

**BUY**

TP: Rs 58 | ▲ 27%

**GREENPANEL  
INDUSTRIES**

Construction Materials

16 January 2020

**Firmer pricing, MDF plant ramp-up to boost margins**

Our interactions with dealers and industry participants suggest that demand for MDF remains strong. Greenpanel Industries (GREENP), being the largest MDF player in the country, will be a significant beneficiary of the growing market as it ramps up the new facility in Andhra Pradesh. Abating pricing pressures and rising plant utilisation should aid better operational results ahead. We thus increase our PAT estimates for GREENP by 3-6% for FY20-FY22; on rollover, we have a revised Mar'21 TP of Rs 58 (earlier Rs 48).

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**MDF demand remains robust:** India's MDF market continues to grow at 13-15% YoY, albeit off a low base. The pricing pressure seen over the past few quarters has subsided and capacity utilisation has started to increase for major players. GREENP is seeing better utilisation aided by exports from its new 360,000cbm facility in Andhra Pradesh. This coupled with a stable pricing environment is expected to drive a strong revenue CAGR of 23% for the company over FY19-FY22.

**Margins to expand:** Better capacity utilisation and firmer pricing would also underpin margin gains. We expect the company to log a 330bps rise in operating margins over FY19-FY22, resulting in an EBITDA CAGR of 32%.

**Debt reduction to continue:** GREENP had debt of ~Rs 5.9bn as of FY19 due to the commissioning of its new MDF facility in Jul'18. We expect debt to reduce substantially to ~Rs 3.3bn and D/E to 0.45x (vs. 0.9x in FY19) by FY22 as the plant ramps up and capex needs ebb.

**Maintain BUY:** We continue to like GREENP for its strong growth potential, improving debt profile and rising return ratios. We increase our FY20-FY22 PAT estimates by 3-6% and reiterate BUY with a revised Mar'21 TP of Rs 58.

Ticker/Price	GREENP IN/Rs 46
Market cap	US\$ 79.1mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 53/Rs 28
Promoter/FPI/DII	51%/11%/38%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,143	9,563	11,070
EBITDA (Rs mn)	774	1,194	1,477	1,796
Adj. net profit (Rs mn)	228	113	326	549
Adj. EPS (Rs)	1.9	0.9	2.7	4.5
Adj. EPS growth (%)	NA	(50.5)	189.6	68.2
Adj. ROAE (%)	7.1	1.7	4.8	7.7
Adj. P/E (x)	24.6	49.7	17.2	10.2
EV/EBITDA (x)	7.2	7.1	7.4	5.7

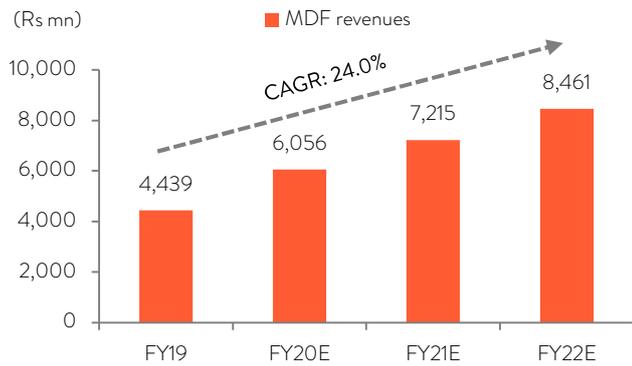
Source: Company, BOBCAPS Research

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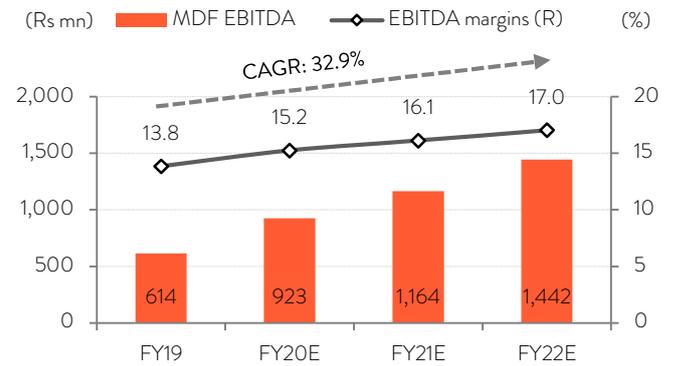


