BUY

TP: Rs 595 | ⮝ 35%

GREENPANEL INDUSTRIES | Construction Materials | 08 September 2022

Structural tailwinds intact

- **Plans to expand MDF capacity by adding 231,000cbm at a capex of Rs 6bn, for commercial production in Q2FY25**
- **9MFY23 EBITDA margin guidance for MDF business at 26-27% vs. 33.3% in Q1FY23 owing to uncertainty over RM cost inflation**
- **Near-term hindrances but structural drivers intact; maintain BUY with an unchanged TP of Rs 595 set at 23x FY24E EPS**

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

Brownfield expansion planned at AP plant: GREENP plans to expand MDF (medium-density fibreboard) capacity at its Andhra Pradesh plant by 231,000cbm at a capex of Rs 6bn, comprising ~Rs 2.3bn of low-cost foreign debt and internal accruals. The plant will manufacture thin MDF (30-40% of the market), and commercial production is scheduled to start by Q2FY25. Management expects the new capacity to generate revenue of Rs 7.7bn-8bn at optimal utilisation, targeted in FY27. MDF capacity will rise to 891,000cbm post expansion.

"Over cautious" on raw-material price movement: Management has guided for 26-27% EBITDA margins in 9MFY23 for MDF (33.3% in Q1) as it anticipates higher chemical prices (crude derivative) to put 300bps of gross margin pressure. Per management, chemical prices have not increased since the start of CY22, and the ability to take price hikes will depend on demand. In the plywood business, timber prices have risen by 6-8% in Q2FY23, putting pressure on segment EBITDA margins (11.5% in Q1). Nevertheless, management expects plywood margins to hold in the 11-11.5% range for FY23.

MDF export realisation down 5-6% vs. Q1: Due to lower demand from the Middle East amid festivals, geopolitical tensions which delayed shipments and the global economic slowdown, management expects MDF export volumes to remain flattish or grow in low single digits in FY23 compared to FY22 (122,512cbm). Export realisation has also fallen by 5-6% compared to Q1 (Rs 23,941/cbm).

Maintain BUY: Despite a strong Q1FY23, stock performance has remained lacklustre owing to management's "over-cautious" guidance. GREENP is trading at 17x FY24E EPS. We continue to value the stock at 23x FY24E EPS, a 34% discount to peer CPBI, and retain our TP of Rs 595 with a BUY rating. We like the company for its a leadership position in the MDF market, improving balance sheet and commendable improvement in working capital discipline and return ratios.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	GREENP IN/Rs 441
Market cap	US$ 676.6mn
Free float	47%
3M ADV	US$ 1.4mn
52wk high/low	Rs 626/Rs 264
Promoter/FPI/DII	53%/6%/41%

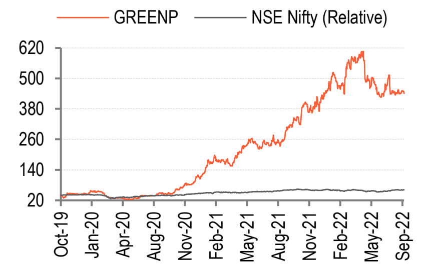
Source: NSE | Price as of 7 Sep 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,543	20,553
EBITDA (Rs mn)	4,304	4,700	5,302
Adj. net profit (Rs mn)	2,405	2,673	3,171
Adj. EPS (Rs)	19.6	21.8	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.6	25.4
Adj. P/E (x)	22.5	20.2	17.0
EV/EBITDA (x)	13.6	12.0	10.2
Adj. EPS growth (%)	197.6	11.2	18.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Management meet takeaways

- **MDF volume growth guidance maintained:** Management continues to expect MDF volume growth of 10-12% in FY23. The company indicated that the demand situation remains comfortable as no new capacity is coming onstream, barring CPBI's upcoming 130,000cbm addition in H1FY23.

- **Domestic MDF growth guided at 15%:** Per management, domestic MDF demand is currently stronger than exports and the company expects to grow at 15% in FY23 (in-line with estimated industry growth for the next 3-5 years).

- **Greenply Industries' (GIL) capacity add may stoke price pressures in FY24:** Competitor GIL is setting up an MDF plant in Gujarat with a capacity of 800cbm per day by Q4FY23 – this can pose some demand pressure for 12-24 months until the new capacity is absorbed by the market. Per management, GIL will only have a freight cost advantage as chemical prices are similar to those for GREENP. A product transported from Andhra Pradesh to markets in western India (such as Gujarat) will carry a ~5% freight cost for GREENP.

