BOBCAPS
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BUY
TP: Rs 595 | ⮝ 26%

GREENPANEL INDUSTRIES

| Construction Materials | 04 March 2022

On a strong growth trajectory

- **GREENP well placed to capitalise on near-term MDF opportunity with management guiding for 15% volume growth in FY23E**
- **We maintain revenue/EBITDA/PAT CAGR estimates at 26%/37%/58% through to FY24 backed by better MDF utilisation and operating leverage**
- **Current valuations attractive at 18x FY24E EPS – maintain BUY with unchanged TP of Rs 595**

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We organised a conference call with GREENP CFO, V Venkatramani to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

MDF volume growth guided at 15% in FY23E: During Q3FY22, GREENP increased MDF capacity by 20% to 660,000cbm via debottlenecking. The company looks poised to capitalise on the near-term growth opportunity from rising acceptance of MDF in the readymade furniture market and the absence of major capacity additions in the industry during FY23 (beyond Rushil Décor's 240,000cbm expansion which has already been absorbed and CPBI's upcoming 130,000cbm addition in H1FY23). Management expects MDF volumes of 575,000cbm in FY23.

Brownfield expansion planned at AP plant: The company plans to expand its Andhra Pradesh plant at a tentative capacity by 180,000cbm at a capex of ~Rs 4bn by Q4FY24. Per management, this new capacity will generate revenue to the tune of Rs 5.4bn-5.5bn at optimal capacity utilisation, expected in FY26.

Plywood margin to remain steady: In order to counter higher raw material costs, GREENP took a 4% price hike in Dec'21 (implemented mid-Jan'22) and 3% hike in January (implemented mid-Feb). The company is facing difficulties implementing these hikes, which also occur with a lag of 3-4 months. Nonetheless, management believes plywood operating margins will remain steady in the range of 11-11.5%.

Debt position improving: In FY21, net debt stood at Rs 3.7bn which was reduced to Rs 1.4bn in 9MFY22. Management expects the company to be net debt-free between Jun-Sep'22.

Robust growth outlook with attractive valuations; BUY: We expect ROCE to rise 16ppt to 24.4% over FY21-FY24 led by better utilisation, sharp profit improvement, higher FCF generation and subsequent debt reduction. We continue to model for a strong revenue/EBITDA/PAT CAGR of 26%/37%/58%. The stock is trading at 18x FY24E EPS, 35% lower than peer CPBI. We believe this valuation gap will narrow and retain BUY with a TP of Rs 595 set at 23x FY24E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 472
Market cap	US$ 760.4mn
Free float	47%
3M ADV	US$ 2.2mn
52wk high/low	Rs 539/Rs 150
Promoter/FPI/DII	53%/4%/43%

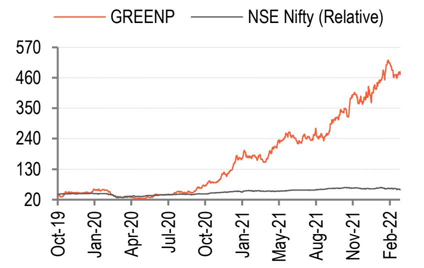
Source: NSE | Price as of 4 Mar 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,208	15,265	18,348
EBITDA (Rs mn)	2,077	3,750	4,684
Adj. net profit (Rs mn)	808	1,965	2,662
Adj. EPS (Rs)	6.6	16.0	21.7
Consensus EPS (Rs)	6.6	11.6	16.5
Adj. ROAE (%)	11.6	24.6	27.7
Adj. P/E (x)	71.7	29.5	21.8
EV/EBITDA (x)	30.6	16.7	13.0
Adj. EPS growth (%)	219.4	143.2	35.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Other key takeaways

- **Q4 MDF volumes picking up; margin outlook healthy:** MDF volumes dipped in January and the first half of February due to Covid-19 and state elections. However, demand has been robust from the second half of February.

  During Q3FY22, GREENP shut down its Uttarakhand plant for capacity expansion (via debottlenecking) from 0.18mn cbm to 0.26mn cbm. However, this caused a volume loss of 80,000cbm valued at Rs 580mn and limited the Q3 MDF EBITDA margin at 32.4%. Management expects the Q4 margin to be better owing to (1) the unlocking of 20% additional capacity with no increase in overhead cost, (2) a 17% price hike in Q3, (3) removal of OEM discounts in Jan'22 which has eliminated the price gap between OEM and retail sales.