**FIG 1 – MDF REVENUE GROWTH**



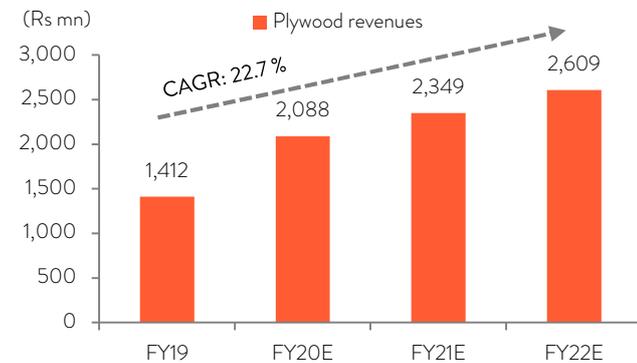
Source: Company, BOBCAPS Research

**FIG 2 – MDF EBITDA & EBITDA MARGIN**



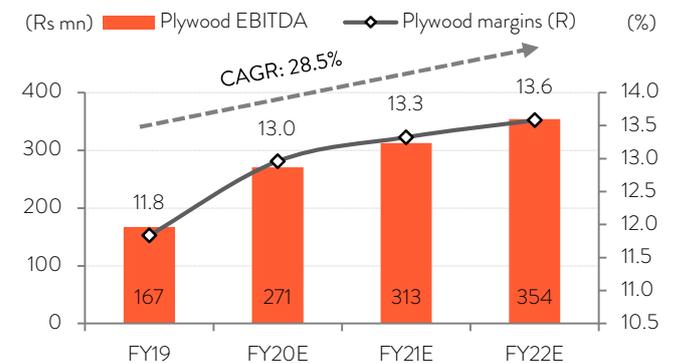
Source: Company, BOBCAPS Research

**FIG 3 – PLYWOOD REVENUE GROWTH**



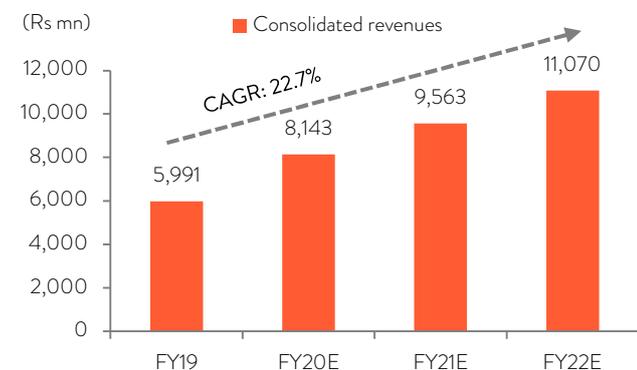
Source: Company, BOBCAPS Research

**FIG 4 – PLYWOOD EBITDA & EBITDA MARGIN**



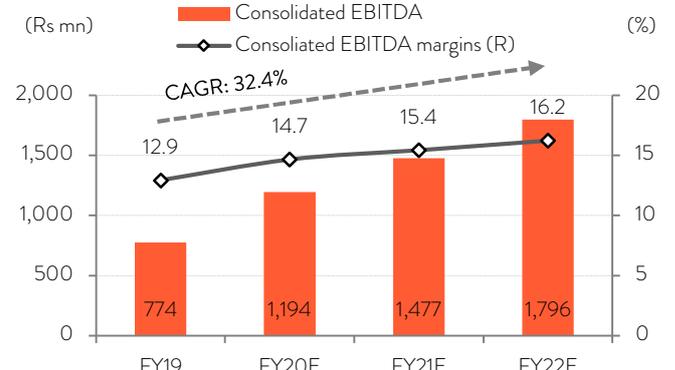
Source: Company, BOBCAPS Research

**FIG 5 – CONSOLIDATED REVENUE**



Source: Company, BOBCAPS Research

**FIG 6 – CONSOLIDATED EBITDA & EBITDA MARGIN**



Source: Company, BOBCAPS Research

## Valuation methodology

GREENP is the demerged entity of Greenply Industries (MTLM IN), carved out primarily to house the latter's MDF business. India's MDF market is estimated at Rs 18bn and projected to grow to Rs 25bn by 2024. This product is expected to replace low-cost plywood (an estimated ~Rs 50bn market) due to its superior quality and competitive pricing.

Demerged in Jul'19 and listed in Oct'19, GREENP is the largest MDF player in the country with an installed capacity of 560,000cbm spread across two facilities in Uttarakhand and Andhra Pradesh. The AP facility commissioned in Jul'18 with a capacity of 360,000cbm per year is the largest MDF plant in Asia. Factoring in a stabilising price environment and rising new plant utilisation, we increase our PAT estimates for GREENP by 3-6% over FY20-FY22; on rollover, we have a revised Mar'21 target price of Rs 58 (earlier Rs 48), set at an unchanged 13x forward P/E.

