

BUY

TP: Rs 120 | ▲ 42%

GREENPLY INDUSTRIES

Construction Materials

29 June 2020

Lockdown saps Q4 performance

Greenply Industries' (GIL) consolidated Q4FY20 revenue declined 12% YoY, with India sales dropping 13.6% (volumes down 14.6%) due to the lockdown, whereas Gabon subsidiary revenue was flat YoY. Operating margins shrank 365bps YoY, translating to EBITDA/PBT contraction of 38%/49% YoY. Given Covid-led unknowns, management has refrained from guiding for FY21. We reduce FY21/FY22 PAT estimates by 29%/17% and maintain BUY with a revised Mar'21 TP of Rs 120 (earlier Rs 145).

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India's plywood volumes decline 15% YoY: GIL's consolidated revenue decreased 12% YoY to Rs 3.4bn as India plywood revenue fell 13.6% to Rs 3bn (volumes down 14.6%) due to the lockdown; subsidiaries – primarily Gabon face-veneer operations – posted a flat topline YoY at Rs 475mn. Management pegs the revenue loss from the lockdown at Rs 600mn. Demand has improved post easing of restrictions with revenue returning to ~70% of normal levels in June vs. 50% in May.

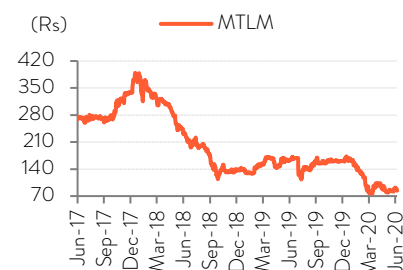
EBITDA/PBT contract: GIL's consolidated operating margins contracted 365bps YoY to 8.7%, resulting in EBITDA/PBT declines of 38%/49% YoY. India plywood margin fell 213bps YoY to 7.7% due to negative operating leverage as sales declined, whereas Gabon margins decreased by 1.5ppt to 14.6% (-345bps QoQ) on higher RM cost (+830 bps YoY) and employee expense (+635bps YoY). Management expects cost savings of ~Rs 200mn which shall cushion margins to some extent. The company has provided for Rs 499.7mn towards the SC order on area-based excise exemption.

Maintain BUY: Poor Q4 results and continued Covid-related weakness in major metros where GIL has a strong presence lead us to cut earnings estimates and lower our TP to Rs 120, set at an unchanged 18x FY22E P/E.

Ticker/Price	MTLM IN/Rs 85
Market cap	US\$ 137.4mn
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	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	14,204	11,694	13,817
EBITDA (Rs mn)	715	1,507	1,556	1,156	1,524
Adj. net profit (Rs mn)	253	852	853	517	827
Adj. EPS (Rs)	2.1	6.9	7.0	4.2	6.7
Adj. EPS growth (%)	NA	236.1	0.2	(39.4)	60.0
Adj. ROAE (%)	3.1	14.0	23.9	12.9	18.1
Adj. P/E (x)	40.9	12.2	12.2	20.1	12.5
EV/EBITDA (x)	NA	NA	9.6	11.1	8.3

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	3,447	3,917	(12.0)	3,460	(0.4)	14,204	14,122	0.6
COGS	2,102	2,351	(10.6)	2,037	3.2	8,355	8,530	(2.1)
% of sales	61.0	60.0	98bps	58.9	211bps	58.8	60.4	(159bps)
Employee expenses	386	374	3.0	406	(4.9)	1,629	1,515	7.5
% of sales	11.2	9.6	164bps	11.7	(54bps)	11.5	10.7	74bps
Operating Expenses	661	711	(7.0)	620	6.6	2,664	2,636	1.1
% of sales	19.2	18.1	103bps	17.9	126bps	18.8	18.7	9bps
EBITDA	299	482	(38.0)	397	(24.9)	1,556	1,440	8.0
EBITDA Margin	8.7	12.3	(364bps)	11.5	(283bps)	11.0	10.2	76bps
Depreciation/Amortisation	66	56	18.9	64	3.9	257	224	14.7
EBIT	232	426	(45.5)	334	(30.4)	1,299	1,216	6.8
EBIT Margin	6.7	10.9	(414bps)	9.6	(291bps)	9.1	8.6	53bps
Net Interest Expenses	55	59	(7.3)	49	13.2	208	186	11.6
Other Income	13	6	112.9	2	559.6	20	33	(37.5)
PBT	190	373	(49.0)	287	(33.7)	1,112	1,062	4.6
Tax Expenses	(88)	78	NM	73	NM	134	315	(57.3)
Net Income before extraordinary items	279	295	(5.5)	214	30.3	977	747	30.8
Extraordinary items	(500)	0	NM	0	NM	(500)	0	NM
Share of profit/(loss) from JV	6	2	178.4	(1)	NM	(5)	49	NM
Reported Net Income	(215.0)	297.3	NA	213.2	NA	472.5	796.7	(40.7)

