

**BUY**

TP: Rs 135 | ▲ 56%

**GREENPLY INDUSTRIES**

Construction Materials

17 August 2020

## Q1 revenues slump; outlook improving

**Greenply Industries' (GIL) consolidated Q1FY21 revenue declined 62% YoY as India sales dropped 65% due to the lockdown and Gabon subsidiary revenue fell 43%. The company reported an operating loss of Rs 28mn owing to negative operating leverage, fuelling a pre-tax loss of Rs 133mn. Management indicated that sales in July/August have improved to 65-70% of year-ago levels. We maintain estimates and roll over to a revised Sep'21 TP of Rs 135 (earlier Rs 120). Retain BUY.**

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**Consolidated revenues slump due to lockdown:** GIL's consolidated revenue dropped 62% YoY to Rs 1.3bn as India plywood revenue slid 65% to Rs 1.1bn (volumes down 65%) due to the lockdown. Subsidiaries – primarily Gabon face-veneer operations – posted a 43% YoY topline decline to Rs 251mn. Gabon operations faced logistical issues during the quarter which stand resolved in Q2, implying a better performance ahead. In India, sales have returned to 65-70% of normal levels in July and the August trend is along similar lines. The company saw good cash collections during the quarter which resulted in consolidated debt reduction of ~Rs 370mn QoQ.

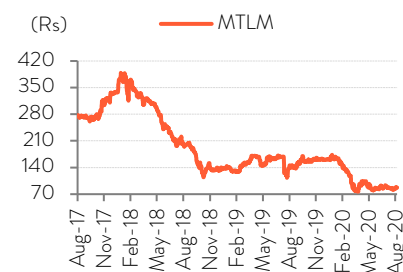
**Operating loss at Rs 28mn:** The drop in topline led to a consolidated operating loss of Rs 28mn and pre-tax loss of Rs 133mn. India operations reported an EBITDA loss of Rs 58mn and Gabon margins contracted 730bps YoY to 12%. Management aims to maintain full-year margins at FY20 levels if sales pick up, aided by lower raw material cost and other cost initiatives. Over the longer term (by FY23), GIL aims to raise operating margins ~400bps and be debt-free.

**Maintain BUY:** We maintain estimates post Q1 and roll over to a new Sep'21 TP of Rs 135 (earlier Rs 120), based on an unchanged 18x one-year forward P/E multiple. BUY.

Ticker/Price	MTLM IN/Rs 87
Market cap	US\$ 141.7mn
Shares o/s	123mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 195/Rs 73
Promoter/FPI/DII	52%/11%/37%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,122	14,204	11,693	13,816	15,278
EBITDA (Rs mn)	1,507	1,556	1,156	1,524	1,727
Adj. net profit (Rs mn)	852	851	517	827	1,009
Adj. EPS (Rs)	6.9	6.9	4.2	6.7	8.2
Adj. EPS growth (%)	236.1	(0.1)	(39.3)	60.0	22.1
Adj. ROAE (%)	14.0	23.9	12.9	18.1	19.2
Adj. P/E (x)	12.5	12.5	20.5	12.8	10.5
EV/EBITDA (x)	10.3	9.7	11.3	8.5	7.2

Source: Company, BOBCAPS Research

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**FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Net Revenue</b>	<b>1,327</b>	<b>3,494</b>	<b>(62.0)</b>	<b>3,447</b>	<b>(61.5)</b>
COGS	708	2,023	(65.0)	2,102	(66.3)
% of sales	53.3	57.9	(458bps)	61.0	(766bps)
Employee expenses	318	384	(17.3)	386	(17.6)
% of sales	23.9	11.0	1,295bps	11.2	1,276bps
Operating Expenses	330	675	(51.1)	661	(50.0)
% of sales	24.9	19.3	554bps	19.2	570bps
<b>EBITDA</b>	<b>(28)</b>	<b>411</b>	<b>(106.9)</b>	<b>299</b>	<b>(109.5)</b>
EBITDA Margin	(2.1)	11.8	(1,391bps)	8.7	(1,080bps)
Depreciation/Amortisation	51	63	(18.8)	66	(22.7)
<b>EBIT</b>	<b>(79)</b>	<b>349</b>	<b>(122.8)</b>	<b>232</b>	<b>(134.2)</b>
EBIT Margin	(6.0)	10.0	(1,596bps)	6.7	(1,273bps)
Net Interest Expenses	55	50	8.6	55	(0.4)
Other Income	2	4	(60.6)	13	(87.4)
<b>PBT</b>	<b>(133)</b>	<b>302</b>	<b>(143.9)</b>	<b>190</b>	<b>(169.6)</b>
Tax Expenses	(32)	85	(137.5)	(88)	(63.8)
Net Income before extraordinary items	(101)	217	(146.4)	279	(136.1)
Extraordinary items	0	0	NA	(500)	(100.0)
Share of profit/(loss) from JV	(12)	(7)	75.0	6	(304.5)
<b>Reported Net Income</b>	<b>(112.7)</b>	<b>210.1</b>	<b>(153.7)</b>	<b>(215.0)</b>	<b>(47.6)</b>
Adjusted PAT	(112.7)	210.1	(153.7)	239.8	(147.0)

