

ADD

TP: Rs 230 | ▲ 7%

GREENPLY INDUSTRIES

Construction Materials

15 June 2021

Decent quarter; cut to ADD on limited upside

- GIL reported Q4FY21 consolidated revenue growth of 15% YoY backed by a 21% uptick in India business
- Consolidated operating margin expanded 280bps YoY to 11.5% supported by a higher gross margin (+95bps) and lower other expenses (-180bps)
- We raise FY23 PAT 5% and increase our TP to Rs 230 (vs. Rs 195) but downgrade from BUY to ADD on limited upside post the recent rally

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India business leads revenue growth: GIL reported consolidated Q4 revenue growth of 15% YoY to ~Rs 4bn with India business up 21% led by 19% growth in plywood volumes off a soft base. Gabon subsidiary revenue declined 21% YoY as it faced logistical challenges due to the non-availability of ships. For FY21, GIL's consolidated topline declined 18% with India business contracting 20% (plywood volumes down 19%) and Gabon dipping 2%. Working capital days reduced by 25 days YoY to 53, and management sees scope for further improvement. During the year, GIL has reduced consolidated net debt by ~Rs 1.9bn to Rs 637mn.

Demand softens in Q1: GIL clocked brisk growth in Q4 with demand spread across markets, but ensuing lockdowns weakened sales traction in Q1FY22. Management is optimistic of demand revival from Q2 as the country unlocks. The company believes plywood demand will remain strong owing to increasing formalisation of the unorganised market, recovery in real estate and the growing work-from-home culture. It has thus undertaken capacity expansion capex of ~Rs 900mn which should become operational by Q4FY22-end.

Q4 operating margin up 280bps YoY: GIL reported consolidated operating margin gains of 280bps YoY to 11.5% backed by a 95bps increase in gross margin (on a better product mix) and a 180bps decline in other expenses (operating leverage). EBITDA/PBT thus grew 52%/106% YoY. In FY21, operating margin contracted 95bps YoY to 10% with EBITDA/PBT falling 25% each. As per management, the company has taken price increases due to rising raw material costs and has also rationalised cost, which should enable it to earn better margins ahead.

Downgrade to ADD post recent rally: We raise our FY23 PAT estimate 5% (FY22 largely unchanged) and also bring our target one-year forward P/E multiple in line with the five-year average of 20x (18x earlier) considering the much-improved balance sheet post retirement of debt. Our new Mar'22 TP stands at Rs 230 (vs. Rs 195). We continue to like GIL for its leadership in the plywood business and improved balance sheet but downgrade our rating from BUY to ADD due to the sharp 57% run-up in stock price over the past four months (taking current valuations to 19x FY23E EPS).

Key changes

Target	Rating
▲	▼

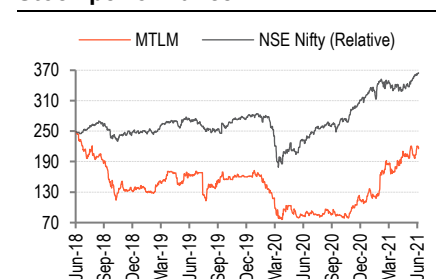
Ticker/Price	MTLM IN/Rs 216
Market cap	US\$ 360.5mn
Free float	48%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 225/Rs 74
Promoter/FPI/DII	52%/2%/46%

Source: NSE | Price as of 15 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	11,653	14,530	16,414
EBITDA (Rs mn)	1,167	1,800	2,118
Adj. net profit (Rs mn)	609	1,125	1,392
Adj. EPS (Rs)	5.0	9.2	11.3
Consensus EPS (Rs)	5.1	9.4	11.5
Adj. ROAE (%)	15.0	23.0	22.9
Adj. P/E (x)	43.4	23.5	19.0
EV/EBITDA (x)	24.7	15.6	12.7
Adj. EPS growth (%)	(27.6)	84.7	23.7