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenue	2,972	3,439	(13.6)	3,195	(7.0)	12,677	12,838	(1.3)
COGS	1,864	2,150	(13.3)	1,966	(5.2)	7,711	8,017	(3.8)
% of sales	62.7	62.5	18bps	61.5	116bps	60.8	62.4	(162bps)
Employee expenses	331	350	(5.3)	357	(7.3)	1,456	1,405	3.6
% of sales	11.1	10.2	97bps	11.2	(4bps)	11.5	10.9	54bps
Operating Expenses	548	601	(8.8)	530	3.5	2,232	2,217	0.7
% of sales	18.4	17.5	97bps	16.6	186bps	17.6	17.3	34bps
EBITDA	229	338	(32.3)	341	(32.9)	1,277	1,199	6.6
EBITDA Margin	7.7	9.8	(213bps)	10.7	(298bps)	10.1	9.3	74bps
Depreciation/Amortisation	51	46	12.1	52	(1.6)	211	187	12.5
EBIT	178	292	(39.2)	289	(38.6)	1,067	1,012	5.5
EBIT Margin	6.0	8.5	(252bps)	9.0	(307bps)	8.4	7.9	54bps
Net Interest Expenses	44	44	(1.3)	40	9.5	169	148	13.8
Other Income	31	14	129.2	10	208.4	62	65	(4.2)
PBT	165	262	(36.9)	259	(36.3)	960	928	3.4
Tax Expenses	(88)	78	NM	73	NM	134	315	(57.3)
Net Income before extraordinary items	253	184	38.0	186	36.2	826	613	34.7
Extraordinary items	(500)	0	NA	0	NA	(500)	0	NA
Reported Net Income	(246)	184	NA	186	NA	326	613	NA

Source: Company, BOBCAPS Research

FIG 3 – SUBSIDIARIES (PRIMARILY GABON)

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	475	478	(0.8)	265	79.1	1,527	1,284	19.0
EBITDA	70	144	(51.7)	48	44.9	279	242	15.4
EBITDA Margin	14.6	30.1	(1,542bps)	18.1	(346bps)	18.3	18.8	(57bps)

Source: Company, BOBCAPS Research

Earnings call highlights

- GIL lost sales of ~Rs 600mn due to the lockdown that began in late-March and estimates that growth for Q4FY20 would have otherwise been at 3-5%.
- After being closed for nearly two months, all plants are now operational but with lower capacity utilisation of 50-70%.
- Availability of carpenters has reduced in some markets. The company has seen relatively better demand traction in North, Central and East India post easing of the lockdown.
- Management believes that demand for residential real estate may improve if the work-from-home model becomes the norm.
- Working capital days increased by 15 days to 78 in Q4 mainly owing to an increase in debtors as collections slowed significantly post-lockdown.
- In FY20, ~72% of plywood sales came from the premium segment. The top 10 cities accounted for 40-45% of total plywood turnover.
- GIL has refrained from guiding on FY21 revenues and margins but expects cost savings of ~Rs 200mn in FY21.
- Gabon operations were affected for 7-10 days owing to a Covid-led lockdown in that country besides facing logistical issues.
- Gabon margins in Q4 were also lower as higher margins erroneously reported in the previous quarter were corrected. The company had implemented SAP in Q3 and posted some error in number reporting.
- The Gabon subsidiary has begun exports to Europe and is now exploring the US markets.
- GIL has routine maintenance capex plans of Rs 150mn-200mn in FY21 for both India and Gabon put together.
- Management plans to bring down debt further in FY21.
- GIL has provided fully for its share of 60% on the interest and principal it may incur towards area-based excise exemption, per a recent SC judgement. It has also reversed a sum of ~Rs 210mn during the quarter which was expected to be received from excise authorities. The company is exploring legal options for the order and also plans a representation to the government on this matter.

