BOBCAPS
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FIRST LIGHT

10 August 2022

RESEARCH

Greenply Industries | Target: Rs 235 | +29% | BUY

New capacities to form next leg of growth

V-Mart Retail | Target: Rs 3,620 | +23% | BUY

Growth off low base but yet to retrace to pre-Covid levels

SUMMARY

Greenply Industries

- Consolidated Q1 revenue grew 74% YoY backed by a 79% increase in plywood volumes and 3% rise in price realisation for India operations
- Consolidated operating margin improved 375bps YoY to 8.8% (9.7% excluding non-cash ESOP cost of Rs 39mn)
- In view of rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, yielding a revised TP of Rs 235 (vs. Rs 260); retain BUY

Click here for the full report.

V-Mart Retail

- Q1 revenue grew 230% YoY to Rs 5.9bn (80% from VMART, 20% from Unlimited stores); 3.8% growth (ex-Unlimited) vs. Q1FY20
- EBITDA margin expanded 16ppt to 15.1% owing to higher gross margin in Unlimited business, lower discounts and better operating leverage
- We retain BUY with an unchanged TP of Rs 3,620, set at 21x FY24E EV/EBITDA

Click here for the full report.

Daily macro indicators

Indicator	04-Aug	05-Aug	Chg (%)
US 10Y yield (%)	2.69	2.83	14bps
India 10Y yield (%)	7.16	7.30	14bps
USD/INR	79.47	79.25	0.3
Brent Crude (US$/bbl)	94.1	94.9	0.8
Dow	32,727	32,803	0.2
Hang Seng	20,174	20,202	0.1
Sensex	58,299	58,388	0.2
India FII (US$ mn)	**03-Aug**	**04-Aug**	**Chg ($ mn)**
FII-D	5.0	48.8	43.8
FII-E	503.2	217.3	(286.0)

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 235 | ⮝ 29%

GREENPLY INDUSTRIES | Construction Materials | 08 August 2022

New capacities to form next leg of growth

- **Consolidated Q1 revenue grew 74% YoY backed by a 79% increase in plywood volumes and 3% rise in price realisation for India operations**
- **Consolidated operating margin improved 375bps YoY to 8.8% (9.7% excluding non-cash ESOP cost of Rs 39mn)**
- **In view of rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, yielding a revised TP of Rs 235 (vs. Rs 260); retain BUY**

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Healthy revenue growth: Greenply (GIL) reported consolidated Q1FY23 revenue growth of 74% YoY (+1% QoQ) to Rs 4.5bn. India business grew 85% YoY as plywood volumes increased 79% and price realisation improved 3% to Rs 242/sqm. Gabon subsidiary revenue increased 24% YoY.

Operating margin expands: Higher chemical, timber and other RM costs, along with a change in product mix, led to a 465bps YoY drop in gross margin to 39%. A decline in employee/other costs by 475bps/370bps saw operating margin rise 375bps YoY to 8.8%. EBITDA margin, adjusted for non-cash ESOP cost of Rs 39mn, stood at 9.7%. EBITDA was at Rs 401mn (adj. Rs 440mn). India business posted a 410bps YoY rise in EBITDA margin to 8.4% (adj. 9.4%), whereas gross margin fell 685bps YoY.

Price hikes to mitigate RM cost: Management took a ~2% price hike in June to mitigate the rising inflation, the benefits of which will flow in from Q2. GIL is looking at further hikes in the value segment but not in premium products during September-October. Management expects RM cost to soften from Q3 onwards.

MDF expansion: GIL is setting up an MDF plant in Gujarat with a capacity of 800cbm per day for Rs 5.55bn by Q4FY23. The company is facing bottlenecks and congestion at ports which may delay the installation of machines. Management expects 40-50% plant utilisation in FY24, with revenue potential of Rs 6bn-6.5bn at peak utilisation in FY27. Margins would be ~25% in normalised operational state.

Expect flat volumes: Management has guided for 10-11% volume growth in FY23, implying flattish growth over 9MFY23 due to supply-side challenges from the trading partner. Q2 could see subdued volumes and margins from higher timber prices.

