

HOLD

TP: Rs 210 | ▲ 9%

GREENPLY INDUSTRIES | Construction Materials | 06 August 2021

Low base aids Q1; MDF foray to be beneficial in long run

- Consolidated Q1 revenue grew 97% YoY backed by a 98% upswing in India business
- Consolidated operating margin was at 5.1% with operating profit at Rs 132mn (vs. Rs 28mn loss in Q1FY21)
- We cut FY22/FY23 PAT by 3%/7% and roll over to a new Jun'22 TP of Rs 210 (vs. Rs 230) – retain HOLD

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Healthy growth off low base: GIL reported consolidated Q1FY22 revenue growth of 97% YoY to Rs 2.6bn, with India business up 98% as plywood volumes grew 89% off a soft base last year. Gabon subsidiary revenue increased 89% YoY, also aided by a low base. Per management, demand traction was reasonable in April but dropped significantly in May due to lockdowns. The company has seen improvement in June and July, with domestic demand expected to pick up if Covid restrictions continue to ease.

Modest operating margin: Consolidated Q1 operating margin stood at 5.1% and EBITDA was at Rs 132mn (vs. a Rs 28mn loss in the year-ago quarter). India business had a 4.3% EBITDA margin with gross margin rising 170bps YoY (+380bps QoQ) due to a better product mix and price hikes. The company has taken price increases to counter rising raw material prices and has also rationalised costs, which management believes will take it closer to ~13% operating margins in the remainder of FY22. GIL expects to sustain this level of profitability over the longer term despite reinvesting in the business.

MDF foray to cost Rs 5.5bn: GIL has decided to foray into MDF manufacturing with a capacity of 0.24mn CBM per year being set up at a cost of Rs 5.48bn. This capacity is slated to come up in Gujarat by Q4FY23 and will be funded via debt and internal accruals. Per management, this will be the first MDF facility in western India, giving the company a freight advantage as compared to peers when catering to demand in the region. With the entry into MDF, GIL will be able to broaden its wood panel product portfolio and deepen its presence in this growing market.

Maintain HOLD: We cut FY22/FY23 PAT estimates by 3%/7% and roll forward to a revised Jun'22 TP of Rs 210 (vs. Rs 230), set at an unchanged 20x one-year forward P/E – in line with five-year average. We believe GIL's foray into the high-growth MDF segment will benefit the company in the long run by substantially improving its growth trajectory. Also, its strong presence in the plywood industry will facilitate smooth entry into MDF. In the near term, however, we expect the new business to subdue earnings and return ratios till the plant ramps up.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MTLM IN/Rs 193
Market cap	US\$ 319.6mn
Free float	48%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 225/Rs 74
Promoter/FPI/DII	52%/2%/46%

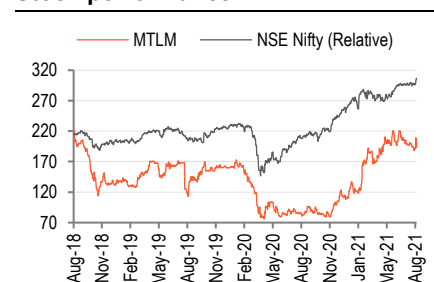
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	11,653	14,221	16,234
EBITDA (Rs mn)	1,167	1,761	2,127
Adj. net profit (Rs mn)	609	1,091	1,290
Adj. EPS (Rs)	5.0	8.9	10.5
Consensus EPS (Rs)	5.0	8.8	11.8
Adj. ROAE (%)	15.0	22.4	21.5
Adj. P/E (x)	38.9	21.7	18.4
EV/EBITDA (x)	22.4	14.4	11.7
Adj. EPS growth (%)	(27.6)	79.2	18.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Revenue	2,608	1,327	96.5	3,967	(34.3)
COGS	1,478	708	108.8	2,382	(38.0)
% of sales	56.7	53.3	335bps	60.0	(337bps)
Employee expenses	446	318	40.4	441	1.2
% of sales	17.1	23.9	(684bps)	11.1	599bps
Other Expenses	552	330	67.2	689	(20.0)
% of sales	21.2	24.9	(371bps)	17.4	378bps
EBITDA	132	(28)	(565.8)	455	(71.0)
EBITDA Margin (%)	5.1	(2.1)	720bps	11.5	(640bps)
Depreciation/Amortisation	61	51	20.0	64	(3.9)
EBIT	71	(79)	(189.0)	391	(81.9)
EBIT Margin	2.7	(6.0)	870bps	9.9	(714bps)
Net Interest Expenses	34	55	(38.5)	37	(9.9)
Other Income	21	2	1179.5	39	(46.4)
PBT	58	(133)	(143.7)	392	(85.2)
Tax Expenses	16	(32)	(148.8)	105	(85.2)
Net Income before extraordinary items	42	(101)	(142.1)	287	(85.3)
Share of profit/(loss) from JV	(2)	(12)	(83.0)	(1)	169.3
Reported Net Income	40.3	(112.7)	(135.7)	286.4	(85.9)

Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net Revenue	2,133	1,076	98.3	3,594	(40.6)
COGS	1,213	630	92.5	2,180	(44.4)
% of sales	56.9	58.6	(170bps)	60.7	(380bps)
Employee expenses	395	276	43.3	393	0.4
% of sales	18.5	25.6	(711bps)	10.9	757bps
Other Expenses	433	229	89.5	600	(27.8)
% of sales	20.3	21.2	(94bps)	16.7	360bps
EBITDA	92	(58)	(257.6)	420	(78.1)
EBITDA Margin	4.3	(5.4)	975bps	11.7	(737bps)
Depreciation/Amortisation	44	36	21.9	47	(6.7)
EBIT	48	(94)	(151.0)	373	(87.1)
EBIT Margin	2.3	(8.8)	1,103bps	10.4	(812bps)
Net Interest Expenses	17	41	(58.5)	24	(30.3)
Other Income	27	8	217.1	45	(40.3)
PBT	58	(127)	(146.0)	394	(85.2)
Tax Expenses	16	(32)	(149.3)	105	(85.0)
Net Income before extraordinary items	42	(95)	(144.8)	288	(85.3)
Reported Net Income	42	(95)	(144.8)	288	(85.3)

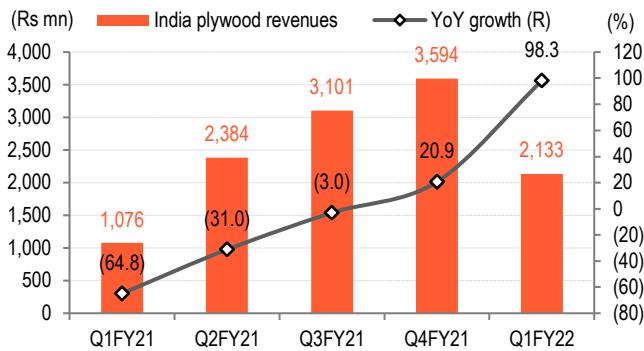
Source: Company, BOBCAPS Research

Fig 3 – Subsidiary results (primarily Gabon)

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	474	251	88.8	373	27.0
EBITDA	40	30	33.2	35	14.7
EBITDA Margin (%)	8.4	12.0	(353bps)	9.3	(90bps)