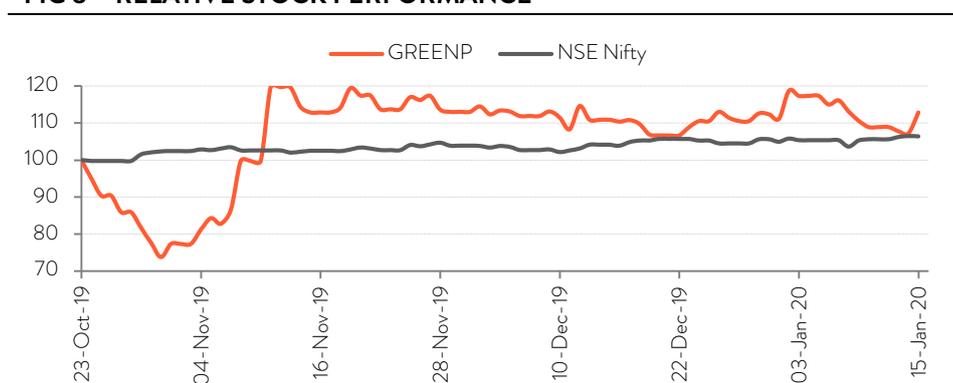
Over FY19-FY22, we expect GREENP to witness a robust revenue/EBITDA CAGR of 22.7%/32.4%. Return ratios are also estimated to rise over this period due to better profitability and plant utilisation. D/E which stood at 0.9x in FY19 is forecast to improve to 0.45x by FY22. Reiterate BUY.

**FIG 7 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	8,143	9,563	11,070	8,077	9,427	10,999	0.8	1.4	0.6
EBITDA	1,194	1,477	1,796	1,185	1,451	1,774	0.8	1.8	1.3
PAT	113	326	549	107	309	534	5.8	5.7	2.8

Source: BOBCAPS Research

**FIG 8 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Downside risks to our estimates are:

- further slowdown in the housing sector;
- fall in international MDF prices, resulting in higher imports and pressure on domestic markets; and
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>5,991</b>	<b>8,143</b>	<b>9,563</b>	<b>11,070</b>
EBITDA	774	1,194	1,477	1,796
Depreciation	(530)	(702)	(708)	(714)
EBIT	244	492	768	1,082
Net interest income/(expenses)	(246)	(341)	(309)	(278)
Other income/(expenses)	8	12	13	15
Exceptional items	118	0	0	0
EBT	6	163	473	819
Income taxes	222	(51)	(147)	(270)
Extraordinary items	0	0	0	0
Min. int./Inc. from associates	0	0	0	0
<b>Reported net profit</b>	<b>346</b>	<b>113</b>	<b>326</b>	<b>549</b>
Adjustments	(118)	0	0	0
<b>Adjusted net profit</b>	<b>228</b>	<b>113</b>	<b>326</b>	<b>549</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E
Accounts payables	816	1,071	1,231	1,395
Other current liabilities	1,197	1,249	1,467	1,698
Provisions	126	122	124	133
Debt funds	5,865	5,127	4,377	3,337
Other liabilities	121	142	203	326
Equity capital	123	123	123	123
Reserves & surplus	6,332	6,445	6,771	7,320
Shareholders' fund	6,455	6,568	6,894	7,443
<b>Total liabilities and equities</b>	<b>14,580</b>	<b>14,279</b>	<b>14,297</b>	<b>14,332</b>
Cash and cash eq.	199	32	59	103
Accounts receivables	456	692	812	940
Inventories	1,345	1,517	1,782	2,032
Other current assets	1,167	1,227	1,441	1,668
Investments	0	0	0	0
Net fixed assets	11,375	10,811	10,203	9,589
CWIP	38	0	0	0
Intangible assets	0	0	0	0
Deferred tax assets, net	0	0	0	0
Other assets	0	0	0	0
<b>Total assets</b>	<b>14,580</b>	<b>14,279</b>	<b>14,297</b>	<b>14,332</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	815	1,034	1,263
Interest expenses	341	309	278
Non-cash adjustments	0	0	0
Changes in working capital	(164)	(219)	(202)
Other operating cash flows	0	0	0
<b>Cash flow from operations</b>	<b>991</b>	<b>1,125</b>	<b>1,339</b>
Capital expenditures	(100)	(100)	(100)
Change in investments	0	0	0
Other investing cash flows	21	61	123
<b>Cash flow from investing</b>	<b>(79)</b>	<b>(39)</b>	<b>23</b>
Equities issued/Others	0	0	0
Debt raised/repaid	(738)	(750)	(1,040)
Interest expenses	(341)	(309)	(278)
Dividends paid	0	0	0
Other financing cash flows	0	0	0
<b>Cash flow from financing</b>	<b>(1,079)</b>	<b>(1,059)</b>	<b>(1,318)</b>
<b>Changes in cash and cash eq.</b>	<b>(167)</b>	<b>27</b>	<b>44</b>
<b>Closing cash and cash eq.</b>	<b>32</b>	<b>59</b>	<b>103</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20E	FY21E	FY22E
Reported EPS	2.8	0.9	2.7	4.5
Adjusted EPS	1.9	0.9	2.7	4.5
Dividend per share	0.0	0.0	0.0	0.0
Book value per share	52.6	53.6	56.2	60.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.9	1.0	1.1	0.9
EV/EBITDA	7.2	7.1	7.4	5.7
Adjusted P/E	24.6	49.7	17.2	10.2
P/BV	0.9	0.9	0.8	0.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	184.0	69.0	69.0	67.0
Interest burden (PBT/EBIT)	50.7	33.2	61.6	75.7
EBIT margin (EBIT/Revenue)	4.1	6.0	8.0	9.8
Asset turnover (Revenue/Avg TA)	82.2	56.4	66.9	77.3
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	2.0
Adjusted ROAE	7.1	1.7	4.8	7.7

