

**BUY**

TP: Rs 260 | ▲ 42%

**GREENPLY INDUSTRIES**

Construction Materials

16 May 2022

### Steady revenue; new capacities to form next leg of growth

- Consolidated Q4 revenue grew 13% YoY backed by an 8% rise in plywood volumes and 7% rise in price realisation for India operations
- Consolidated operating margin declined 525bps YoY to 9.9% (10.6% excluding non-cash ESOP cost of Rs 30mn)
- Reiterate BUY with an unchanged TP of Rs 260 based on 22x FY24E EPS

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**Steady revenue growth:** Greenply (GIL) reported consolidated Q4FY22 revenue growth of 13% YoY to Rs 4.5bn, with India business up 15% as plywood volumes grew 8% and price realisation increased 7% to Rs 238/sqm. Gabon subsidiary revenue declined 8% YoY.

**Higher RM cost and marketing spend put pressure on margin:** A 20-25% increase in the cost of timber, among other inputs, resulted in sequential gross margin contraction of 370bps YoY to 40% in Q4. Operating margin stood at 9.9% (10.6% adjusted for non-cash ESOP cost) and EBITDA was at Rs 445mn (adj. Rs 475mn). India business had a 9.7% EBITDA margin (adj. 10.4%) with gross margin down 140bps YoY. Management has taken a 1-1.25% price hike in Q1FY23 to mitigate the rising inflation.

**MDF foray to cost Rs 5.5bn:** GIL is foraying into MDF manufacturing with the setup of an 800cbm-per-day capacity at a cost of Rs 5.5bn in Gujarat by Q4FY23, funded via debt and internal accruals. Per management, this will be the first MDF facility in Western India, giving the company a freight advantage over peers when catering to demand in the region. With this foray, GIL will be able to broaden its wood panel portfolio and deepen its presence in a growing market. Management expects MDF revenue of Rs 3bn-3.5bn in FY24 at 65-70% plant utilisation, reaching Rs 7bn-7.2bn on full utilisation.

**Guidance for FY23:** Management has guided for 15% revenue growth in FY23, of which 10-11% will come from volume growth and 3-4% from price hikes.

**Maintain BUY:** The stock is trading at 16.3x FY24E P/E compared to its 5Y median of 21.8x. We maintain our target FY24E P/E multiple at 22x for an unchanged TP of Rs 260 on the back of the anticipated revival in plywood, GIL's entry into the high-margin MDF business, strong brand and pan-India distribution network. Retain BUY.

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MTLM IN/Rs 182
Market cap	US\$ 287.5mn
Free float	48%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 255/Rs 161
Promoter/FPI/DII	52%/4%/44%

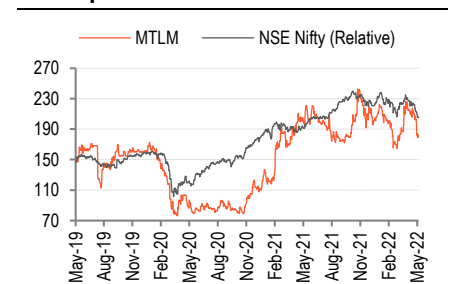
Source: NSE | Price as of 16 May 2022

### Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	15,628	16,231	21,436
EBITDA (Rs mn)	1,503	2,088	2,959
Adj. net profit (Rs mn)	947	1,057	1,447
Adj. EPS (Rs)	7.7	8.6	11.8
Consensus EPS (Rs)	7.7	11.0	12.9
Adj. ROAE (%)	19.4	18.0	20.5
Adj. P/E (x)	23.6	21.2	15.5
EV/EBITDA (x)	16.0	11.4	8.8
Adj. EPS growth (%)	55.5	11.6	36.9

