

HOLD
 TP: Rs 400 | ▲ 1%

**GREENPANEL
 INDUSTRIES**

| Building Materials

| 17 December 2024

MDF: Weak near-term outlook; positive medium-term outlook

- **MDF industry margin to remain under pressure in the near future on supply-side pressure and steep rise in timber prices**
- **Indian MDF industry margin to improve to 25-26% in FY27 with gradual rise in industry operate rate (from 63% in FY25 to 85% in FY27)**
- **Maintain HOLD rating with revised TP of Rs 400 (+10%) due to increase in our target P/E multiple (from 20x to 22x) on Sep'26 EPS**

Utkarsh Nopany

research@bobcaps.in

We hosted management of GREENP (Mr. Vishwanathan Venkatramani, CFO) to discuss the dynamics of the Indian MDF sector and medium-term outlook. Here are the key takeaways from our meeting.

MDF industry dynamics: The Indian MDF industry demand is estimated to be 2.85mn CBM vs industry capacity of 4.5mn CBM in FY25. Given that there are no major capacity expansion plans for FY26-FY27 and the domestic MDF demand is growing at 15%, the industry's capacity utilisation is expected to improve from ~63% in FY25 to ~73% in FY26 and ~85% in FY27. Management believes the industry could operate at an EBITDA margin of 25-26% on a sustainable basis at an optimal capacity utilisation (85% mark).

Impact of large particleboard capacity addition to MDF sector: India is likely to see particleboard capacity addition of ~0.8mn CBM in H2FY25. This is likely to pose a challenge for the domestic MDF sector in the near future. However, it is not likely to derail growth of Indian MDF industry as particleboard is mainly used for vertical applications whereas MDF can be used for both vertical and horizontal applications.

MDF demand scenario in Q3FY25: The industry demand has slowed post Oct'24. However, GREENP expects to clock higher volumes both in the domestic and export markets in Q3FY25 compared to Q2FY25.

MDF imports scenario: India became a net exporter of MDF in Sep'24 due to a steep decline in imports on account of high ocean freight rate. However, the pace of monthly MDF imports in India has gone up from an average of 8,000 CBM in Q2FY25 to around 21,000 CBM in Oct'24. Management believes the rising imports are not likely to impact the pricing discipline in the domestic market in the near future as >85% of domestic MDF is consumed by the retail segment (which is more influenced by local manufacturers' pricing strategies).

Pricing scenario: The company has not hiked prices in Q3FY25, but plans to raise prices by 3-4% in Q4FY25.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GREENP IN/Rs 394
Market cap	US\$ 569.3mn
Free float	47%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 450/Rs 268
Promoter/FPI/DII	53%/3%/28%

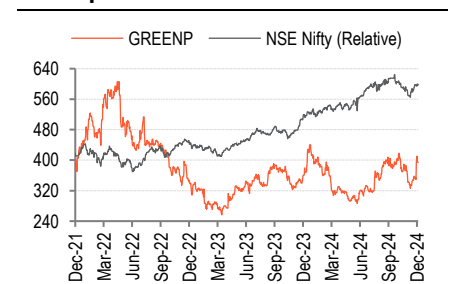
Source: NSE | Price as of 16 Dec 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	15,673	16,123	20,772
EBITDA (Rs mn)	2,465	1,710	3,120
Adj. net profit (Rs mn)	1,428	834	1,664
Adj. EPS (Rs)	11.6	6.8	13.6
Consensus EPS (Rs)	11.6	7.8	14.3
Adj. ROAE (%)	11.4	6.2	11.5
Adj. P/E (x)	33.9	57.9	29.0
EV/EBITDA (x)	19.9	28.7	15.2
Adj. EPS growth (%)	(43.4)	(41.6)	99.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Timber prices: Wood prices have gone up sharply on a QoQ basis in Q3FY25 (North: +12%; South: +17%) and they are likely to remain firm in the near future due to large capacity addition in both the MDF and particleboard segments. However, management expects wood prices to correct once the new plantation comes onstream from Jul'25.

Margin is expected to remain under pressure in Q3FY25 due to the continuation of 4% additional incentives in Q3FY25 (which started in Aug'24) and steep QoQ rise in wood prices (North: +12%; South: +17%) over Q2FY25. The full impact of higher wood prices is expected to be seen in Q4FY25 due to the consumption of low-cost wood inventory.

MDF project is expected to be commissioned by early Jan'25 (Dec'24 earlier) due to breakeven of a motor. Management expects the new plant to benefit from the faster ramp up of utilisation without hurting realisations and margins as it would primarily target to produce thin MDF. Thin MDF would fetch higher realisations of 6 to 7% compared to thick MDF. The new plant will also see operating leverage benefit due to minimal employee additions at the plant, marketing, and corporate teams.

Replacement cost: The replacement cost for setting up a 240,000 CBM MDF plant through brownfield route is estimated to be Rs 7.5bn. This translates to capex cost per unit of Rs 31,250, which is substantially higher than about Rs 20,000 per unit in the pre-COVID period due to the steep rise in steel prices and sharp rupee depreciation.

