

BUY

TP: Rs 210 | ▲ 30%

GREENPLY INDUSTRIES

Construction Materials

08 November 2019

Modest quarter, margin expansion continues

Greenply Industries (GIL) reported consolidated Q2FY20 revenue growth of 5% YoY. Operating margins expanded 200bps YoY as both India and Gabon businesses performed well, driving EBITDA/PAT growth of 27%/64% YoY. Management is now guiding for India revenue growth of ~8% (earlier 8-10%) and margins of ~11% in FY20, with Gabon revenues of Rs 2bn (earlier ~Rs 2.15bn) and margins of ~18%. Maintain BUY, rolling over to a Sep'20 TP of Rs 210 (from Rs 200).

Arun Baid

research@bobcaps.in

Modest revenue growth: GIL reported consolidated revenue growth of 5% YoY to Rs 3.8bn in Q2. India plywood revenues grew just 1.5% YoY to Rs 3.5bn (volume growth at 2.2%) due to tough market conditions, whereas subsidiaries – primarily Gabon face veneer operations – posted a 60% YoY increase to Rs 348mn. Gabon's growth surged due to better utilisation of capacities commissioned in FY19. Consolidated working capital increased by ~18 days due to a 13-day reduction in creditor cycle and 10-day rise in debtor cycle.

Sustained margin expansion: GIL's consolidated operating margins expanded 200bps YoY to 11.8% aided by higher profitability in both India and Gabon operations. Plywood margins rose 70bps YoY to 11.4% due to a better product mix. Subsidiary margins shot up 13ppt to ~17% as Gabon face veneer operations which largely began in H2FY18 have stabilised. Strong operating margins propelled EBITDA/PAT growth to 27%/64% YoY.

Maintain BUY: We largely maintain our estimates and continue to like GIL for its market leadership in organised plywood, strong brand as well as wide distribution. Rolling valuations forward, we have a revised Sep'20 target price of Rs 210, set at 18x forward P/E.

Ticker/Price	MTLM IN/Rs 161
Market cap	US\$ 277.7mn
Shares o/s	123mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 195/Rs 112
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	15,612	17,804	19,584
EBITDA (Rs mn)	715	1,507	1,772	2,088	2,330
Adj. net profit (Rs mn)	253	852	1,025	1,325	1,526
Adj. EPS (Rs)	2.1	6.9	8.4	10.8	12.4
Adj. EPS growth (%)	NA	236.1	20.3	29.3	15.2
Adj. ROAE (%)	3.1	14.0	27.4	28.6	26.7
Adj. P/E (x)	78.0	23.2	19.3	14.9	13.0
EV/EBITDA (x)	NA	NA	12.5	10.5	9.2

Source: Company, BOBCAPS Research

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FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Net Revenue	3,455	3,403	1.5	3,054	13.1
COGS	2,076	2,155	(3.7)	1,805	15.0
% of sales	60.1	63.3	(324bps)	59.1	101bps
Employee expenses	412	352	17.1	355	16.0
% of sales	11.9	10.3	158bps	11.6	29bps
Operating Expenses	586	559	4.9	567	3.3
% of sales	17.0	16.4	54bps	18.6	(161bps)
EBITDA	380	337	13.0	327	16.4
EBITDA Margin	11.0	9.9	111bps	10.7	31bps
Depreciation/Amortisation	54	47	16.1	53	2.0
EBIT	326	290	12.5	274	19.2
EBIT Margin	9.4	8.5	92bps	9.0	48bps
Net Interest Expenses	43	34	27.3	42	4.6
Other Income	10	23	(54.3)	10	1.0
PBT	293	279	5.2	243	20.9
Tax Expenses	64	98	(34.7)	85	(24.7)
Net Income before extraordinary items	229	180	27.0	157	45.6
Reported Net Income	229	180	27.0	157	45.6

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Net Revenue	3,803	3,620	5.0	3,494	8.8
COGS	2,193	2,223	(1.4)	2,023	8.4
% of sales	63.5	65.3	(188bps)	66.2	(279bps)
Employee expenses	453	384	18.0	384	17.9
% of sales	13.1	11.3	183bps	12.6	54bps
Operating Expenses	708	658	7.6	675	4.9
% of sales	20.5	19.3	116bps	22.1	(161bps)
EBITDA	449	354	26.6	411	9.1
EBITDA Margin	11.8	9.8	201bps	11.8	3bps
Depreciation/Amortisation	64	56	15.7	63	2.3
EBIT	384	299	28.7	349	10.3
EBIT Margin	10.1	8.2	186bps	10.0	13bps
Net Interest Expenses	54	44	23.4	50	7.4
Other Income	1	0	NA	4	(67.9)
PBT	332	255	30.1	302	9.7
Tax Expenses	64	98	(34.7)	85	(24.7)
Net Income before extraordinary items	267	156	70.9	217	23.2
Share of profit/(loss) from JV	(3)	5	NA	(7)	NA
Reported Net Income	264.2	161.0	64.1	210.1	25.8
Adjusted PAT	264.2	161.0	64.1	210.1	25.8