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

### Stock performance



Source: NSE



## Earnings call highlights

- Management stated that demand for plywood remains buoyant on account of a sharp uptick in the real estate segment coupled with a material shift in demand from the unorganised to organised segment.
- Gabon operations are yet to fully normalise as logistical issues persist. Container and ship availability remains a challenge. Once vessel availability eases and raw material costs normalise, the operating margin for Gabon operations can improve by 100-150bps. In FY22, this margin was at 10.7%. Management has guided for ~Rs 2.3bn of revenue from Gabon in FY23.
- GIL is setting up an 800cbm greenfield MDF board manufacturing unit at Vadodara, Gujarat, scheduled for completion in Q4FY23. Financial closure has been achieved and construction activities are in full swing.
- The plywood manufacturing unit at Lucknow, Uttar Pradesh, is complete and has a capacity of 13.5mn sqm p.a. Commercial operations are scheduled to commence in Q1FY23 and GIL aims to generate revenue of Rs 1.2bn-1.25bn in FY23 and Rs 2.5bn in FY24. This facility will cater to premium products that carry high realisations.
- **Capex:** For FY23, the company is planning capex of Rs 4.2bn-4.25bn in MDF, Rs 0.3bn in plywood (in Q1FY23) and Rs 0.2bn-0.25bn as maintenance outlay. No major capex is planned for FY24, except towards maintenance.
- **Debt:** Gross debt is currently ~Rs 7bn and net debt is Rs 6bn-6.25bn. The cost of debt is 6.25-6.5%.
- **ESOPs:** GIL intends to have an ESOP of Rs 150mn in FY23 and Rs 30mn in FY24.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>4,486</b>	<b>3,967</b>	<b>13.1</b>	<b>4,211</b>	<b>6.5</b>	<b>15,628</b>	<b>11,653</b>	<b>34.1</b>
COGS	2,693	2,235	20.5	2,580	4.4	9,353	6,841	36.7
% of sales	60.0	56.3	371bps	61.3	(123bps)	59.8	58.7	115bps
Employee expenses	504	441	14.2	477	5.5	1,933	1,495	29.3
% of sales	11.2	11.1	11bps	11.3	(10bps)	12.4	12.8	(46bps)
Other Expenses	843	689	22.3	725	16.3	2,839	2,151	32.0
% of sales	18.8	17.4	142bps	17.2	158bps	18.2	18.5	(29bps)
<b>EBITDA</b>	<b>445</b>	<b>601</b>	<b>(26.0)</b>	<b>428</b>	<b>3.9</b>	<b>1,503</b>	<b>1,167</b>	<b>28.7</b>
<b>EBITDA Margin (%)</b>	<b>9.9</b>	<b>15.2</b>	<b>(523bps)</b>	<b>10.2</b>	<b>(25bps)</b>	<b>9.6</b>	<b>10.0</b>	<b>(40bps)</b>
Depreciation/Amortisation	67	64	5.5	65	3.0	258	231	12.0
<b>EBIT</b>	<b>378</b>	<b>538</b>	<b>(29.7)</b>	<b>363</b>	<b>4.1</b>	<b>1,244</b>	<b>936</b>	<b>32.9</b>
<b>EBIT Margin (%)</b>	<b>8.4</b>	<b>13.5</b>	<b>(512bps)</b>	<b>8.6</b>	<b>(19bps)</b>	<b>8.0</b>	<b>8.0</b>	<b>(7bps)</b>
Net Interest Expenses	25	37	(33.6)	26	(4.9)	119	166	(28.3)
Other Income	31	39	(20.0)	27	15.5	99	68	46.3
<b>PBT</b>	<b>384</b>	<b>539</b>	<b>(28.7)</b>	<b>364</b>	<b>5.6</b>	<b>1,224</b>	<b>837</b>	<b>46.1</b>
Tax Expenses	95	105	(9.6)	92	3.9	303	205	47.8
Net Income before extraordinary items	289	434	(33.3)	272	6.2	921	633	45.6
Share of profit/(loss) from JV	1	(1)	(184.5)	26	(97.5)	26	(24)	(210.0)
<b>Reported Net Income</b>	<b>290</b>	<b>433</b>	<b>(33.1)</b>	<b>298</b>	<b>(2.9)</b>	<b>947</b>	<b>609</b>	<b>55.5</b>