MDF applications: Roughly 70% of domestic MDF demand comes from the furniture segment and the remaining 30% from various applications (such as gift boxes, jewellery boxes, photo frames, sports/educational equipment, etc).

Distribution network: The distribution network for MDF and plywood is quite common at the industry level as the products are similar in nature. However, roughly 80% of GREENP's distribution network is separate as it offers a lower credit period to its MDF distributors.

OEM vs retail: The OEM volume share has gone down from 29% in Q3FY24 to 16% in Q2FY25 due to the discontinuation of low-density commercial products – which does not meet upcoming BIS norms (expected to be implemented from 11 Feb 2025).

Value-added products (VAP): The share of VAP products rose from 30-32% to ~50% over the past three years and aim to increase this further to 65% by FY27.

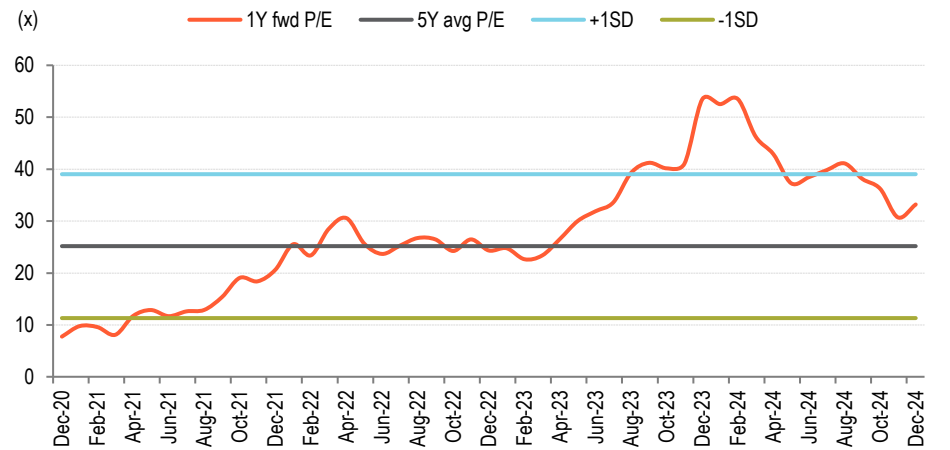
Plywood: The company targets ramping up plywood's existing capacity utilisation to around 85% in FY26.

Future capex programme: The company may come up with a plywood plant at its existing facility in Andhra Pradesh as it has surplus land bank along with lower timber prices. This would help double its plywood capacity. The project cost is estimated to be ~Rs 1.25bn and it would take a year's time to complete the project. A decision on the plywood project is expected to be taken by the end of FY26. This apart, the company may plan to come up with a greenfield MDF plant in a new location over the next three to five years.

Valuation methodology

We maintain our HOLD rating on the stock with a revised TP of Rs 400 (earlier Rs 365) due to the increase in our target P/E multiple (from 20x to 22x) on Sep'26 EPS. At CMP, the stock trades at 33.2x on 1Y forward P/E multiple vs the 5Y average of 25.2x.

Fig 1 – Trading at 33.2x on 1Y forward P/E vs. 5Y average of 25.2x



Source: Bloomberg, BOBCAPS Research

Key risks

- Lower imports and a steep increase in global MDF prices are the key upside risks to our estimates.
- Weak domestic MDF prices and material delay along with cost escalation in ongoing capex projects are the key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	17,829	15,673	16,123	20,772	24,517
EBITDA	4,165	2,465	1,710	3,120	4,615
Depreciation	720	729	786	937	973
EBIT	3,445	1,736	924	2,183	3,642
Net interest inc./(exp.)	(190)	(123)	(122)	(207)	(198)
Other inc./(exp.)	194	219	231	248	248
Exceptional items	0	0	0	0	0
EBT	3,449	1,832	1,033	2,224	3,692
Income taxes	944	405	199	560	928
Extraordinary items	(61)	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,565	1,427	834	1,664	2,764
Adjustments	(45)	1	0	0	0
Adjusted net profit	2,521	1,428	834	1,664	2,764

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,111	1,094	1,127	1,452	1,714
Other current liabilities	578	622	432	432	432
Provisions	17	25	26	33	39
Debt funds	1,904	2,680	2,375	1,875	1,375
Other liabilities	1,499	1,316	1,316	1,316	1,316
Equity capital	123	123	123	123	123
Reserves & surplus	11,816	13,049	13,638	14,995	17,269
Shareholders' fund	11,939	13,171	13,760	15,118	17,391
Total liab. and equities	17,048	18,907	19,037	20,227	22,268
Cash and cash eq.	3,778	2,379	1,226	1,665	3,632
Accounts receivables	444	290	299	385	454
Inventories	1,525	2,016	1,911	2,439	2,858
Other current assets	592	610	618	691	750
Investments	0	0	0	0	0
Net fixed assets	9,453	9,447	14,288	14,451	13,977
CWIP	49	3,127	100	0	0
Intangible assets	463	375	375	375	375
Deferred tax assets, net	0	0	0	0	0
Other assets	744	664	222	222	222
Total assets	17,048	18,907	19,037	20,227	22,268