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>				
Revenue	NA	35.9	17.4	15.8
EBITDA	NA	54.2	23.7	21.7
Adjusted EPS	NA	(50.5)	189.6	68.2
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	12.9	14.7	15.4	16.2
EBIT margin	4.1	6.0	8.0	9.8
Adjusted profit margin	3.8	1.4	3.4	5.0
Adjusted ROAE	7.1	1.7	4.8	7.7
ROCE	4.0	2.8	4.6	6.6
<b>Working capital days (days)</b>				
Receivables	14	26	29	29
Inventory	96	148	146	147
Payables	29	50	52	52
<b>Ratios (x)</b>				
Gross asset turnover	0.9	0.6	0.7	0.8
Current ratio	0.9	0.9	1.0	1.1
Net interest coverage ratio	1.0	1.4	2.5	3.9
Adjusted debt/equity	0.9	0.8	0.6	0.4

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

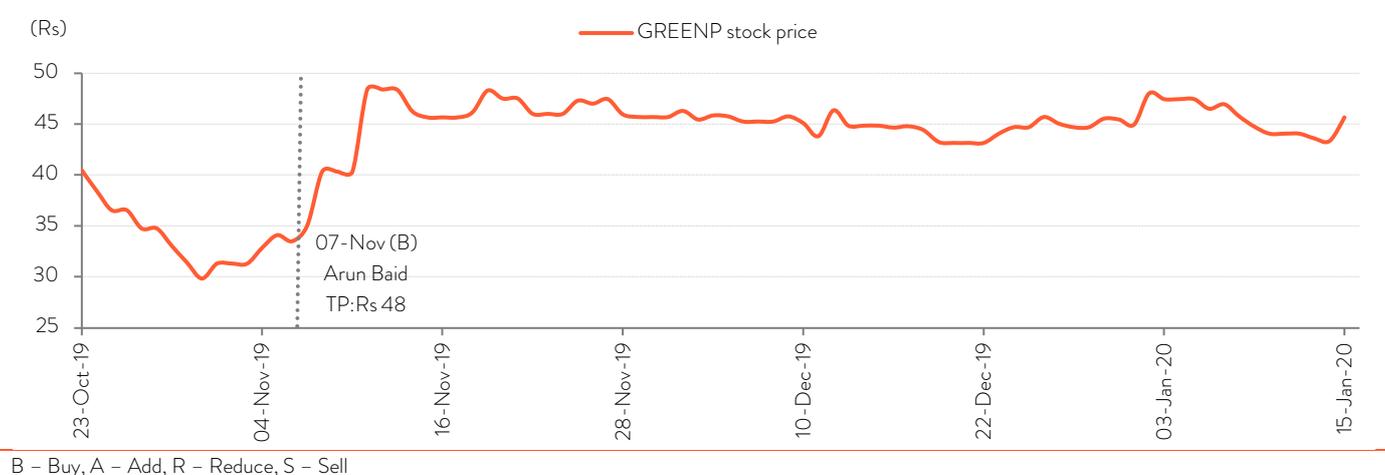
**ADD** – Expected return from >+5% to +15%

**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: GREENPANEL INDUSTRIES (GREENP IN)



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