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 significant 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.

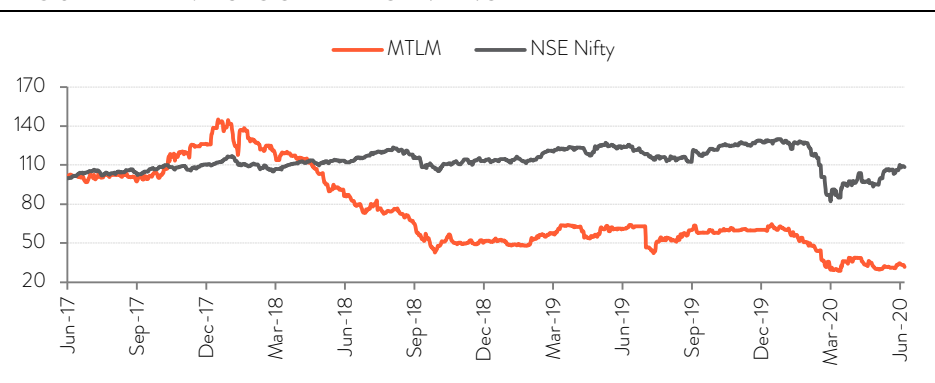
Poor Q4FY20 results and continued Covid-related weakness in major metros where GIL has a strong presence lead us to reduce FY21/FY22 earnings estimates by 29%/17%. Maintain BUY with a revised Mar'21 target price of Rs 120 (Rs 145 earlier), set at an unchanged 18x one-year forward P/E multiple.

FIG 4 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	11,694	13,817	12,672	14,916	(7.7)	(7.4)
EBITDA	1,156	1,524	1,433	1,775	(19.3)	(14.1)
PAT	517	827	728	1,002	(29.0)	(17.4)

Source: Company, BOBCAPS Research

FIG 5 – 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	9,123	14,122	14,204	11,694	13,817
EBITDA	715	1,507	1,556	1,156	1,524
Depreciation	(180)	(224)	(257)	(270)	(287)
EBIT	535	1,282	1,299	886	1,237
Net interest income/(expenses)	(77)	(186)	(208)	(207)	(181)
Other income/(expenses)	(67)	71	20	18	27
Exceptional items	(46)	(55)	(500)	0	0
EBT	391	1,167	1,112	697	1,083
Income taxes	(137)	(315)	(134)	(180)	(256)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	208	797	477	517	827
Adjustments	46	55	376	0	0
Adjusted net profit	253	852	853	517	827

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	2,190	2,320	2,317	1,895	2,212
Other current liabilities	2,495	634	504	417	454
Provisions	252	64	348	58	69
Debt funds	7,122	2,500	2,674	2,320	2,050
Other liabilities	0	0	0	0	0
Equity capital	123	123	123	123	123
Reserves & surplus	8,652	3,230	3,657	4,117	4,794
Shareholders' fund	8,775	3,352	3,779	4,239	4,916
Total liabilities and equities	20,834	8,870	9,622	8,929	9,702
Cash and cash eq.	337	206	103	187	462
Accounts receivables	2,856	3,050	3,565	2,970	3,257
Inventories	2,312	1,694	1,771	1,624	1,790
Other current assets	1,900	964	646	641	681
Investments	185	222	238	238	238
Net fixed assets	5,706	2,444	3,076	3,097	3,100
CWIP	7,704	173	52	0	0
Intangible assets	99	75	67	67	67
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	20,834	8,870	9,622	8,929	9,702

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20P	FY21E	FY22E
Net income + Depreciation	735	787	1,114
Interest expenses	208	207	181
Non-cash adjustments	0	0	0
Changes in working capital	(236)	(52)	(128)
Other operating cash flows	0	0	0
Cash flow from operations	706	942	1,167
Capital expenditures	(559)	(240)	(290)
Change in investments	(16)	0	0
Other investing cash flows	(64)	0	0
Cash flow from investing	(639)	(240)	(290)
Equities issued/Others	0	0	0
Debt raised/repaid	174	(354)	(270)
Interest expenses	(208)	(207)	(181)
Dividends paid	(59)	(57)	(150)
Other financing cash flows	(77)	0	0
Cash flow from financing	(170)	(618)	(601)
Changes in cash and cash eq.	(103)	84	276
Closing cash and cash eq.	103	187	462