- **MDF exports to remain strong:** Management expects MDF export share to remain high, at 15-20% of segmental volumes in FY22. GREENP has significant exposure to the Middle East, South East Asia and Korea, among other markets. The UK accounts for >5% of its total exports. Management expects exports to form 18-20% of total volumes in Q4 (vs. 17% in Q3 and 32% in 6MFY22). Going forward, exports will account to 15% once new capacity comes on-stream.

- **Price hikes to counter RM inflation:** Raw material accounts for ~40% of revenues. Chemical prices are derived from crude and are expected to remain elevated owing to the rise in crude prices. However, management indicated that there is no direct correlation between the two and the company has not seen a substantial rise in chemical cost, though this may change in the near term. Further, GREENP sources chemicals domestically and its imports are at a cost of only Rs 250mn-300mn on an annualised basis.

  To offset input cost inflation, the company took a price hike of 25% in MDF in 9MFY22, of which 17% was effected in Q3 alone. In FY21, prices were raised 8%. If input cost remains elevated, the company will raise prices further.

- **Strong readymade furniture demand outlook:** As per management, direct institutional sales form 15% of total revenue, of which two-third comes from laminators and a third from furniture manufacturers. Of the balance 85% of revenue, 70% of demand comes from the commercial segment and 30% from residential. With the rising acceptance of readymade furniture among buyers, management expects demand to remain strong going forward.

- **India's MDF capacity on the rise:** Total MDF capacity in India has risen from 1.9mn cbm in FY21 (demand: 1.5mn cbm) to 2.3mn cbm currently (demand: 1.7-1.8mn cbm). Capacity is expected to increase further to 3mn cbm by FY25, with demand of ~2.5mn cbm.

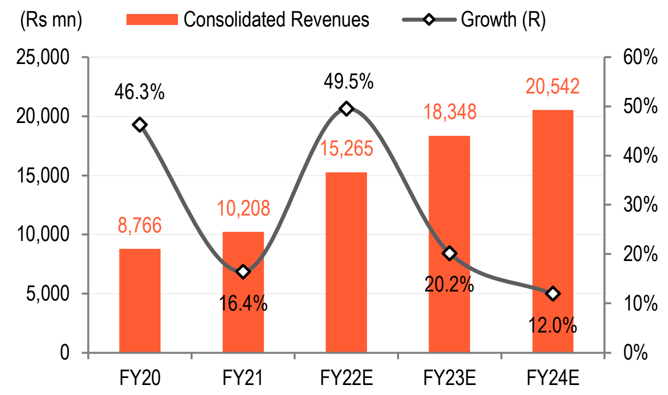
- **Potential margin and realisation pressure in FY24:** As per management, the domestic MDF industry will see three large capacity addition projects totalling 650,000cbm coming onstream in H2FY24. While this added capacity will have lower utilisation in the first 12-18 months, there may be pressure on realisation and margins to the tune of 2-3%.

Management reiterated that it does not anticipate any margin pressure in the near term as the industry has already absorbed Rushil Décor's recent 240,000cbm capacity add. Further, the company is hopeful that demand will be strong enough to absorb Century Plyboards' (CPBI) upcoming 130,000cbm capacity (H1FY23). With no other major capacity additions in FY23, GREENP does not foresee any margin or realisation pressure on MDF in the near term.

- **Near-term MDF export realisations to hold strong:** As per management, the shortage of MDF in the international market has boosted realisations from US$ 190/cbm to US$ 250-270/cbm. This shortage has arisen due to high logistics cost, significant raw material price increase and closure of a few plants. Management expects export realisations to remain strong in the near term.
- **Net debt-free by H1FY23:** As on 31 Dec 2021, GREENP's gross debt was Rs 2.5bn and net debt Rs 1.4bn. The company expects to be net debt-free between Jun-Sep'22.
- **Working capital cycle to remain prudent:** The company has successfully strengthened its working capital cycle. In FY21, inventory/debtor/creditor days stood at 55/28/47 days and the net working capital cycle was at 36 days. In 9MFY22, this has reduced to 35/8/30 days with the net working capital cycle at 13 days. Management expects the latter to remain more or less in the same range.
- **Key risks to growth:** (a) Weak demand remain a risk for the company as the resultant fall in capacity utilisation may result in pricing pressure and lower margins. (b) GREENP has foreign borrowings of EUR 22mn from a German bank which are unhedged and will be paid over five years. Any volatility in forex may affect financials.