Source: Company, BOBCAPS Research

Earnings call highlights

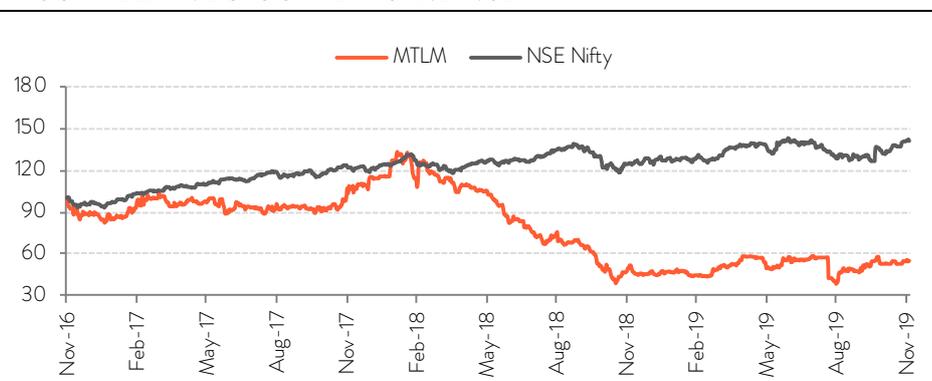
- GIL saw tepid demand during the quarter due to tight liquidity conditions, but is hopeful of improvement in H2FY20. The company aims to deliver 8-10% growth from India operations in H2.
- The systemic liquidity crunch increased debtor days in Q2 – management has guided for normalisation of the debtor cycle by end-FY20.
- During the quarter, timber prices climbed higher but lower face veneer and chemical prices insulated plywood margins. GIL expects timber prices to correct going ahead and does not foresee any pressure on margins.
- Management, however, believes near-term margin improvement in the India plywood business will be limited.
- During the quarter, 36%/28% of volumes/revenues came from the trading business.
- The company has signed two JVs for manufacturing of plywood and expects one to be operational by end-Q3FY20 and the other by Q1FY21. GIL has 30% stake in both ventures and a total equity investment of ~Rs 52mn.
- Peak revenue from each JV is expected at Rs 1.1bn-1.15bn, with margins similar to the current outsourcing model.
- Gabon capacity expansion from 36,000cbm to 96,000cbm has become operational from Q3FY20. The Gabon plant is at peak utilisation and GIL estimates that this new capacity can deliver Rs 3.5bn in annual revenues.
- Gabon revenues were lower QoQ in Q2 due to a fall in face veneer prices in India. Management expects Q3 to also be soft, followed by some recovery from Q4FY20.
- In India, the company has 1,870 dealers and 6,000 sub-dealers.
- GIL has capex plans of Rs 140mn in India and Rs 210mn in Gabon.
- Management is targeting 30% pre-tax ROCE over the next three years aided by outsourcing in plywood and ramp-up in Gabon.

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.

We largely maintain our estimates and roll forward to a revised Sep'20 target price of Rs 210 (from Rs 200), set at an unchanged 18x one-year forward P/E multiple. Maintain BUY.

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on sourcing of wood or face veneer will affect 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	9,123	14,122	15,612	17,804	19,584
EBITDA	715	1,507	1,772	2,088	2,330
Depreciation	(180)	(224)	(259)	(271)	(288)
EBIT	535	1,282	1,513	1,816	2,043
Net interest income/(expenses)	(77)	(186)	(205)	(188)	(177)
Other income/(expenses)	(67)	71	57	60	63
Exceptional items	(46)	(55)	0	0	0
EBT	391	1,167	1,366	1,688	1,929
Income taxes	(137)	(315)	(341)	(364)	(403)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	208	797	1,025	1,325	1,526
Adjustments	46	55	0	0	0
Adjusted net profit	253	852	1,025	1,325	1,526

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,190	2,320	2,535	2,793	3,041
Other current liabilities	2,495	634	684	780	858
Provisions	252	64	78	89	98
Debt funds	7,122	2,500	2,280	2,010	1,560
Other liabilities	265	(41)	(41)	(41)	(41)
Equity capital	123	123	123	123	123
Reserves & surplus	8,652	3,230	4,006	5,010	6,167
Shareholders' fund	8,775	3,352	4,129	5,133	6,289
Total liabilities and equities	21,098	8,829	9,665	10,765	11,806
Cash and cash eq.	337	206	219	383	650
Accounts receivables	2,856	3,050	3,449	3,947	4,355
Inventories	2,312	1,694	1,922	2,242	2,483
Other current assets	1,900	964	1,069	1,219	1,341
Investments	185	222	222	222	222
Net fixed assets	5,706	2,420	2,684	2,653	2,655
CWIP	7,704	173	0	0	0
Intangible assets	99	99	99	99	99
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	21,098	8,829	9,665	10,765	11,806