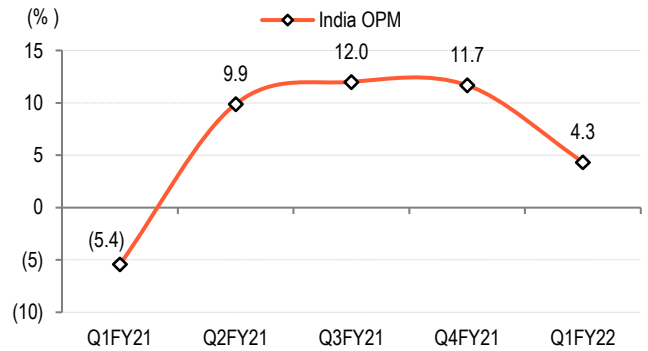
Source: Company, BOBCAPS Research

Fig 4 – India standalone revenue



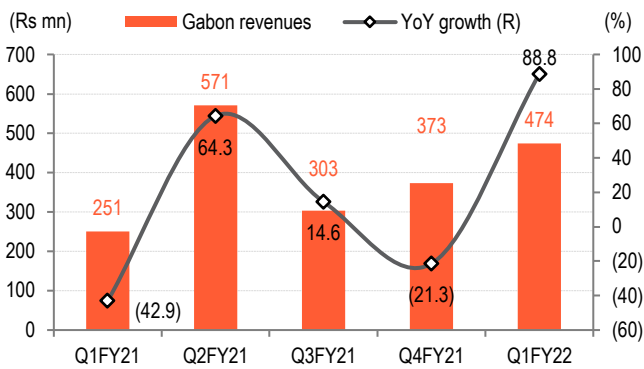
Source: Company, BOBCAPS Research

Fig 5 – India standalone operating margin



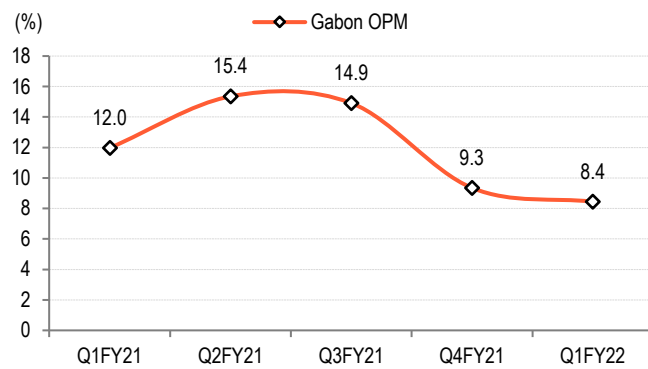
Source: Company, BOBCAPS Research

Fig 6 – Gabon revenue



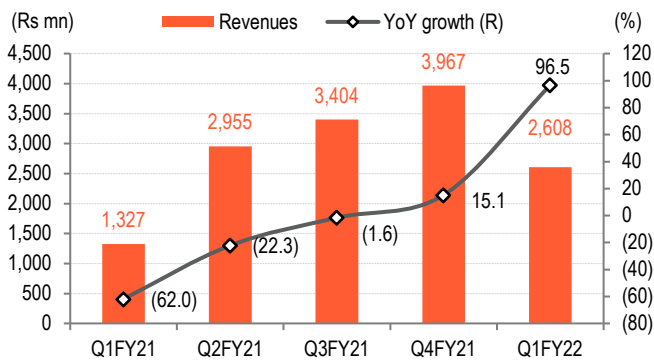
Source: Company, BOBCAPS Research

Fig 7 – Gabon operating margin



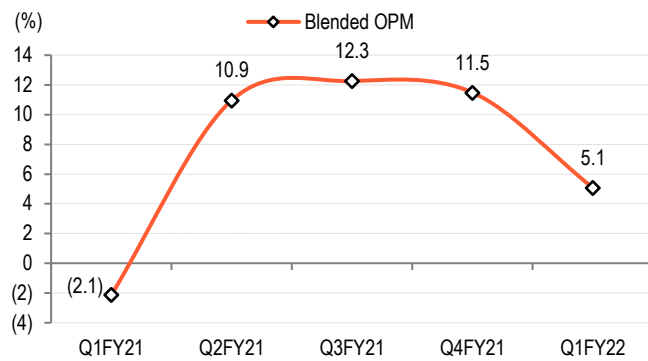
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue



Source: Company, BOBCAPS Research

Fig 9 – Consolidated operating margin



Source: Company, BOBCAPS Research

Earnings call highlights

- GIL saw reasonably good demand till April but a slowdown in May due to the reimposition of lockdowns. Demand improved in June with unlocking and July has been even better. However, logistical issues remain and recovery could be protracted.
- India business gross margin improved in Q1FY22 due to a better product mix and price hikes. The company sees ~13% as a sustainable level for operating margin if sales normalise.
- Gabon operations are yet to fully normalise as logistical issues persist. Container and ship availability remain a challenge.
- Working capital increased by 10 days on a consolidated basis largely due to higher inventory days in Q1. Debtor days improved by 8 days QoQ.
- GIL has decided to foray into MDF with a capex of ~Rs 5.5bn and a capacity of 0.24mn CBM per year. This plant will be located in Gujarat and will primarily service the country's western region. GIL plans to use its knowledge of the wood panel industry to grow in the segment.
- MDF capacity will be funded by debt (65%) and internal accruals and is expected to be commissioned by Q4FY23. Management expects this plant to have a payback period of seven years and to post steady-state post-tax ROCE of 18-19%.
- As per management, the new MDF plant will break even at ~45% capacity utilisation, likely to be achieved in the first year of operations.
- GIL believes MDF demand has been boosted during the pandemic due to a preference for readymade furniture, and expects good growth ahead.