Source: Company, BOBCAPS Research

**Fig 2 – Standalone quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>4,143</b>	<b>3,594</b>	<b>15.3</b>	<b>3,730</b>	<b>11.1</b>	<b>13,769</b>	<b>10,154</b>	<b>35.6</b>
COGS	2,573	2,180	18.0	2,339	10.0	8,436	6,064	39.1
% of sales	62.1	60.7	142bps	62.7	(61bps)	61.3	59.7	155bps
Employee expenses	452	393	15.1	430	5.2	1,726	1,312	31.5
% of sales	10.9	10.9	(2bps)	11.5	(61bps)	12.5	12.9	(39bps)
Other Expenses	717	600	19.5	581	23.4	2,303	1,809	27.3
% of sales	17.3	16.7	62bps	15.6	174bps	16.7	17.8	(109bps)
<b>EBITDA</b>	<b>400</b>	<b>420</b>	<b>(4.6)</b>	<b>380</b>	<b>5.4</b>	<b>1,304</b>	<b>969</b>	<b>34.6</b>
<b>EBITDA Margin (%)</b>	<b>9.7</b>	<b>11.7</b>	<b>(202bps)</b>	<b>10.2</b>	<b>(52bps)</b>	<b>9.5</b>	<b>9.5</b>	<b>(7bps)</b>
Depreciation/Amortisation	49	47	4.0	47	4.5	186	165	12.5
<b>EBIT</b>	<b>351</b>	<b>373</b>	<b>(5.7)</b>	<b>333</b>	<b>5.5</b>	<b>1,118</b>	<b>804</b>	<b>39.1</b>
<b>EBIT Margin (%)</b>	<b>8.5</b>	<b>10.4</b>	<b>(189bps)</b>	<b>8.9</b>	<b>(45bps)</b>	<b>8.1</b>	<b>7.9</b>	<b>20bps</b>
Net Interest Expenses	14	24	(44.1)	13	1.9	58	110	(47.7)
Other Income	43	45	(3.6)	36	20.9	132	91	44.8
<b>PBT</b>	<b>381</b>	<b>394</b>	<b>(3.1)</b>	<b>356</b>	<b>7.2</b>	<b>1,192</b>	<b>784</b>	<b>52.0</b>
Tax Expenses	96	105	(8.7)	90	6.3	304	205	48.3
<b>Reported Net Income</b>	<b>285</b>	<b>288</b>	<b>(1.1)</b>	<b>265</b>	<b>7.5</b>	<b>888</b>	<b>579</b>	<b>53.3</b>

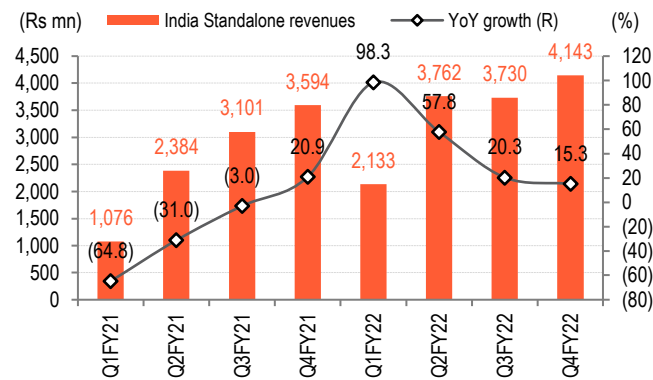
Source: Company, BOBCAPS Research

**Fig 3 – Subsidiary results (primarily Gabon)**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue	343	373	(8.2)	480	(28.7)	1,859	1,500	24.0
EBITDA	45	35	28.6	48	(7.2)	199	198	0.3
EBITDA Margin (%)	13.1	9.3	374bps	10.1	302bps	10.7	13.2	(252bps)