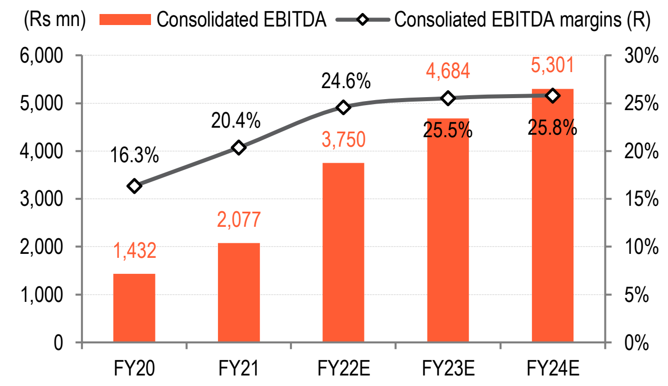
Growth trends

Fig 1 – Consolidated revenue growth



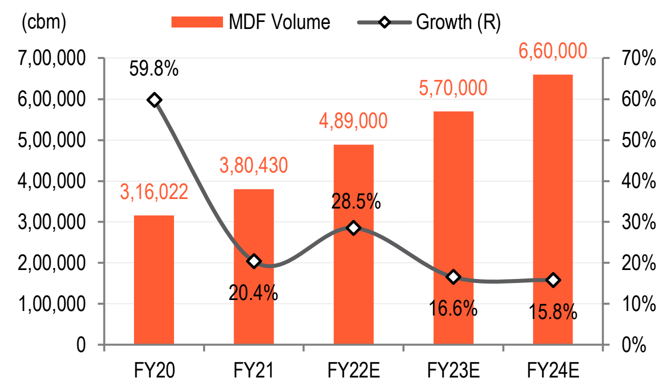
Source: Company, BOBCAPS Research

Fig 2 – Consolidated EBITDA margin



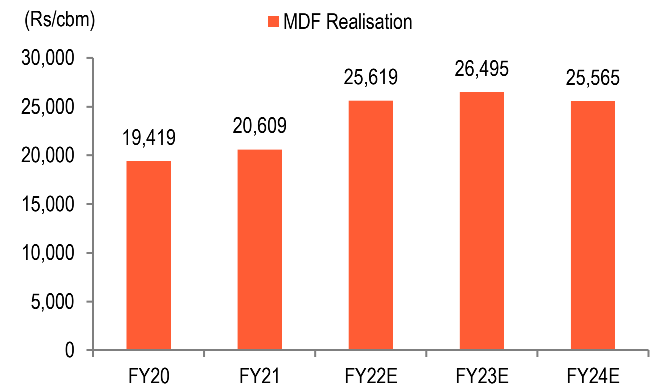
Source: Company, BOBCAPS Research

Fig 3 – MDF volumes



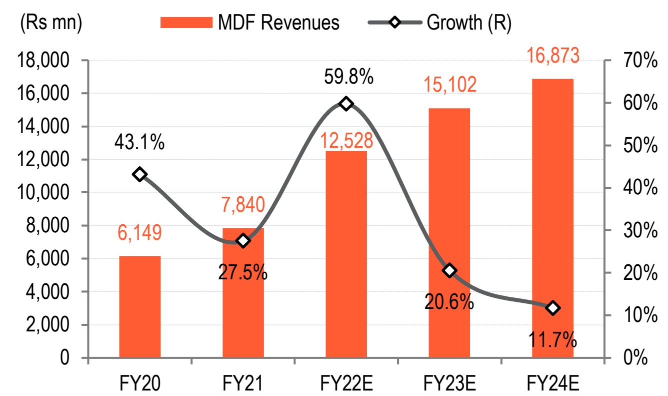
Source: Company, BOBCAPS Research

Fig 4 – MDF realisations



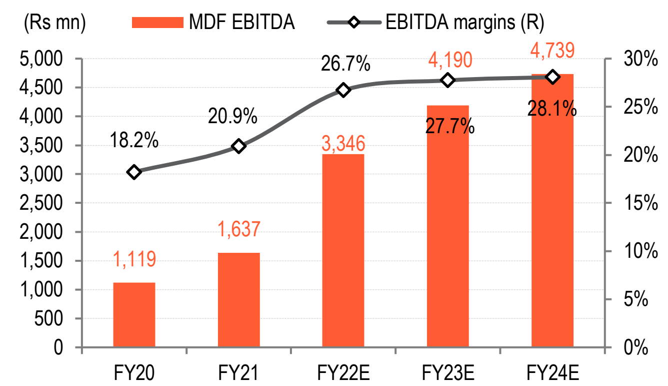
Source: Company, BOBCAPS Research

Fig 5 – MDF revenue growth



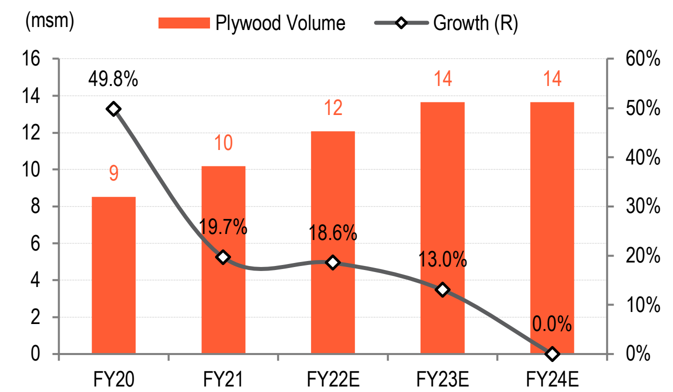
Source: Company, BOBCAPS Research

Fig 6 – MDF EBITDA margin



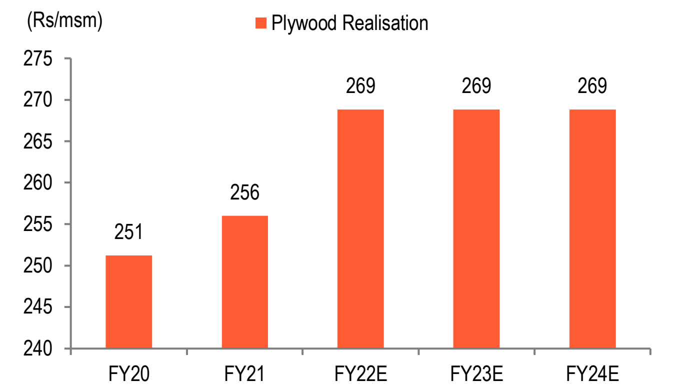
Source: Company, BOBCAPS Research

Fig 7 – Plywood volumes



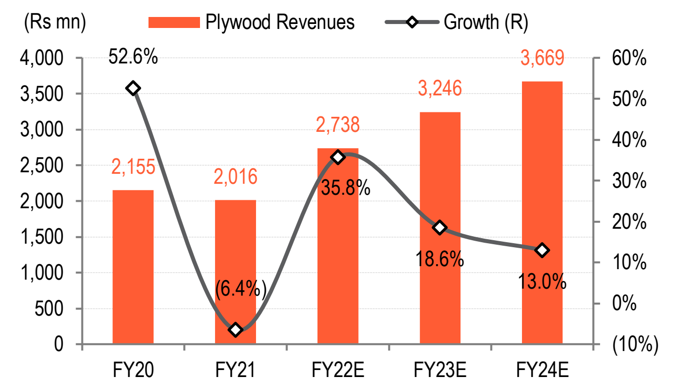