Source: Company, BOBCAPS Research

**FIG 2 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Net Revenue</b>	<b>1,076</b>	<b>3,054</b>	<b>(64.8)</b>	<b>2,972</b>	<b>(63.8)</b>
COGS	630	1,805	(65.1)	1,864	(66.2)
% of sales	58.6	59.1	(52bps)	62.7	(413bps)
Employee expenses	276	355	(22.4)	331	(16.8)
% of sales	25.6	11.6	1,398bps	11.1	1,448bps
Operating Expenses	229	567	(59.7)	548	(58.3)
% of sales	21.2	18.6	266bps	18.4	279bps
<b>EBITDA</b>	<b>(58)</b>	<b>327</b>	<b>(117.9)</b>	<b>229</b>	<b>(125.5)</b>
EBITDA Margin	(5.4)	10.7	(1,613bps)	7.7	(1,314bps)
Depreciation/Amortisation	36	53	(32.1)	51	(30.0)
<b>EBIT</b>	<b>(94)</b>	<b>274</b>	<b>(134.5)</b>	<b>178</b>	<b>(153.1)</b>
EBIT Margin	(8.8)	9.0	(1,774bps)	6.0	(1,475bps)
Net Interest Expenses	41	42	(2.2)	44	(6.9)
Other Income	8	10	(17.8)	31	(72.8)
<b>PBT</b>	<b>(127)</b>	<b>243</b>	<b>(152.2)</b>	<b>165</b>	<b>(176.7)</b>
Tax Expenses	(32)	85	(137.5)	(88)	(63.8)
Net Income before extraordinary items	(95)	157	(160.2)	253	(137.3)
Extraordinary items	0	0	NA	(500)	(100.0)
<b>Reported Net Income</b>	<b>(95)</b>	<b>157</b>	<b>(160.2)</b>	<b>(246)</b>	<b>(61.6)</b>

Source: Company, BOBCAPS Research

**FIG 3 – SUBSIDIARIES (PRIMARILY GABON OPERATIONS)**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	251	440	(42.9)	475	(47.1)
EBITDA	30	85	(64.5)	70	(56.8)
EBITDA margin	12.0	19.3	(729bps)	14.6	(268bps)

Source: Company, BOBCAPS Research

## Earnings call highlights

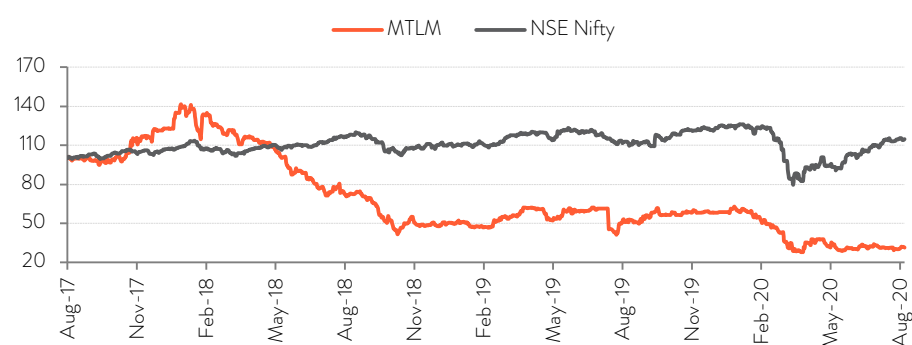
- Due to the lockdown, GIL effectively had only six weeks of operations in India during the quarter, which impacted sales.
- India's top 10 cities contribute 50-60% of the company's revenues – disruptions due to the pandemic have been higher in these markets, raising pressure on sales.
- South India saw good traction in Q1 whereas other regions remained relatively subdued.
- Sales in July have returned to 65-70% of year-ago levels and August sales are on similar lines. Management expects demand to scale up further once labour availability improves.
- Softer chemical (raw material) prices aided gross margins in Q1. The streamlining of discount policies also helped. If sales continue to pick up, management expects to report flat operating margins in FY21.
- GIL is targeting 400bps operating margin expansion by FY23, backed by cost efficiencies. The company believes some recent cost rationalisation measures can also be retained over the long term.
- Good cash collections during Q1 resulted in improved cash flows and a reduction in consolidated debt by Rs 370mn QoQ. Management is targeting stable-to-lower debt in FY21 and aims to be debt-free by end-FY23.
- The company intends to improve its working capital cycle, which should ensure improvement in return ratios.
- Gabon operations had only a few days of lockdown impact. However, some logistical issues in June resulted in sales spillover to Q2.
- Gabon face veneer is currently being exported to Europe and Southeast Asia as demand from India is very low. US markets could be another possible location for exports.
- GIL believes Gabon operations can have a flat year in FY21.
- The company is open to inorganic opportunities for growth.
- Commencement of the two JVs in India has been postponed due to the pandemic – these are now expected to start in Q4FY21/Q1FY22.