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

Stock performance

Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	3,967	3,447	15.1	3,404	16.5	11,653	14,204	(18.0)
COGS	2,382	2,102	13.3	1,972	20.8	6,841	8,355	(18.1)
% of sales	60.0	61.0	(94bps)	57.9	210bps	58.7	58.8	(12bps)
Employee expenses	441	386	14.4	385	14.6	1,495	1,629	(8.3)
% of sales	11.1	11.2	(7bps)	11.3	(19bps)	12.8	11.5	136bps
Other Expenses	689	661	4.4	630	9.5	2,151	2,664	(19.3)
% of sales	17.4	19.2	(178bps)	18.5	(111bps)	18.5	18.8	(30bps)
EBITDA	455	299	52.3	417	9.0	1,167	1,556	(25.0)
EBITDA Margin (%)	11.5	8.7	280bps	12.3	(79bps)	10.0	11.0	(94bps)
Depreciation/Amortisation	64	66	(3.5)	59	7.9	231	257	(10.3)
EBIT	391	232	68.2	358	9.2	936	1,299	(27.9)
EBIT Margin (%)	9.9	6.7	311bps	10.5	(66bps)	8.0	9.1	(111bps)
Net Interest Expenses	37	55	(32.0)	36	2.5	166	208	(19.9)
Other Income	39	13	199.9	16	145.5	68	20	231.8
PBT	392	190	106.0	337	16.3	837	1,112	(24.7)
Tax Expenses	105	(88)	(219.2)	87	21.4	205	134	52.3
Net Income before extraordinary items	287	279	3.0	251	14.5	633	977	(35.2)
Extraordinary items	0	(500)	(100.0)	0	NM	0	(500)	NM
Share of profit/(loss) from JV	(1)	6	(112.9)	(1)	1.7	(24)	(5)	380.2
Reported Net Income	286	(215)	(233.2)	250	14.6	609	473	28.9

Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	3,594	2,972	20.9	3,101	15.9	10,154	12,677	(19.9)
COGS	2,180	1,864	17.0	1,820	19.8	6,064	7,711	(21.4)
% of sales	60.7	62.7	(203bps)	58.7	198bps	59.7	60.8	(111bps)
Employee expenses	393	331	18.7	339	15.9	1,312	1,456	(9.9)
% of sales	10.9	11.1	(20bps)	10.9	0bps	12.9	11.5	144bps
Other Expenses	600	548	9.4	569	5.4	1,809	2,232	(19.0)
% of sales	16.7	18.4	(175bps)	18.4	(166bps)	17.8	17.6	20bps
EBITDA	420	229	83.3	372	12.9	969	1,277	(24.1)
EBITDA Margin (%)	11.7	7.7	398bps	12.0	(31bps)	9.5	10.1	(53bps)
Depreciation/Amortisation	47	51	(8.5%)	42	11.4	165	211	(21.5)
EBIT	373	178	109.9	330	13.1	804	1,067	(24.7)
EBIT Margin (%)	10.4	6.0	440bps	10.6	(26bps)	7.9	8.4	(50bps)
Net Interest Expenses	24	44	(44.6)	22	8.9	110	169	(34.4)
Other Income	45	31	44.5	22	100.2	91	62	47.0
PBT	394	165	138.4	330	19.3	784	960	(18.3)
Tax Expenses	105	(88)	(219.2)	87	21.4	205	134	52.3
Net Income before extraordinary items	288	253	13.8	243	18.5	579	826	(29.8)
Extraordinary items	0	(500)	(100.0)	0	NM	0	(500)	NM
Reported Net Income	288	(246)	(217.0)	243	18.5	579	326	77.7