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	3,376	1,553	1,537	2,314	3,516
Capital expenditures	(823)	(3,629)	(2,157)	(1,000)	(500)
Change in investments	0	0	0	0	0
Other investing cash flows	255	219	139	139	139
Cash flow from investing	(569)	(3,411)	(2,018)	(861)	(361)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(922)	775	(304)	(500)	(500)
Interest expenses	(190)	(123)	(122)	(207)	(198)
Dividends paid	(184)	(184)	(245)	(307)	(491)
Other financing cash flows	41	(11)	0	0	0
Cash flow from financing	(1,255)	458	(672)	(1,014)	(1,189)
Chg in cash & cash eq.	1,552	(1,399)	(1,153)	440	1,967
Closing cash & cash eq.	3,778	2,379	1,226	1,665	3,632

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	20.9	11.6	6.8	13.6	22.5
Adjusted EPS	20.6	11.6	6.8	13.6	22.5
Dividend per share	1.5	1.5	2.0	2.5	4.0
Book value per share	97.4	107.4	112.2	123.3	141.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	3.1	3.0	2.3	1.9
EV/EBITDA	11.1	19.9	28.7	15.2	10.2
Adjusted P/E	19.2	33.9	57.9	29.0	17.5
P/BV	4.0	3.7	3.5	3.2	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.1	77.9	80.8	74.8	74.9
Interest burden (PBT/EBIT)	100.1	105.5	111.8	101.9	101.4
EBIT margin (EBIT/Revenue)	19.3	11.1	5.7	10.5	14.9
Asset turnover (Rev./Avg TA)	104.6	82.9	84.7	102.7	110.1
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	21.1	10.8	6.1	11.0	15.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	9.7	(12.1)	2.9	28.8	18.0
EBITDA	(3.9)	(40.8)	(30.6)	82.4	47.9
Adjusted EPS	3.9	(43.4)	(41.6)	99.4	66.1
Profitability & Return ratios (%)					
EBITDA margin	23.4	15.7	10.6	15.0	18.8
EBIT margin	19.3	11.1	5.7	10.5	14.9
Adjusted profit margin	14.1	9.1	5.2	8.0	11.3
Adjusted ROAE	23.5	11.4	6.2	11.5	17.0
ROCE	26.3	12.3	7.2	14.3	20.7
Working capital days (days)					
Receivables	9	7	7	7	7
Inventory	31	47	43	43	43
Payables	23	25	26	26	26
Ratios (x)					
Gross asset turnover	1.3	1.1	0.9	1.0	1.1
Current ratio	2.7	2.6	1.9	2.1	2.9
Net interest coverage ratio	18.1	14.2	7.5	10.5	18.4
Adjusted debt/equity	(0.2)	0.0	0.1	0.1	(0.1)

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

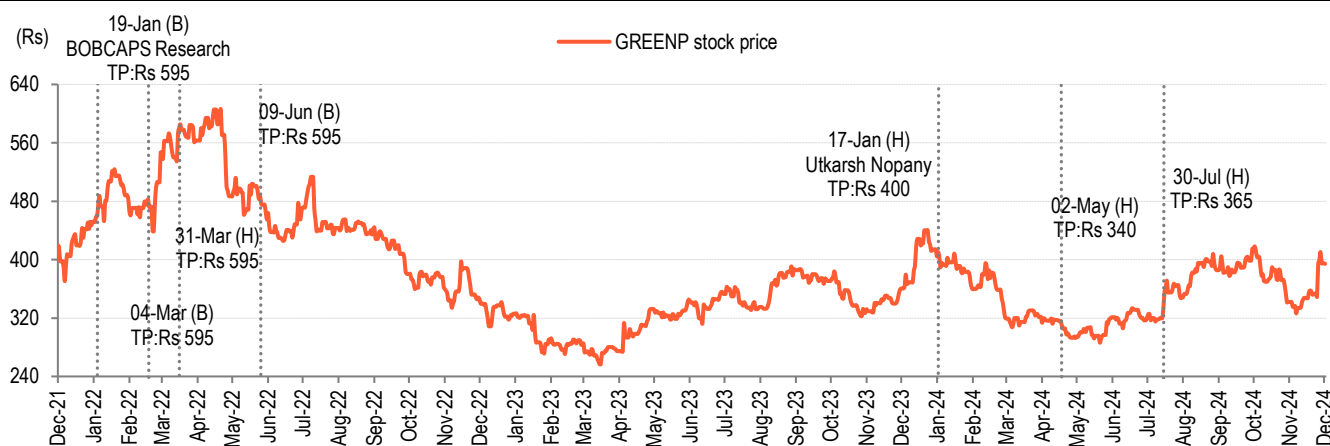
HOLD – Expected return from -6% to +15%

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): GREENPANEL INDUSTRIES (GREENP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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