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	1.7	6.5	3.9	4.2	6.7
Adjusted EPS	2.1	6.9	7.0	4.2	6.7
Dividend per share	0.0	0.4	0.4	0.4	1.0
Book value per share	71.6	27.3	30.8	34.6	40.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	NA	NA	1.0	1.1	0.9
EV/EBITDA	NA	NA	9.6	11.1	8.3
Adjusted P/E	40.9	12.2	12.2	20.1	12.5
P/BV	NA	NA	2.7	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	73.5	76.6	139.5	74.2	76.4
Interest burden (PBT/EBIT)	64.4	86.7	47.1	78.7	87.5
EBIT margin (EBIT/Revenue)	5.9	9.1	9.1	7.6	9.0
Asset turnover (Revenue/Avg TA)	50.0	95.1	153.6	126.1	148.3
Leverage (Avg TA/Avg Equity)	2.2	2.4	2.6	2.3	2.0
Adjusted ROAE	3.1	14.0	23.9	12.9	18.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	NA	54.8	0.6	(17.7)	18.1
EBITDA	NA	110.7	3.3	(25.7)	31.8
Adjusted EPS	NA	236.1	0.2	(39.4)	60.0
Profitability & Return ratios (%)					
EBITDA margin	7.8	10.7	11.0	9.9	11.0
EBIT margin	5.9	9.1	9.1	7.6	9.0
Adjusted profit margin	2.8	6.0	6.0	4.4	6.0
Adjusted ROAE	3.1	14.0	23.9	12.9	18.1
ROCE	2.3	8.4	16.5	10.1	14.0
Working capital days (days)					
Receivables	118	76	85	102	82
Inventory	126	86	76	91	77
Payables	113	65	67	73	61
Ratios (x)					
Gross asset turnover	1.1	2.3	3.6	2.6	2.9
Current ratio	1.0	1.3	1.2	1.3	1.4
Net interest coverage ratio	6.9	6.9	6.2	4.3	6.8
Adjusted debt/equity	0.8	0.7	0.7	0.5	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

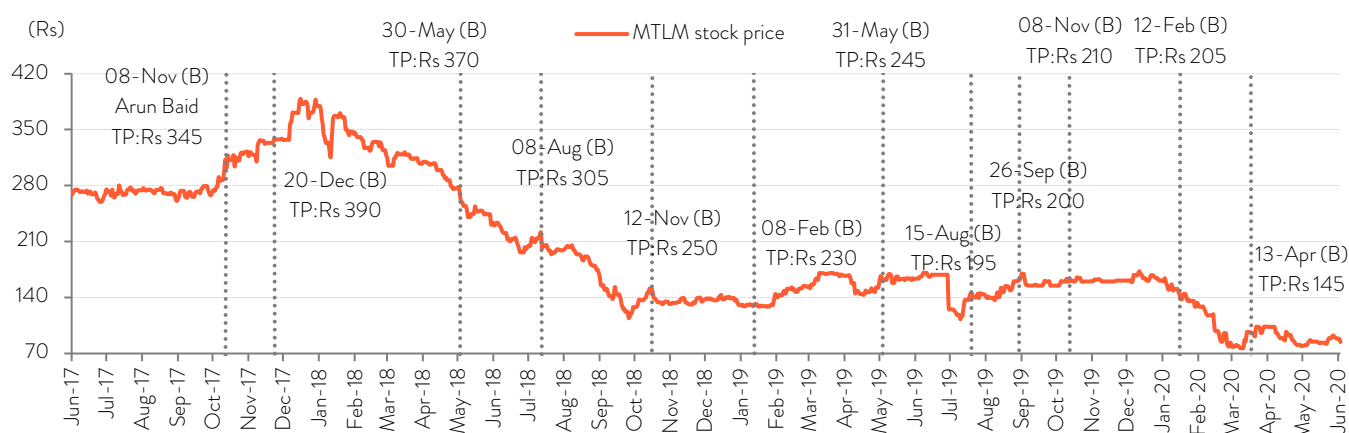
ADD – Expected return from >+5% to +15%

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: GREENPLY INDUSTRIES (MTLM IN)



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

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