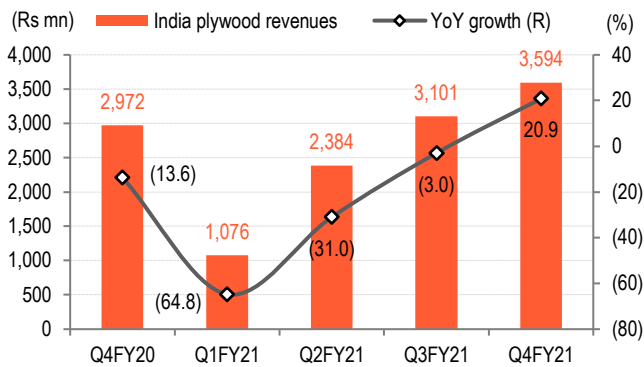
Source: Company, BOBCAPS Research

Fig 3 – Subsidiary revenues (primarily Gabon)

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue	373	475	(21.3)	303	23.1	1,500	1,527	(1.8)
EBIDTA	35	70	(49.8)	45	(22.9)	198	279	(29.0)
EBITDA Margin (%)	9.3	14.6	(531bps)	14.9	(557bps)	13.2	18.3	(505bps)

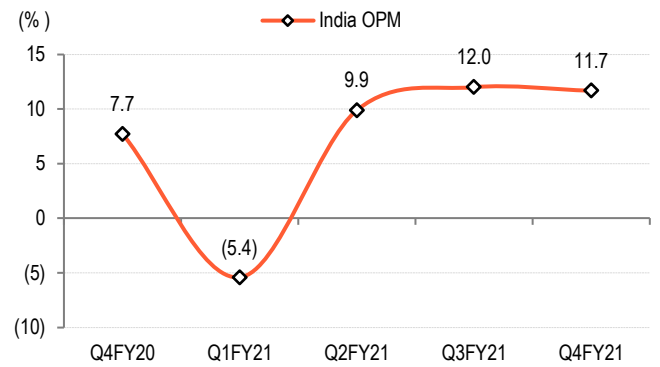
Source: Company, BOBCAPS Research

Fig 4 – India standalone revenues



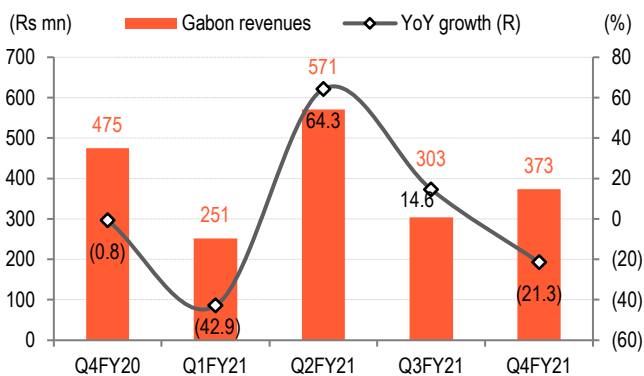
Source: Company, BOBCAPS Research

Fig 5 – India standalone operating margins



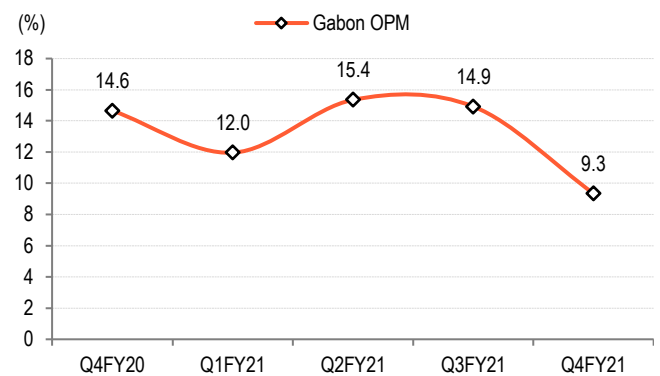
Source: Company, BOBCAPS Research

Fig 6 – Gabon revenues



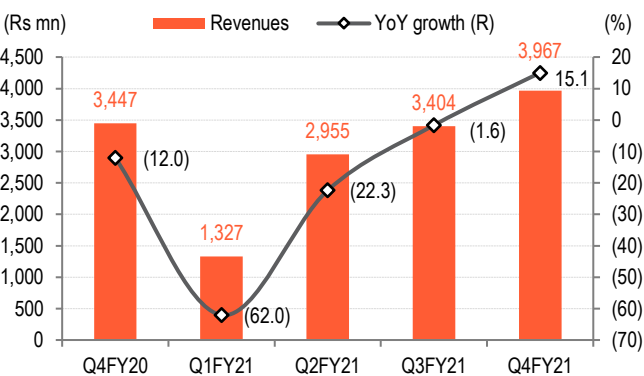
Source: Company, BOBCAPS Research

Fig 7 – Gabon operating margins



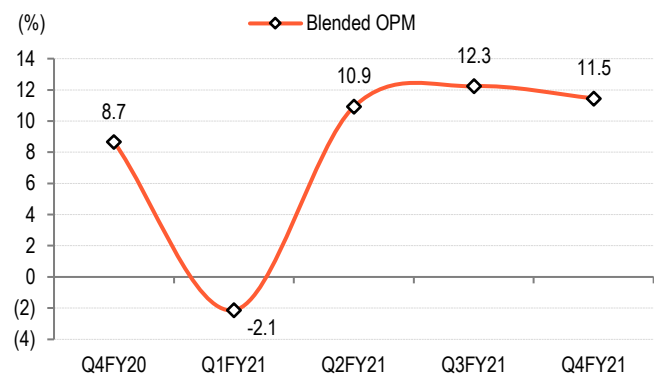
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenues



Source: Company, BOBCAPS Research

Fig 9 – Consolidated operating margin



Source: Company, BOBCAPS Research

Earnings call highlights

- GIL saw good demand across product categories during Q4FY21 but traction weakened in Q1FY22 due to lockdowns, and management expects recovery only in Q2 post unlocking. The company believes the shift from the unorganised to organised market, recovery in the real estate sector, pent-up demand, and work-from-home trends will result in increased demand for its products.
- The Gabon subsidiary faced logistical issues in Q4 due to a lack of container/ship availability, which will hamper business for the next 2-3 quarters. For FY22, management expects Gabon to post ~Rs 1.7bn in revenue and a 11-13% operating margin.