## Valuation methodology

GIL is the joint market leader in India's organised plywood industry along with Century Plyboards (CPBI). The company has also set up operations in Gabon for face veneer. We believe GIL is poised for growth in the wood panel market, enabled by its wide distribution reach, strong brand focus, diverse product portfolio and rising market share for organised players in the wake of GST and e-way bill implementation.

Post Q1, we maintain estimates and roll over to a Sep'21 target price of Rs 135 (earlier Rs 120), set at an unchanged 18x one-year forward P/E. Maintain BUY given reasonable valuations (at 12.8x FY22E P/E) and an improving balance sheet.

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- **Regulatory concerns on RM sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on sourcing of wood or face veneer will hit margins.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>14,122</b>	<b>14,204</b>	<b>11,693</b>	<b>13,816</b>	<b>15,278</b>
EBITDA	1,507	1,556	1,156	1,524	1,727
Depreciation	(224)	(257)	(270)	(287)	(305)
EBIT	1,282	1,299	886	1,237	1,422
Net interest income/(expenses)	(186)	(208)	(207)	(181)	(147)
Other income/(expenses)	71	20	17	27	38
Exceptional items	(55)	(500)	0	0	0
EBT	1,167	1,112	696	1,083	1,313
Income taxes	(315)	(134)	(180)	(256)	(303)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>797</b>	<b>477</b>	<b>517</b>	<b>827</b>	<b>1,009</b>
Adjustments	55	374	0	0	0
<b>Adjusted net profit</b>	<b>852</b>	<b>851</b>	<b>517</b>	<b>827</b>	<b>1,009</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	2,320	2,317	1,895	2,214	2,436
Other current liabilities	634	504	416	454	502
Provisions	64	348	58	69	76
Debt funds	2,500	2,674	2,320	2,050	1,600
Other liabilities	0	0	0	0	0
Equity capital	123	123	123	123	123
Reserves & surplus	3,230	3,657	4,116	4,793	5,497
Shareholders' fund	3,352	3,779	4,239	4,916	5,620
<b>Total liabilities and equities</b>	<b>8,870</b>	<b>9,622</b>	<b>8,929</b>	<b>9,703</b>	<b>10,235</b>
Cash and cash eq.	206	103	186	460	386
Accounts receivables	3,050	3,565	2,970	3,259	3,611
Inventories	1,694	1,771	1,624	1,791	1,989
Other current assets	964	646	641	681	753
Investments	222	238	238	238	238
Net fixed assets	2,444	3,076	3,097	3,100	3,085
CWIP	173	52	0	0	0
Intangible assets	75	67	67	67	67
<b>Total assets</b>	<b>8,870</b>	<b>9,622</b>	<b>8,929</b>	<b>9,703</b>	<b>10,235</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	735	787	1,114	1,314
Interest expenses	208	207	181	147
Non-cash adjustments	0	0	0	0
Changes in working capital	(236)	(52)	(129)	(344)
Other operating cash flows	0	0	0	0
<b>Cash flow from operations</b>	<b>706</b>	<b>941</b>	<b>1,165</b>	<b>1,117</b>
Capital expenditures	(559)	(240)	(290)	(290)
Change in investments	(16)	0	0	0
Other investing cash flows	(64)	0	0	0
<b>Cash flow from investing</b>	<b>(639)</b>	<b>(240)</b>	<b>(290)</b>	<b>(290)</b>
Equities issued/Others	0	0	0	0
Debt raised/repaid	174	(354)	(270)	(450)
Interest expenses	(208)	(207)	(181)	(147)
Dividends paid	(59)	(57)	(150)	(305)
Other financing cash flows	(77)	0	0	0
<b>Cash flow from financing</b>	<b>(170)</b>	<b>(618)</b>	<b>(601)</b>	<b>(902)</b>
<b>Changes in cash and cash eq.</b>	<b>(103)</b>	<b>84</b>	<b>274</b>	<b>(75)</b>
<b>Closing cash and cash eq.</b>	<b>103</b>	<b>186</b>	<b>460</b>	<b>386</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	6.5	3.9	4.2	6.7	8.2
Adjusted EPS	6.9	6.9	4.2	6.7	8.2
Dividend per share	0.4	0.4	0.4	1.0	2.1
Book value per share	27.3	30.8	34.6	40.1	45.8