Source: Company, BOBCAPS Research

Fig 8 – Plywood realisations



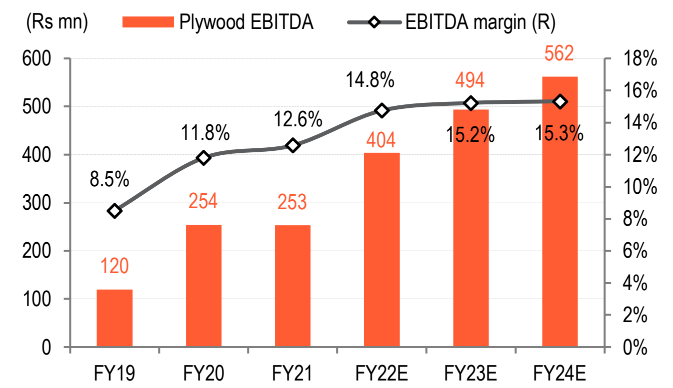
Source: Company, BOBCAPS Research

Fig 9 – Plywood revenue growth



Source: Company, BOBCAPS Research

Fig 10 – Plywood EBITDA margin



Source: Company, BOBCAPS Research

Valuation methodology

GREENP has strong growth prospects due to its leadership position in India's fast-growing MDF market, an improving balance sheet and rising return ratios. With growth momentum likely to continue and no further significant capex, we expect the company to turn net debt-free in FY23. We model for a revenue/EBITDA/PAT CAGR of 26%/37%/58% over FY21-FY24 aided by better capacity utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage.