- Premium plywood sales were at 72-73% in value terms for FY21.
- GIL expects margins to improve going ahead due to various cost-saving measures undertaken.
- Management plans to grow the plywood business sustainably at 10-12% over the long term.
- The company is setting up a new plywood plant at a capex of ~Rs 900mn in Lucknow (Uttar Pradesh) which should become operational by Q4FY22-end. This plant can generate peak turnover of ~Rs 2.5bn.
- Plans are underway to enter another product category besides plywood in the building material space.
- On a standalone basis, the company is already net debt-free. On a consolidated basis, net debt totals ~Rs 630mn.
- GIL has completed the targeted correction in working capital cycle, reducing its net working capital days by a third to end FY21 at 53 days (consolidated) – this stemmed largely from a reduction in debtor cycle (by ~31 days). The company plans to further tighten working capital discipline 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.

We raise our FY23 PAT estimate by 5% (FY22 largely unchanged) and also bring our target one-year forward P/E multiple in line with the five-year average of 20x (18x earlier) considering the much-improved balance sheet post retirement of debt. Our new Mar'22 TP stands at Rs 230 (vs. Rs 195). However, the stock has rallied 57% in the past four months and current valuations of 19x FY23E EPS leave little upside – we thus downgrade our rating from BUY to ADD.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	14,530	16,414	14,533	15,952	(0.0)	2.9
EBITDA	1,800	2,118	1,806	2,038	(0.3)	3.9
PAT	1,125	1,392	1,129	1,320	(0.3)	5.4