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	1,283	1,596	1,813
Interest expenses	205	188	177
Non-cash adjustments	0	0	0
Changes in working capital	(452)	(602)	(437)
Other operating cash flows	0	0	0
Cash flow from operations	1,036	1,182	1,553
Capital expenditures	(350)	(240)	(290)
Change in investments	0	0	0
Other investing cash flows	0	0	0
Cash flow from investing	(350)	(240)	(290)
Equities issued/Others	0	0	0
Debt raised/repaid	(220)	(270)	(450)
Interest expenses	(205)	(188)	(177)
Dividends paid	(248)	(321)	(369)
Other financing cash flows	0	0	0
Cash flow from financing	(673)	(778)	(996)
Changes in cash and cash eq.	14	163	267
Closing cash and cash eq.	219	383	650

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	1.7	6.5	8.4	10.8	12.4
Adjusted EPS	2.1	6.9	8.4	10.8	12.4
Dividend per share	0.0	0.4	1.7	2.2	2.5
Book value per share	NA	27.3	33.7	41.9	51.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	NA	NA	1.4	1.2	1.1
EV/EBITDA	NA	NA	12.5	10.5	9.2
Adjusted P/E	78.0	23.2	19.3	14.9	13.0
P/BV	NA	5.9	4.8	3.9	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	73.5	76.6	75.0	78.5	79.1
Interest burden (PBT/EBIT)	64.4	86.7	90.3	93.0	94.4
EBIT margin (EBIT/Revenue)	5.9	9.1	9.7	10.2	10.4
Asset turnover (Revenue/Avg TA)	49.5	94.4	168.8	174.3	173.5
Leverage (Avg TA/Avg Equity)	2.2	2.5	2.5	2.2	2.0
Adjusted ROAE	3.1	14.0	27.4	28.6	26.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue		54.8	10.6	14.0	10.0
EBITDA		110.7	17.6	17.8	11.6
Adjusted EPS		236.1	20.3	29.3	15.2
Profitability & Return ratios (%)					
EBITDA margin	7.8	10.7	11.3	11.7	11.9
EBIT margin	5.9	9.1	9.7	10.2	10.4
Adjusted profit margin	2.8	6.0	6.6	7.4	7.8
Adjusted ROAE	3.1	14.0	27.4	28.6	26.7
ROCE	2.3	8.4	18.5	21.0	21.6
Working capital days (days)					
Receivables	118	76	76	76	77
Inventory	126	86	70	71	74
Payables	113	65	64	62	62
Ratios (x)					
Gross asset turnover	1.1	2.3	4.2	4.3	4.5
Current ratio	1.0	1.3	1.4	1.5	1.7
Net interest coverage ratio	6.9	6.9	7.4	9.7	11.6
Adjusted debt/equity	0.8	0.7	0.5	0.3	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

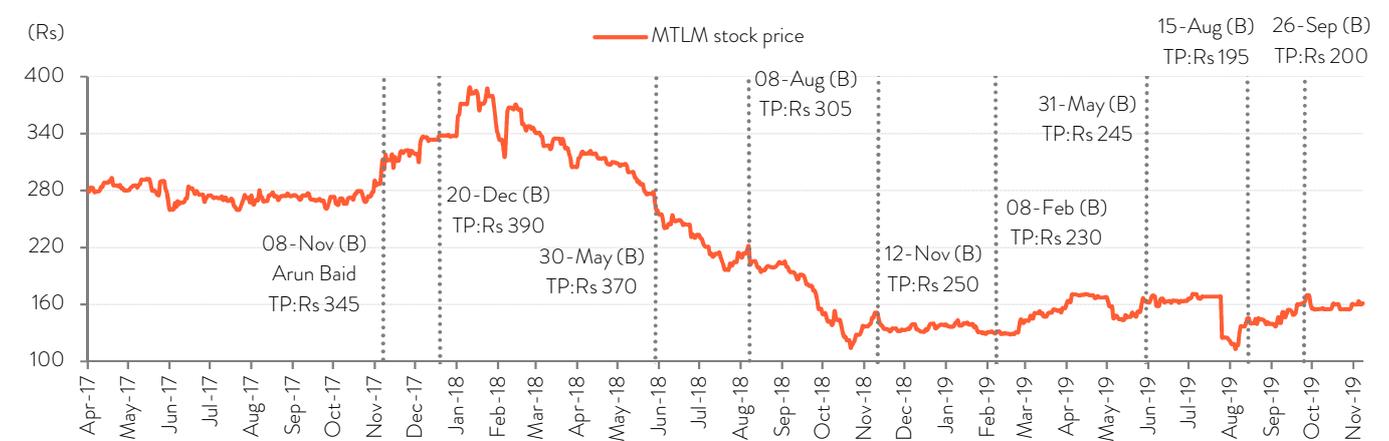
ADD – Expected return from >+5% to +15%

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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