TP cut; retain BUY: The stock is trading at 15.5x FY24E P/E vs. its 5Y median of 22.1x. In view of rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, which yields a revised TP of Rs 235 (vs. Rs 260). We like GIL's long-term structural growth story given the anticipated revival in plywood demand, its entry into the high-margin MDF business, strong brand and pan-India distribution network. BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	MTLM IN/Rs 183
Market cap	US$ 282.5mn
Free float	48%
3M ADV	US$ 0.4mn
52wk high/low	Rs 255/Rs 161
Promoter/FPI/DII	52%/3%/44%

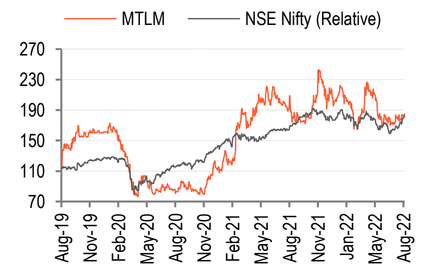
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	15,628	17,173	21,436
EBITDA (Rs mn)	1,503	1,795	2,959
Adj. net profit (Rs mn)	947	817	1,447
Adj. EPS (Rs)	7.7	6.7	11.8
Consensus EPS (Rs)	7.7	10.5	12.3
Adj. ROAE (%)	19.4	14.2	21.3
Adj. P/E (x)	23.6	27.4	15.5
EV/EBITDA (x)	16.0	13.3	8.9
Adj. EPS growth (%)	55.5	(13.7)	77.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 3,620 | ⮝ 23%

V-MART RETAIL | Retail | 09 August 2022

Growth off low base but yet to retrace to pre-Covid levels

- **Q1 revenue grew 230% YoY to Rs 5.9bn (80% from VMART, 20% from Unlimited stores); 3.8% growth (ex-Unlimited) vs. Q1FY20**
- **EBITDA margin expanded 16ppt to 15.1% owing to higher gross margin in Unlimited business, lower discounts and better operating leverage**
- **We retain BUY with an unchanged TP of Rs 3,620, set at 21x FY24E EV/EBITDA**

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Revenue muted vs. Q1FY20 pre-Covid levels: As highlighted in our VMART update of 20 June, Near-term pain gets accentuated, Q1FY23 was subdued due to a mix of rising competition from national conglomerates in tier-2/3 cities, muted sentiment in smaller towns amid rising inflation, a drop-off in Uttar Pradesh and Bihar sales owing to communal disruptions, and price hikes. VMART reported just 3.8% revenue growth (ex-Unlimited) compared to pre-Covid levels in Q1FY20 with a 28% drop in sales per sqft. The company took a ~20% price hike in Q1, passing on the entire cost inflation to consumers. This aided gross margin expansion but dented volumes as lower income customers postponed purchases, in line with our expectations.

Optically a good quarter: On a YoY basis, VMART's revenue grew 230% to Rs 5.9bn (+28% QoQ) on a low Covid-hit base, further supported by the wedding and festive season, price hikes and lower discounts. The acquisition of Unlimited also contributed to profitable growth. A like-to-like comparison (ex-Unlimited) indicates 165% YoY revenue growth.

Unlimited contribution aids margin expansion: Footfalls fell by 9% and sales per sqft declined 28% compared to Q1FY20. However, higher gross margin contribution from South India stores, lower discounts and cost control aided a healthy 126% increase in EBITDA over pre-Covid levels to Rs 0.9bn with 640bps margin expansion to 15.1%. Gross margin expanded by 660bps over Q1FY20 to 37% on the back of lower discounting, price hikes and merchandise changes.

Near-term headwinds but solid long-term prospects: While VMART faces rising competition in tier-2/3 cities, muted near-term demand in smaller towns and volume headwinds due to price hikes, we believe its structural long-term story remains intact amid the shift from unorganised to modern retail. We continue to value the stock at 21x FY24E EV/EBITDA vs. its 5Y median of 24x, and retain our TP of Rs 3,620. Maintain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VMART IN/Rs 2,949
Market cap	US$ 729.5mn
Free float	54%
3M ADV	US$ 1.2mn
52wk high/low	Rs 4,849/Rs 2,407
Promoter/FPI/DII	46%/18%/36%

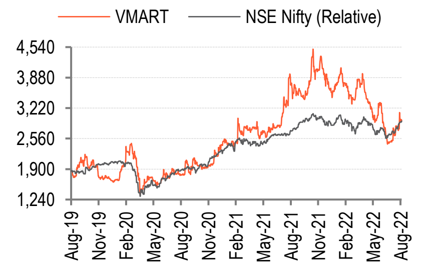
Source: NSE | Price as of 8 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,662	19,490	24,768
EBITDA (Rs mn)	2,043	2,437	3,379
Adj. net profit (Rs mn)	116	281	706
Adj. EPS (Rs)	5.9	14.2	35.8
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	3.3	7.8
Adj. P/E (x)	499.2	207.1	82.3
EV/EBITDA (x)	27.4	22.7	16.6
Adj. EPS growth (%)	(134.3)	141.0	151.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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.

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