Source: BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY21A	FY22E	FY23E
Plywood volumes India (msm)	45.6	57.5	65.1
Growth (%)	(19.1)	25.9	13.3
India revenues (Rs mn)	10,117	12,825	14,500
Growth (%)	(19.9)	26.8	13.1
India Operating Margins (%)	9.5	12.4	12.8
Gabon Revenues (Rs mn)	1,500	1,668	1,869
Growth (%)	(1.8)	11.2	12.1
Gabon OPM (%)	13.2	12.6	13.5

Source: BOBCAPS Research

Fig 12 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	REDUCE	950	19	24.0	29.6	19.9	23.3	32
Somany Ceramics	BUY	490	17	19.7	24.4	12.1	13.3	20
Greenply Industries	ADD	230	19	9.2	11.3	23.0	22.9	20
Century Plyboard	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	REDUCE	4,145	16	115.4	138.1	16.2	17.1	30
Astral Ltd	SELL	1,210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	ADD	135	1	5.7	6.1	15.0	14.7	22
Supreme Industries	SELL	1,805	8	52.8	60.1	20.2	20.8	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)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	14,122	14,204	11,653	14,530	16,414
EBITDA	1,507	1,562	1,167	1,800	2,118
Depreciation	(224)	(257)	(231)	(256)	(314)
EBIT	1,282	1,304	936	1,544	1,804
Net interest inc./(exp.)	(186)	(208)	(166)	(120)	(54)
Other inc./(exp.)	71	6	44	58	77
Exceptional items	(55)	(495)	0	0	0
EBT	1,167	1,102	814	1,482	1,827
Income taxes	(315)	(134)	(205)	(357)	(435)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	797	473	609	1,125	1,392
Adjustments	55	368	0	0	0
Adjusted net profit	852	841	609	1,125	1,392

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	2,320	2,317	2,043	2,435	2,753
Other current liabilities	538	389	500	530	616
Provisions	64	348	212	262	295
Debt funds	2,500	2,674	1,917	800	450
Other liabilities	96	115	112	107	103
Equity capital	123	123	123	123	123
Reserves & surplus	3,230	3,657	4,244	5,302	6,609
Shareholders' fund	3,352	3,779	4,367	5,424	6,732
Total liab. and equities	8,870	9,622	9,151	9,557	10,949
Cash and cash eq.	206	103	1,280	450	844
Accounts receivables	3,050	3,565	1,939	2,298	2,595
Inventories	1,694	1,771	1,792	2,073	2,300
Other current assets	964	646	704	756	854
Investments	222	238	225	225	225
Net fixed assets	2,444	3,076	3,070	3,676	4,052
CWIP	173	52	62	0	0
Intangible assets	75	67	15	15	15
Deferred tax assets, net	41	105	64	64	64
Other assets	0	0	0	0	0
Total assets	8,870	9,622	9,151	9,557	10,949

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	701	2,251	1,275	1,572
Capital expenditures	(559)	(177)	(800)	(690)
Change in investments	(16)	13	0	0
Other investing cash flows	(64)	41	0	0
Cash flow from investing	(639)	(123)	(800)	(690)
Equities issued/Others	0	0	0	0
Debt raised/repaid	174	(757)	(1,117)	(350)
Interest expenses	(208)	(166)	(120)	(54)
Dividends paid	(59)	(49)	(68)	(84)
Other financing cash flows	(72)	21	0	0
Cash flow from financing	(166)	(951)	(1,305)	(488)
Chg in cash & cash eq.	(103)	1,177	(830)	394
Closing cash & cash eq.	103	1,280	450	844