Valuation methodology

GIL is the joint market leader in India's organised plywood industry along with Century Plyboards (CPBI). It 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.

Following the Q1 results, we cut our FY22/FY23 PAT estimates by 3%/7% and roll forward to a revised Jun'22 TP of Rs 210 (vs. Rs 230). Our target price is set at an unchanged 20x one-year forward P/E – in line with five-year average. We believe GIL's foray into the high-growth MDF segment will benefit the company in the long run and deepen its presence in the wood panel industry. In the near term, however, we expect the new business to subdue earnings and return ratios until the plant ramps up. Maintain HOLD.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	14,221	16,234	14,530	16,414	(2.1)	(1.1)
EBITDA	1,761	2,127	1,800	2,118	(2.2)	0.5
PAT	1,091	1,290	1,125	1,392	(3.0)	(7.3)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY21A	FY22E	FY23E	FY24E
Plywood volumes India (msm)	45.6	54.4	61.6	69.4
Growth (%)	(19)	19	13	13
India revenues (Rs mn)	10,117	12,442	14,237	16,017
Growth (%)	(19.9)	23	14	12
India Operating Margins	9.5	12.3	13.0	13.0
Gabon Revenues (Rs mn)	1,500	1,742	1,952	2,184
Growth (%)	(1.8)	16.1	12.1	11.9
Gabon OPM (%)	13.2	13.1	14.0	14.2
MDF Revenues (Rs mn)	NA	NA	NA	3,024
MDF EBITDA (%)	NA	NA	NA	15

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	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	640	16.4	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	HOLD	210	18.0	8.9	10.5	22.4	21.5	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4145	16.1	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **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)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	14,204	11,653	14,221	16,234	21,279
EBITDA	1,562	1,167	1,761	2,127	2,852
Depreciation	(257)	(231)	(263)	(317)	(634)
EBIT	1,304	936	1,498	1,811	2,217
Net interest inc./(exp.)	(208)	(166)	(126)	(204)	(494)
Other inc./(exp.)	6	44	58	77	14
Exceptional items	(495)	0	0	0	0
EBT	1,102	814	1,431	1,683	1,737
Income taxes	(134)	(205)	(340)	(393)	(397)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	473	609	1,091	1,290	1,340
Adjustments	368	0	0	0	0
Adjusted net profit	841	609	1,091	1,290	1,340

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	2,317	2,043	2,366	2,706	3,607
Other current liabilities	389	500	516	608	834
Provisions	348	212	256	292	383
Debt funds	2,674	1,917	1,750	2,800	4,900
Other liabilities	115	112	107	103	99
Equity capital	123	123	123	123	123
Reserves & surplus	3,657	4,244	5,270	6,482	7,741
Shareholders' fund	3,779	4,367	5,392	6,604	7,863
Total liab. and equities	9,622	9,151	10,387	13,114	17,686
Cash and cash eq.	103	1,280	22	209	333
Accounts receivables	3,565	1,939	2,257	2,573	3,348
Inventories	1,771	1,792	2,045	2,290	2,946
Other current assets	646	704	740	845	1,108
Investments	238	225	225	225	225
Net fixed assets	3,076	3,070	5,019	6,892	9,648
CWIP	52	62	0	0	0
Intangible assets	67	15	15	15	15
Deferred tax assets, net	105	64	64	64	64
Other assets	0	0	0	0	0
Total assets	9,622	9,151	10,387	13,114	17,686

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	701	2,251	1,251	1,609	1,989
Capital expenditures	(559)	(177)	(2,150)	(2,190)	(3,390)
Change in investments	(16)	13	0	0	0
Other investing cash flows	(64)	41	0	0	0
Cash flow from investing	(639)	(123)	(2,150)	(2,190)	(3,390)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	174	(757)	(167)	1,050	2,100
Interest expenses	(208)	(166)	(126)	(204)	(494)
Dividends paid	(59)	(49)	(66)	(78)	(81)
Other financing cash flows	(72)	21	0	0	0
Cash flow from financing	(166)	(951)	(359)	769	1,525
Chg in cash & cash eq.	(103)	1,177	(1,258)	188	123
Closing cash & cash eq.	103	1,280	22	209	333