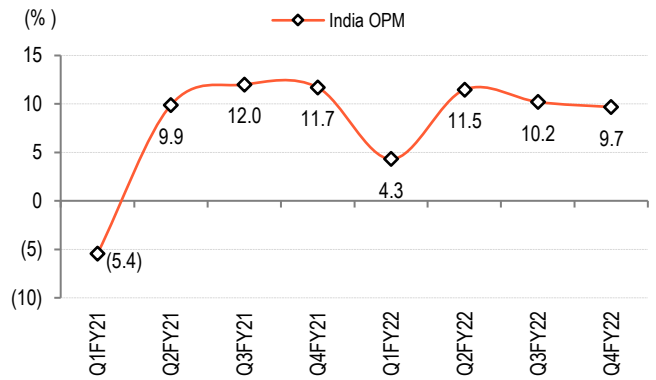
Source: Company, BOBCAPS Research

**Fig 4 – India standalone revenue**



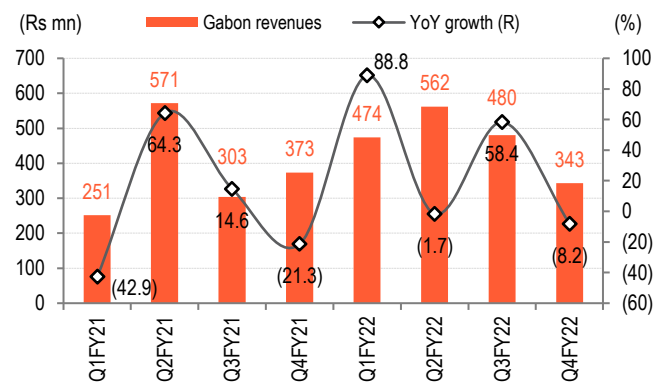
Source: Company, BOBCAPS Research

**Fig 5 – India standalone operating margin**



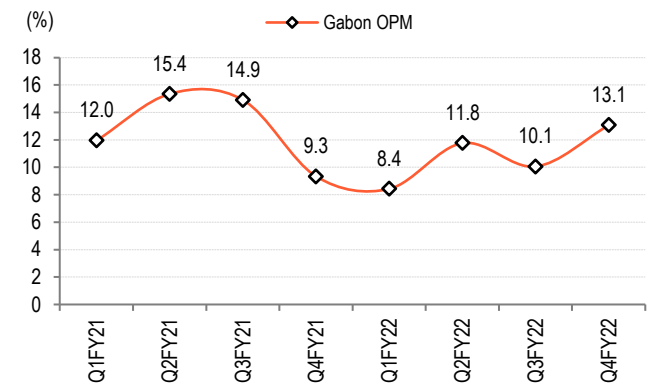
Source: Company, BOBCAPS Research

**Fig 6 – Gabon revenue**



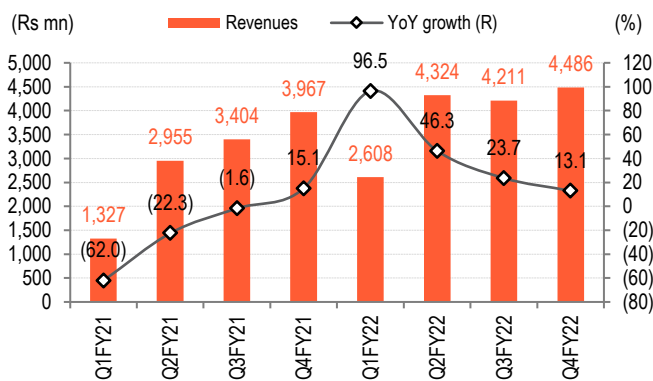
Source: Company, BOBCAPS Research

**Fig 7 – Gabon operating margin**



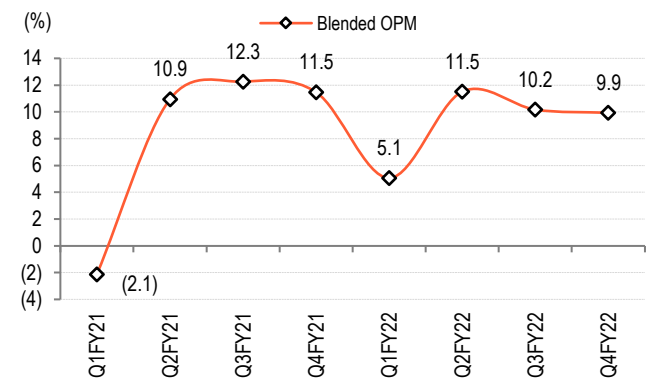
Source: Company, BOBCAPS Research

**Fig 8 – Consolidated revenue**



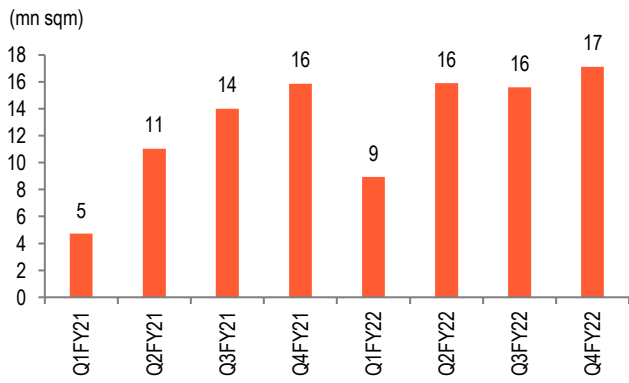
Source: Company, BOBCAPS Research

**Fig 9 – Consolidated operating margin**



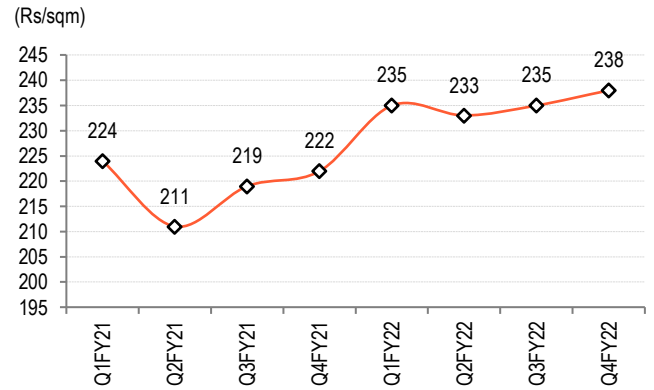
Source: Company, BOBCAPS Research

**Fig 10 – India plywood volumes**



Source: Company, BOBCAPS Research

**Fig 11 – Plywood average price realisation**



Source: Company, BOBCAPS Research

## Valuation methodology

GIL is well geared for a rebound in plywood volumes aided by (a) considerable balance sheet strengthening post Covid driven by the company's stricter control on receivables (which is likely to continue in the near term), and (b) strong recovery in the secondary real estate market, resulting in higher occupation rates of premises which will propel demand for plywood. The company's strong presence in the plywood industry will also facilitate a smooth entry into MDF.

The stock is trading at 16.3x FY24E P/E compared to its five-year median of 21.8x. We maintain our target FY24E P/E multiple at 22x for a TP of Rs 260 on the back of the anticipated revival in plywood, GIL's entry into the high-margin MDF business, strong brand and pan-India distribution network. Retain BUY.

## 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	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>14,204</b>	<b>11,653</b>	<b>15,628</b>	<b>16,231</b>	<b>21,436</b>
EBITDA	1,562	1,167	1,503	2,088	2,959
Depreciation	(257)	(231)	(258)	(377)	(634)
EBIT	1,304	936	1,244	1,711	2,324
Net interest inc./(exp.)	(208)	(166)	(119)	(404)	(494)
Other inc./(exp.)	6	44	125	77	14
Exceptional items	(495)	0	0	0	0
EBT	1,102	814	1,250	1,383	1,844
