1
Plywood volumes (msm)	8.5	9.3	12.1	13.7
YoY (%)	(0.4)	9.7	29.8	13.0
Plywood revenues (Rs mn)	2,016	2,559	3,248	3,672
YoY (%)	1.6	17.9	26.9	13.0
Plywood margins (%)	13.6	14.9	15.2	15.3

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- consolidation of the informal sector where weaker players exit from the market,
- fast revival in economy and in housing demand,
- significant pickup in MDF exports,
- steep uptick in MDF margins and export realisations, and
- sharp decline in chemical and wood costs.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.7	580	735	HOLD
Cera Sanitaryware	CRS IN	0.7	3,958	5,590	BUY
Greenpanel Industries	GREENP IN	0.9	571	595	HOLD
Greenply Industries	MTLM IN	0.3	203	260	BUY
Kajaria Ceramics	KJC IN	2.1	1,023	1,460	BUY
Pidilite Industries	PIDI IN	14.8	2,237	2,445	HOLD
Somany Ceramics	SOMC IN	0.4	638	1,140	BUY

Source: BOBCAPS Research, NSE | Price as of 6 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	8,766	10,208	16,250	18,350	20,545
EBITDA	1,432	2,077	4,304	4,685	5,302
Depreciation	(692)	(686)	(734)	(754)	(771)
EBIT	740	1,391	3,571	3,931	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	3,803	4,530
Income taxes	28	(322)	(1,085)	(1,141)	(1,359)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	145	688	2,405	2,662	3,171
Adjustments	108	120	0	0	0
Adjusted net profit	253	808	2,405	2,662	3,171

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	1,207	1,297	1,378	2,313	2,589
Other current liabilities	1,036	1,186	879	2,112	2,364
Provisions	120	96	141	184	205
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	11,251	13,463
Shareholders' fund	6,616	7,304	9,516	11,373	13,585
Total liab. and equities	14,658	14,552	15,424	18,376	20,503
Cash and cash eq.	115	720	2,226	2,806	4,707
Accounts receivables	705	778	414	1,458	1,632
Inventories	1,539	1,494	1,658	2,765	3,096
Other current assets	1,131	783	743	1,508	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
Total assets	14,658	14,552	15,424	18,376	20,503

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	720	2,158	3,368	2,890	3,898
Capital expenditures	(242)	(127)	(337)	(210)	(311)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	481	0	544
Cash flow from investing	(242)	(127)	144	(210)	232
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)	(805)	(959)
Other financing cash flows	(4)	(37)	0	0	0
Cash flow from financing	(605)	(1,634)	(3,512)	(2,100)	(2,229)
Chg in cash & cash eq.	(127)	396	0	580	1,901
Closing cash & cash eq.	72	512	720	2,806	4,707

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	1.2	5.6	19.6	21.7	25.9
Adjusted EPS	2.1	6.6	19.6	21.7	25.9
Dividend per share	0.3	1.4	4.9	5.4	6.5
Book value per share	54.0	59.6	77.6	92.7	110.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	8.3	7.4	4.6	3.9	3.4
EV/EBITDA	50.9	36.4	17.3	15.4	13.2
Adjusted P/E	276.8	86.6	29.1	26.3	22.1
P/BV	10.6	9.6	7.4	6.2	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	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	96.7	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	22.0	21.4	22.1
Asset turnover (Rev./Avg TA)	60.0	69.9	108.4	108.6	105.7
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.8	1.6	1.6
Adjusted ROAE	3.9	11.6	28.6	25.5	25.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	46.3	16.4	59.2	12.9	12.0
EBITDA	84.8	45.1	107.2	8.8	13.2
Adjusted EPS	11.0	219.4	197.6	10.7	19.1
Profitability & Return ratios (%)					
EBITDA margin	16.3	20.4	26.5	25.5	25.8
EBIT margin	8.4	13.6	22.0	21.4	22.1
Adjusted profit margin	2.9	7.9	14.8	14.5	15.4
Adjusted ROAE	3.9	11.6	28.6	25.5	25.4
ROCE	6.0	7.9	20.4	21.6	23.3
Working capital days (days)					
Receivables	24	27	13	19	27
Inventory	134	120	86	102	121
Payables	50	56	41	49	59
Ratios (x)					
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	21.8	50.5
Adjusted debt/equity	0.8	0.5	0.1	(0.1)	(0.3)

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

Disclaimer

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

BUY – Expected return >+15%

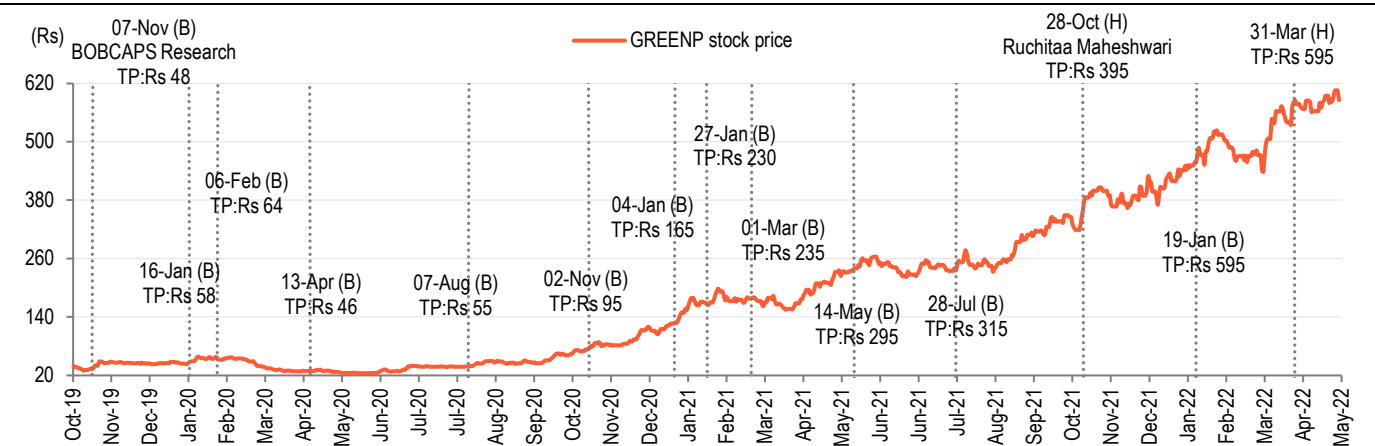
HOLD – Expected return from -6% to +15%

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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