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	3.9	5.0	8.9	10.5	10.9
Adjusted EPS	6.9	5.0	8.9	10.5	10.9
Dividend per share	0.4	0.4	0.4	0.5	0.5
Book value per share	30.8	35.6	44.0	53.9	64.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.0	2.2	1.8	1.5	1.2
EV/EBITDA	18.1	22.4	14.4	11.7	9.1
Adjusted P/E	28.2	38.9	21.7	18.4	17.7
P/BV	6.3	5.4	4.4	3.6	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	138.5	74.8	76.3	76.6	77.1
Interest burden (PBT/EBIT)	46.5	86.9	95.5	93.0	78.3
EBIT margin (EBIT/Revenue)	9.2	8.0	10.5	11.2	10.4
Asset turnover (Rev./Avg TA)	153.6	124.1	145.6	138.2	138.2
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.0	2.0	2.1
Adjusted ROAE	23.6	15.0	22.4	21.5	18.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	0.6	(18.0)	22.0	14.2	31.1
EBITDA	3.6	(25.3)	50.9	20.8	34.0
Adjusted EPS	(1.3)	(27.6)	79.2	18.2	3.8
Profitability & Return ratios (%)					
EBITDA margin	11.0	10.0	12.4	13.1	13.4
EBIT margin	9.2	8.0	10.5	11.2	10.4
Adjusted profit margin	5.9	5.2	7.7	7.9	6.3
Adjusted ROAE	23.6	15.0	22.4	21.5	18.5
ROCE	16.5	11.0	17.0	16.8	15.4
Working capital days (days)					
Receivables	85	86	54	54	51
Inventory	76	95	85	84	80
Payables	67	76	65	66	63
Ratios (x)					
Gross asset turnover	3.6	2.6	2.5	2.1	2.0
Current ratio	1.2	1.4	1.5	1.6	1.6
Net interest coverage ratio	6.3	5.6	11.9	8.9	4.5
Adjusted debt/equity	0.7	0.1	0.3	0.4	0.6

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

Disclaimer

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

BUY – Expected return >+15%

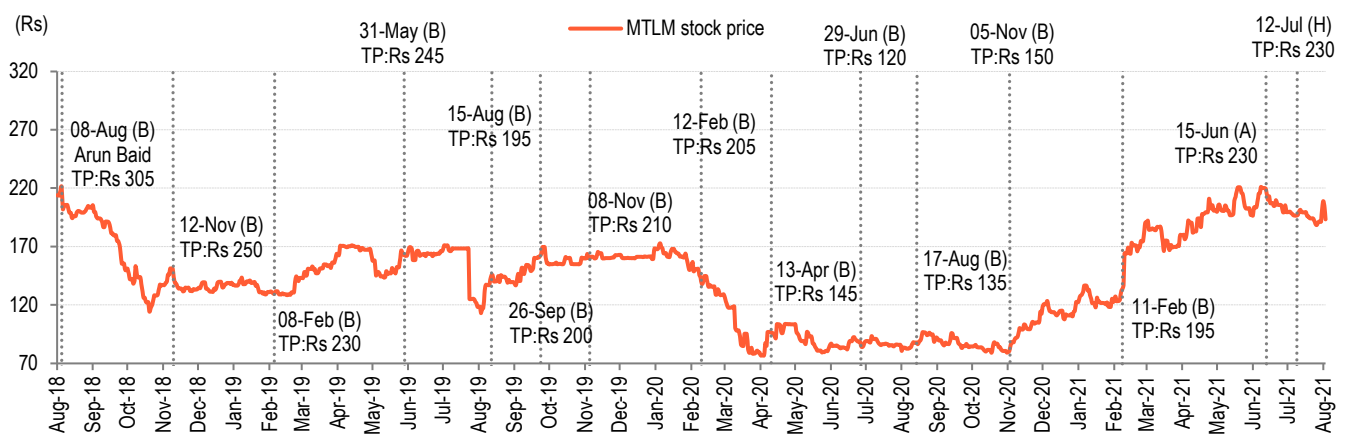
HOLD – Expected return from -6% to +15%

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): GREENPLY INDUSTRIES (MTLM IN)



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

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