Income taxes	(134)	(205)	(303)	(326)	(397)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>473</b>	<b>609</b>	<b>947</b>	<b>1,057</b>	<b>1,447</b>
Adjustments	368	0	0	0	0
<b>Adjusted net profit</b>	<b>841</b>	<b>609</b>	<b>947</b>	<b>1,057</b>	<b>1,447</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	2,317	2,043	2,164	2,705	3,635
Other current liabilities	389	500	792	608	841
Provisions	348	212	225	292	386
Debt funds	2,674	1,917	2,919	6,800	6,100
Other liabilities	115	112	107	103	99
Equity capital	123	123	123	123	123
Reserves & surplus	3,657	4,244	5,259	6,238	7,604
Shareholders' fund	3,779	4,367	5,382	6,361	7,726
<b>Total liab. and equities</b>	<b>9,622</b>	<b>9,151</b>	<b>11,588</b>	<b>16,869</b>	<b>18,787</b>
Cash and cash eq.	103	1,280	726	1,647	1,664
Accounts receivables	3,565	1,939	1,864	2,573	3,372
Inventories	1,771	1,792	2,256	2,290	2,966
Other current assets	646	704	1,789	845	1,116
Investments	238	225	258	258	258
Net fixed assets	3,076	3,070	3,510	9,169	9,325
CWIP	52	62	1,096	0	0
Intangible assets	67	15	15	15	15
Deferred tax assets, net	105	64	73	73	73
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>9,622</b>	<b>9,151</b>	<b>11,588</b>	<b>16,869</b>	<b>18,787</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>701</b>	<b>2,251</b>	<b>271</b>	<b>2,462</b>	<b>2,082</b>
Capital expenditures	(559)	(177)	(1,733)	(4,940)	(790)
Change in investments	(16)	13	(33)	0	0
Other investing cash flows	(64)	41	(9)	0	0
<b>Cash flow from investing</b>	<b>(639)</b>	<b>(123)</b>	<b>(1,775)</b>	<b>(4,940)</b>	<b>(790)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	174	(757)	1,002	3,881	(700)
Interest expenses	(208)	(166)	(119)	(404)	(494)
Dividends paid	(59)	(49)	(66)	(78)	(81)
Other financing cash flows	(72)	21	0	0	0
<b>Cash flow from financing</b>	<b>(166)</b>	<b>(951)</b>	<b>816</b>	<b>3,400</b>	<b>(1,275)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(103)</b>	<b>1,177</b>	<b>(687)</b>	<b>922</b>	<b>17</b>
<b>Closing cash &amp; cash eq.</b>	<b>103</b>	<b>1,280</b>	<b>592</b>	<b>1,647</b>	<b>1,664</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	3.9	5.0	7.7	8.6	11.8
Adjusted EPS	6.9	5.0	7.7	8.6	11.8
Dividend per share	0.4	0.4	0.4	0.5	0.5
Book value per share	30.8	35.6	43.9	51.9	63.0