The stock is trading at 18x FY24E EPS, 35% lower than peer CPBI. We believe this valuation gap will narrow and retain BUY with an unchanged TP of Rs 595, set at a P/E multiple of 23x on FY24E.

Fig 11 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
MDF volumes (cbm)	3,80,430	4,89,000	5,70,000	6,60,000
YoY (%)	20.4	28.5	16.6	15.8
MDF revenues (Rs mn)	7,840	12,528	15,102	16,873
YoY (%)	27.8	59.8	20.6	11.7
MDF margins (%)	20.9	26.7	27.7	28.1
Plywood volumes (msm)	7.9	10.2	12.1	13.7
YoY (%)	(7.5)	29.3	18.6	13.0
Plywood revenues (Rs mn)	2,016	2,738	3,246	3,669
YoY (%)	(5.7)	35.8	18.6	13.0
Plywood margins (%)	(12.6)	14.8	15.2	15.3

Source: Company, BOBCAPS Research

Fig 12 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	BUY	1,460	21.5	22.8	29.6	18.9	23.3	40
Somany Ceramics	SOMC IN	BUY	1,140	19.0	20.5	32.8	12.5	17.3	25
Greenply Ind	MTLM IN	BUY	260	18.0	7.7	10.2	19.7	21.4	22
Century Plyboard	CPBI IN	HOLD	735	23.8	13.6	16.7	22.1	22.1	35
Greenpanel Ind	GREENP	BUY	595	34.0	16.0	21.7	23.7	25.1	23
Cera Sanitaryware	CRS IN	BUY	5,590	17.1	109.8	134.9	15.4	16.9	35
Astral	ASTRA IN	HOLD	2,465	22.3	22.5	29.5	22.5	26.0	65
Finolex Ind	FNXP IN	HOLD	220	7.7	10.2	9.4	19.0	15.9	22
Supreme Ind	SI IN	HOLD	2,535	15.7	74.7	80.7	28.0	26.7	30

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- increasing competition from the informal sector,
- slowdown in economic revival and in housing demand,
- significant pick-up in MDF imports,
- steep fall in MDF margins and export realisations, and
- sharp uptick in chemical and wood costs.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	**8,766**	**10,208**	**15,265**	**18,348**	**20,542**
EBITDA	1,432	2,077	3,750	4,684	5,301
Depreciation	(692)	(686)	(743)	(754)	(771)
EBIT	740	1,391	3,007	3,930	4,530
Net interest inc./(exp.)	(302)	(247)	(240)	(180)	(90)
Other inc./(exp.)	22	31	40	52	89
Exceptional items	(343)	(165)	0	0	0
EBT	460	1,175	2,808	3,803	4,529
Income taxes	28	(322)	(842)	(1,141)	(1,359)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**145**	**688**	**1,965**	**2,662**	**3,170**
Adjustments	108	120	0	0	0
Adjusted net profit	**253**	**808**	**1,965**	**2,662**	**3,170**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,207	1,297	1,924	2,312	2,589
Other current liabilities	1,036	1,186	1,757	2,111	2,364
Provisions	120	96	153	183	205
Debt funds	5,611	4,469	2,912	1,712	532
Other liabilities	69	202	202	202	745
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	8,552	10,409	12,620
Shareholders' fund	6,616	7,304	8,675	10,531	12,743
Total liab. and equities	**14,658**	**14,552**	**15,622**	**17,052**	**19,178**
Cash and cash eq.	115	720	653	2,468	4,367
Accounts receivables	705	778	1,213	1,458	1,632
Inventories	1,539	1,494	2,300	2,765	3,095
Other current assets	1,131	783	1,255	1,508	1,688
Investments	0	0	0	0	0
Net fixed assets	11,107	10,741	10,733	10,191	9,732
CWIP	57	36	61	62	63
Intangible assets	4	2	2	2	2
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**14,658**	**14,552**	**16,217**	**18,453**	**20,579**