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	6.5	3.9	5.0	9.2	11.3
Adjusted EPS	6.9	6.9	5.0	9.2	11.3
Dividend per share	0.4	0.4	0.4	0.5	0.6
Book value per share	27.3	30.8	35.6	44.2	54.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.2	2.2	2.5	1.9	1.6
EV/EBITDA	20.8	19.8	24.7	15.6	12.7
Adjusted P/E	31.0	31.4	43.4	23.5	19.0
P/BV	7.9	7.0	6.1	4.9	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	76.6	138.5	74.8	75.9	76.2
Interest burden (PBT/EBIT)	86.7	46.5	86.9	96.0	101.3
EBIT margin (EBIT/Revenue)	9.1	9.2	8.0	10.6	11.0
Asset turnover (Rev./Avg TA)	95.1	153.6	124.1	155.3	160.1
Leverage (Avg TA/Avg Equity)	2.4	2.6	2.3	1.9	1.7
Adjusted ROAE	14.0	23.6	15.0	23.0	22.9

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	54.8	0.6	(18.0)	24.7	13.0
EBITDA	110.7	3.6	(25.3)	54.3	17.6
Adjusted EPS	236.1	(1.3)	(27.6)	84.7	23.7
Profitability & Return ratios (%)					
EBITDA margin	10.7	11.0	10.0	12.4	12.9
EBIT margin	9.1	9.2	8.0	10.6	11.0
Adjusted profit margin	6.0	5.9	5.2	7.7	8.5
Adjusted ROAE	14.0	23.6	15.0	23.0	22.9
ROCE	8.4	16.5	11.0	18.7	20.5
Working capital days (days)					
Receivables	76	85	86	53	54
Inventory	86	76	95	84	84
Payables	65	67	76	64	66
Ratios (x)					
Gross asset turnover	2.3	3.6	2.6	2.9	2.8
Current ratio	1.3	1.2	1.4	1.6	1.7
Net interest coverage ratio	6.9	6.3	5.6	12.9	33.6
Adjusted debt/equity	0.7	0.7	0.1	0.1	(0.1)

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

Disclaimer

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

BUY – Expected return >+15%

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

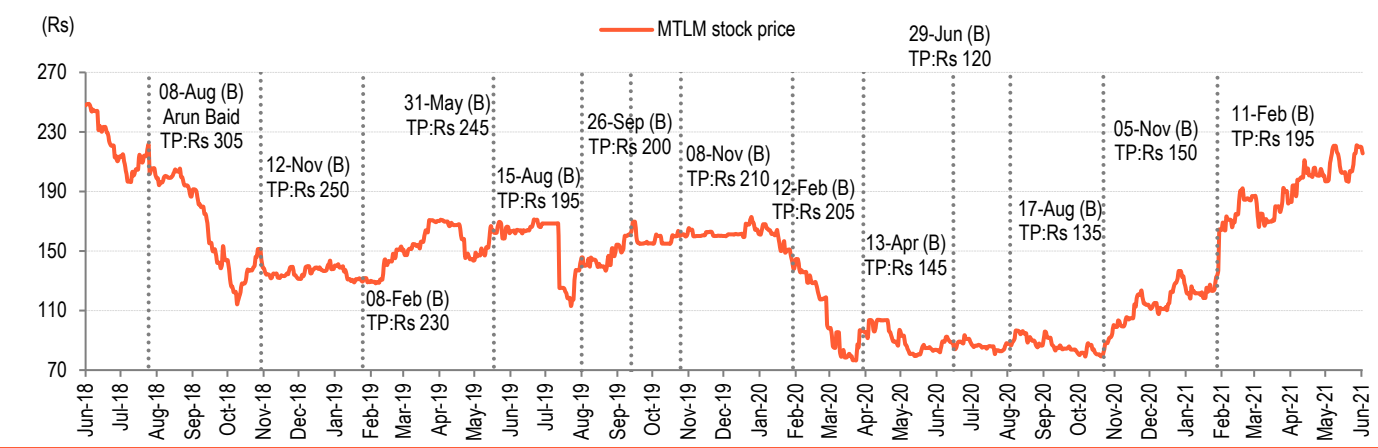
REDUCE – Expected return from -5% to +5%

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): GREENPLY INDUSTRIES (MTLM IN)



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

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As of 31 May 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 19 have ADD ratings, 6 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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