

**RESEARCH**
**Greenply Industries | Target: Rs 250 | +81% | BUY**

Plywood steady, MDF starting to stabilise

**Rico Auto | NOT RATED**

Management meet takeaways: Healthy mix, strong order book

**SUMMARY**
**Greenply Industries**

We attended the Greenply Industries (GIL) analyst meet. Following are the key takeaways: (1) GIL expects to see continued double-digit volume growth in its plywood business for the next few years, with operating margins maintained at 11-11.5%. (2) MDF prices have begun to stabilise with the company seeing no major correction since Oct'18. Management expects its MDF sale volumes to increase by ~15% in FY19 to 0.21mn cbm and further to 0.32mn cbm in FY20, with operating margins of ~18%/19% for FY19/FY20.

[Click here for the full report.](#)

**Rico Auto**

Rico Auto Industries (RAI) is a key manufacturer of ferrous and aluminium casting & machining components used in the automotive segment. RAI, along with two joint ventures Magna Rico Powertrain and Rico Jinfei Wheels, has a well-diversified product slate, with transmission, engine and chassis parts contributing 45%, 36% and 19% of revenues respectively. The company recently developed continuously variable transmission (CVT) engines for gearless scooters and also combined braking system (CBS) components. It currently has a total order book of ~Rs 49bn.

[Click here for the full report.](#)

**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Axis Bank</a>	Buy	750
<a href="#">Cipla</a>	Buy	615
<a href="#">GAIL</a>	Buy	525
<a href="#">Reliance Industries</a>	Buy	1,340
<a href="#">TCS</a>	Buy	2,360

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Greenply Industries</a>	Buy	250
<a href="#">L&amp;T Infotech</a>	Buy	2,070
<a href="#">Laurus Labs</a>	Buy	495
<a href="#">Mayur Uniquoters</a>	Buy	565
<a href="#">Mphasis</a>	Buy	1,360

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.90	(2bps)	(33bps)	56bps
India 10Y yield (%)	7.43	(2bps)	(37bps)	39bps
USD/INR	70.90	(0.6)	2.9	(9.9)
Brent Crude (US\$/bbl)	60.06	(2.4)	(16.7)	(1.9)
Dow	24,948	(0.3)	(2.7)	3.3
Shanghai	2,605	(1.7)	(2.0)	(20.9)
Sensex	35,312	(1.6)	0.9	8.3
India FII (US\$ mn)	5 Dec	MTD	CYTD	FYTD
FII-D	161.3	1.2	(7,571.0)	(7,817.0)
FII-E	(51.2)	(24.2)	(4,913.9)	(7,039.4)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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**BUY**

TP: Rs 250 | ▲ 81%

**GREENPLY INDUSTRIES**

Construction Materials

07 December 2018

## Plywood steady, MDF starting to stabilise

We attended the Greenply Industries (GIL) analyst meet. Following are the key takeaways:

### Plywood segment

- GIL expects to see continued double-digit volume growth in its plywood business for the next few years.
- As per management, the premium segment is likely to clock high single-digit volume growth whereas mass-market plywood should see a double-digit uptick.
- Uttar Pradesh plywood expansion is scheduled for completion by Oct'19 at a total expenditure of Rs 550mn-600mn.
- The company has switched entirely to Gabon face veneer this year as the country's Okume variety is 40-50% cheaper than Gurjan face veneer.
- Management aims to maintain segmental operating margins at 11-11.5%.

### MDF segment

- MDF prices have begun to stabilise with the company seeing no major correction since Oct'18.
- Management expects the Indian MDF market to grow from Rs 18bn in FY18 to Rs 30bn by 2022.
- Total MDF capacities in India currently stand at ~1.3mn cbm, with demand at ~0.8mn cbm.
- Imports which constitute ~30% of the MDF market are estimated to reduce to ~20% by 2021 due to the commissioning of large domestic capacities.
- The company expects its MDF sale volumes to increase by ~15% in FY19 to 0.21mn cbm and further to 0.32mn cbm in FY20. A significant portion of volume growth in FY20 is likely to come from exports through the new Andhra Pradesh facility commissioned in Jul'18.
- Management has guided for MDF operating margins of ~18%/19% for FY19/FY20.

### BOBCAPS Research

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Ticker/Price	MTLM IN/Rs 138
Market cap	US\$ 238.5mn
Shares o/s	123mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 401/Rs 110
Promoter/FPI/DII	51%/12%/37%

Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	1,029	1,424	1,797
Adj. EPS (Rs)	8.4	11.6	14.7
Adj. EPS growth (%)	(20.9)	38.5	26.2
Adj. ROAE (%)	11.1	13.7	15.1
Adj. P/E (x)	16.4	11.9	9.4
EV/EBITDA (x)	9.6	7.7	6.1

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


**NOT  
RATED**
**RICO AUTO**

| Auto Ancillary

| 07 December 2018

## Management meet takeaways: Healthy mix, strong order book

**Diversified revenue mix:** Rico Auto Industries (RAI) is a key manufacturer of ferrous and aluminium casting & machining components used in the automotive segment. RAI, along with two joint ventures – Magna Rico Powertrain (50:50 JV with Magna) and Rico Jinfei Wheels (93.49:6.51 JV with Jinfei), has a well-diversified product slate, with transmission, engine and chassis parts contributing 45%, 36% and 19% of revenues respectively.

Key customers include Hero Motors (35% revenue share), BMW (16%), Renault (16%) and Maruti Suzuki (8%). RAI has made conscious efforts to diversify from two-wheeler focused revenues (65% in FY13), leading to a healthy mix now spread across two-wheelers (35%), four-wheelers (55%) and CVs (10%).

**Focus on boosting operating performance:** RAI has guided for 100-120bps expansion in EBITDA margins annually for the next few years (from 10.8% in FY18). Margin gains would be driven by an increasing share of aluminium products (71% in FY18), a growing export business which earns strong margins and cost-saving programmes.

**Robust order book to support healthy topline growth:** RAI recently developed continuously variable transmission (CVT) engines for gearless scooters and also combined braking system (CBS) components. The company currently has a total order book of ~Rs 49bn. RAI launched its aftermarket business in May'17 which offers products such as wheels and braking systems, clutch assemblies and components. Management expects to make strong inroads in this business, and is targeting four-fold revenue growth to Rs 1bn in 2020 from Rs 250mn in 2018.

**Capex outlook:** RAI has reduced its capital outlay for FY19 to Rs 1.6bn from Rs 2bn as most of its clients have postponed production plans. FY20 capex is earmarked at Rs 1bn. Management has guided for total debt of Rs 3.5bn by end-FY19 and does not expect the D/E to breach 0.5x. RAI's cost of borrowing is ~4% as it has access to borrowings in foreign currency.

**Weak outlook on Q3 auto sales:** RAI indicated that weak sales this festive season have prompted most OEMs to undertake longer shutdown periods of ~10 days in December (against a week normally). Management expects Q3FY19 auto sales to remain tepid.

### BOBCAPS Research

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Ticker/Price	RAI IN/Rs 67
Market cap	US\$ 129.9mn
Shares o/s	135.2mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 108/Rs 61
Promoter/FPI/DII	50%/0.9%/8.6%

Source: NSE

### KEY FINANCIALS

Y/E Mar	FY16A	FY17A	FY18A
PAT (Rs mn)	297	516	580
EPS (Rs)	2.1	3.9	4.3
EPS growth	91.3	80.7	10.4
ROE (%)	6.2	10.5	10.6
P/E (x)	33.3	17.9	16.3
EV/EBITDA	12.2	10.8	9.4

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE



## 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)

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