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	**720**	**2,158**	**2,490**	**3,407**	**3,897**
Capital expenditures	(242)	(127)	(761)	(212)	(313)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	544
Cash flow from investing	**(242)**	**(127)**	**(761)**	**(212)**	**230**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(255)	(1,142)	(1,556)	(1,200)	(1,180)
Interest expenses	(302)	(247)	(240)	(180)	(90)
Dividends paid	(44)	(208)	(595)	(805)	(959)
Other financing cash flows	(4)	(37)	0	0	0
Cash flow from financing	**(605)**	**(1,634)**	**(2,391)**	**(2,186)**	**(2,229)**
Chg in cash & cash eq.	**(127)**	**396**	**(662)**	**1,010**	**1,899**
Closing cash & cash eq.	**72**	**512**	**58**	**1,662**	**4,366**

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	1.2	5.6	16.0	21.7	25.9
Adjusted EPS	2.1	6.6	16.0	21.7	25.9
Dividend per share	0.3	1.4	4.0	5.4	6.5
Book value per share	54.0	59.6	70.7	85.9	103.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	6.9	6.2	4.1	3.3	2.9
EV/EBITDA	42.4	30.6	16.7	13.0	11.1
Adjusted P/E	228.9	71.7	29.5	21.8	18.3
P/BV	8.8	7.9	6.7	5.5	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	216.0	80.0	70.0	70.0	70.0
Interest burden (PBT/EBIT)	15.8	72.6	93.4	96.7	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	19.7	21.4	22.1
Asset turnover (Rev./Avg TA)	60.0	69.9	99.2	105.8	105.3
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.9	1.8	1.7
Adjusted ROAE	3.9	11.6	24.6	27.7	27.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	46.3	16.4	49.5	20.2	12.0
EBITDA	84.8	45.1	80.5	24.9	13.2
Adjusted EPS	11.0	219.4	143.2	35.4	19.1
Profitability & Return ratios (%)					
EBITDA margin	16.3	20.4	24.6	25.5	25.8
EBIT margin	8.4	13.6	19.7	21.4	22.1
Adjusted profit margin	2.9	7.9	12.9	14.5	15.4
Adjusted ROAE	3.9	11.6	24.6	27.7	27.2
ROCE	6.0	7.9	18.0	23.1	24.9
Working capital days (days)					
Receivables	24	27	24	27	27
Inventory	134	120	105	117	121
Payables	50	56	51	57	59
Ratios (x)					
Gross asset turnover	0.6	0.7	1.0	1.2	1.3
Current ratio	1.0	1.1	1.3	1.8	2.1
Net interest coverage ratio	2.5	5.6	12.5	21.8	50.4
Adjusted debt/equity	0.8	0.5	0.3	(0.1)	(0.3)

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

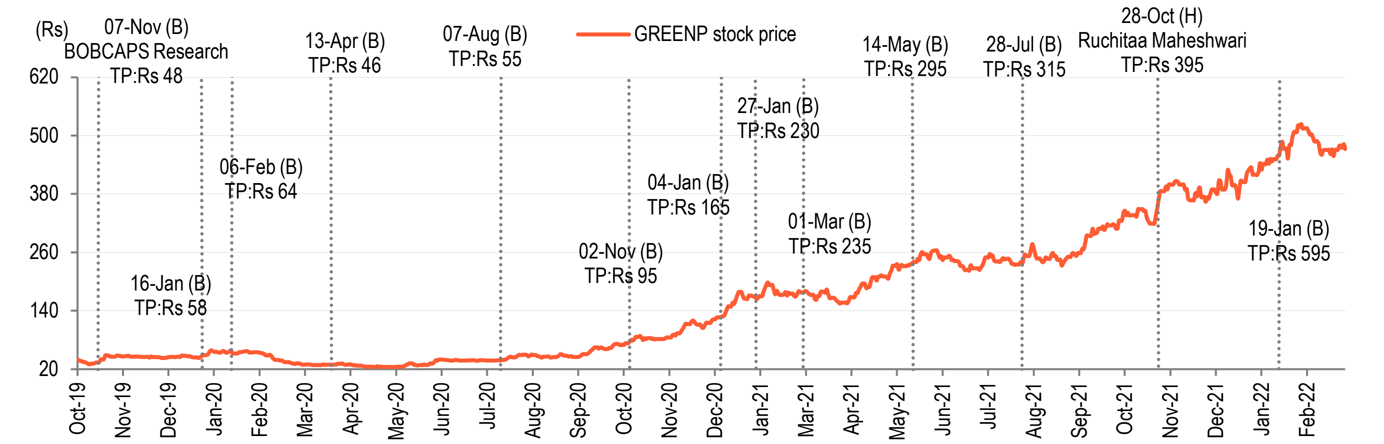
HOLD – Expected return from -6% to +15%

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.

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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