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	1.9	2.1	1.5	1.5	1.2
EV/EBITDA	17.2	21.2	16.0	11.4	8.8
Adjusted P/E	26.6	36.7	23.6	21.2	15.5
P/BV	5.9	5.1	4.2	3.5	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	138.5	74.8	75.8	76.4	78.5
Interest burden (PBT/EBIT)	46.5	86.9	100.5	80.9	79.3
EBIT margin (EBIT/Revenue)	9.2	8.0	8.0	10.5	10.8
Asset turnover (Rev./Avg TA)	153.6	124.1	150.7	114.1	120.2
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.1	2.4	2.5
Adjusted ROAE	23.6	15.0	19.4	18.0	20.5

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	0.6	(18.0)	34.1	3.9	32.1
EBITDA	3.6	(25.3)	28.7	39.0	41.7
Adjusted EPS	(1.3)	(27.6)	55.5	11.6	36.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.0	10.0	9.6	12.9	13.8
EBIT margin	9.2	8.0	8.0	10.5	10.8
Adjusted profit margin	5.9	5.2	6.1	6.5	6.7
Adjusted ROAE	23.6	15.0	19.4	18.0	20.5
ROCE	16.5	11.0	12.9	12.2	13.5
<b>Working capital days (days)</b>					
Receivables	85	86	44	50	51
Inventory	76	95	79	89	80
Payables	67	76	54	63	63
<b>Ratios (x)</b>					
Gross asset turnover	3.6	2.6	3.2	2.0	1.8
Current ratio	1.2	1.4	1.4	2.0	1.8
Net interest coverage ratio	6.3	5.6	10.4	4.2	4.7
Adjusted debt/equity	0.7	0.1	0.4	0.8	0.6

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

## Disclaimer

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

**BUY** – Expected return >+15%

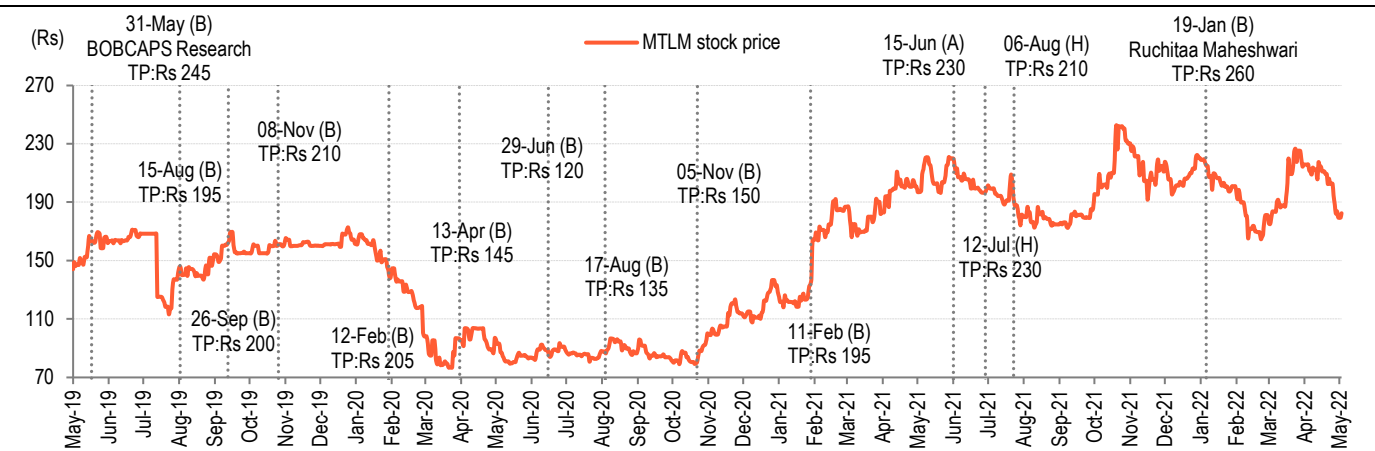
**HOLD** – Expected return from -6% to +15%

**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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As of 30 April 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 66 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD\*, 1 is rated REDUCE\* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

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