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.1	1.1	1.1	0.9	0.8
EV/EBITDA	10.3	9.7	11.3	8.5	7.2
Adjusted P/E	12.5	12.5	20.5	12.8	10.5
P/BV	3.2	2.8	2.5	2.2	1.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	76.6	139.1	74.2	76.4	76.9
Interest burden (PBT/EBIT)	86.7	47.1	78.6	87.5	92.3
EBIT margin (EBIT/Revenue)	9.1	9.1	7.6	9.0	9.3
Asset turnover (Revenue/Avg TA)	95.1	153.6	126.1	148.3	153.3
Leverage (Avg TA/Avg Equity)	2.4	2.6	2.3	2.0	1.9
Adjusted ROAE	14.0	23.9	12.9	18.1	19.2

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	54.8	0.6	(17.7)	18.2	10.6
EBITDA	110.7	3.3	(25.7)	31.8	13.3
Adjusted EPS	236.1	(0.1)	(39.3)	60.0	22.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.7	11.0	9.9	11.0	11.3
EBIT margin	9.1	9.1	7.6	9.0	9.3
Adjusted profit margin	6.0	6.0	4.4	6.0	6.6
Adjusted ROAE	14.0	23.9	12.9	18.1	19.2
ROCE	8.4	16.5	10.1	14.0	15.4
<b>Working capital days (days)</b>					
Receivables	76	85	102	82	82
Inventory	86	76	91	77	78
Payables	65	67	73	61	63
<b>Ratios (x)</b>					
Gross asset turnover	2.3	3.6	2.6	2.9	3.0
Current ratio	1.3	1.2	1.3	1.4	1.6
Net interest coverage ratio	6.9	6.2	4.3	6.8	9.7
Adjusted debt/equity	0.7	0.7	0.5	0.3	0.2

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

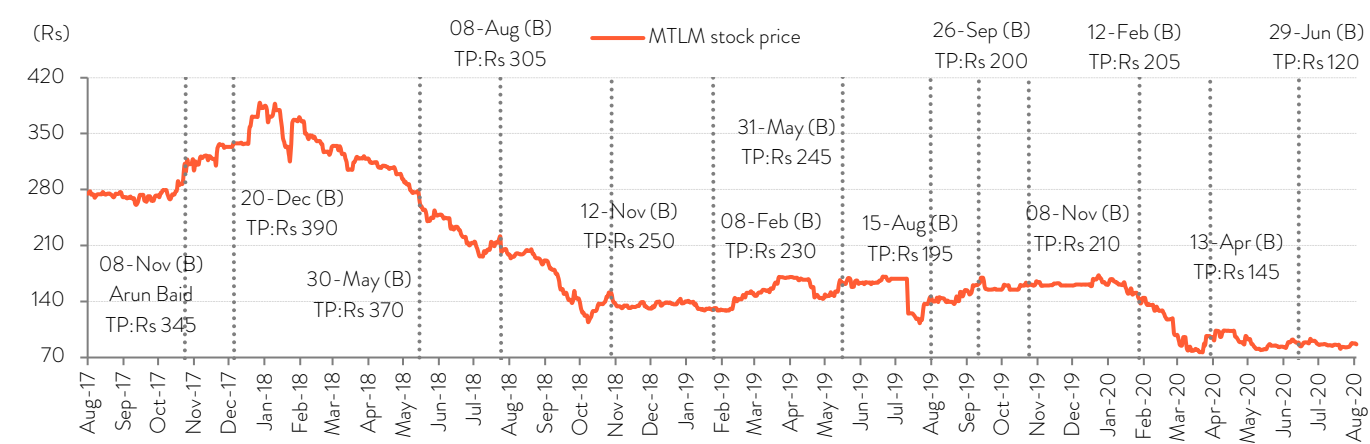
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): GREENPLY INDUSTRIES (MTLM IN)



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

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