  Currently, the western market (including Central India) forms 18-20% of domestic volumes and GREENP has 12-13% share. The company indicated that it is exploring the eastern and western regions to set up MDF capacity but is yet to make a final decision.

- **Lower imports eased stress on domestic MDF prices:** MDF imports have been minimal at 5,000cbm per month (post-covid) and currently pose no threat to domestic players due to (a) price inflation in international MDF, (b) higher ocean freight cost, and (c) increased domestic consumption in the key exporting countries of Vietnam and Indonesia (for furniture exports to the US and Europe). These countries have captured substantial market share from China, which has also contributed to the drop in imports. Thailand, however, could pose some threat on this front.

- **Domestic prices not much different from imports:** Thick MDF import price (landed) is similar to that of domestic MDF, while thin MDF is priced ~10% lower than the domestic product.

- **No customs duty likely:** Management does not expect any anti-dumping duty (ADD), countervailing duty (CVD) or basic customs duty on MDF as imports are from ASEAN countries which are exempt from duty as per the trade policy.

- **Strong readymade furniture demand outlook:** As per management, direct institutional sales form 15% of GREENP's total revenue, of which two-third of demand 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, the company has witnessed strong demand in Q1FY23 thus far and expects the traction to continue. The furniture industry's product mix is currently 80% plywood and 20% MDF, which the company expects will equalise to 50% each by 2030.

Management highlighted that companies such as Ikea, Pepperfry and Urban Ladder depend on imported furniture for 80-90% of their sales as very few vendors manufacture readymade furniture domestically. Once these companies start domestic manufacturing, GREENP believes it will further bolster demand and acceptability of MDF.

- **India's MDF capacity on the rise:** Per GREENP, total MDF capacity in India is expected to increase from ~2.3mn cbm in FY22 (demand: ~2mn cbm) to 2.43mn cbm in FY23 and ~3mn cbm by FY24/FY25 (demand: ~2.5mn cbm) from GREENP, GIL, CPBI and Action Tesa.

- **Rising capacities could dampen margins in FY24:** As per management, the domestic MDF industry has 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 realisations and margins to the tune of ~3% in FY24.

- **Unorganised players pose a threat:** Most of the unorganised MDF producers are based out of North India with one plant in South India. Unorganised players have a significant presence in terms of capacity (30-32% of the total market), but are lower on the scale in terms of market share (16-18%). The informal sector does pose challenges to the domestic industry owing to its proclivity for cheaper pricing and under-invoicing.

- **Dealer additions:** As on Mar'22, GREENP's MDF dealers numbered at 1,784 and plywood dealers at 751. It plans to add ~400 dealers in MDF and 40-50 in plywood by end-FY23.

- **Capex:** Management plans to spend Rs 0.6bn in FY23, Rs 4.8bn in FY24, and Rs 0.6bn in FY25.

- **Tax rate:** GREENP expects a 32-34% tax rate (gross) for FY23 and a 25% rate in FY24.

Valuation methodology

We continue to model for a revenue/EBITDA/PAT CAGR of 13%/11%/15% for GREENP over FY22-FY24 aided by better capacity utilisation at the MDF facility and a higher EBITDA margin arising from operating leverage. The company has turned net debt-free during Q1FY23, as guided.

Despite a strong Q1 print, stock performance has remained lacklustre owing to management's "over-cautious" guidance. GREENP is trading at 17x FY24E EPS. We continue to value the stock at 23x FY24E EPS, a 34% discount to peer CPBI, and retain our TP of Rs 595 with a BUY rating. We like the company for its a leadership position in the MDF market, improving balance sheet and commendable rise in working capital discipline and return ratios

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.9	673	735	BUY
Cera Sanitaryware	CRS IN	0.9	5,573	5,225	HOLD
Greenpanel Industries	GREENP IN	0.7	441	595	BUY
Greenply Industries	MTLM IN	0.3	194	235	BUY
Kajaria Ceramics	KJC IN	2.2	1,114	1,460	BUY
Pidilite Industries	PIDI IN	17.8	2,804	1,870	SELL
Somany Ceramics	SOMC IN	0.3	625	835	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Sep 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	**8,766**	**10,208**	**16,250**	**18,543**	**20,553**
EBITDA	1,432	2,077	4,304	4,700	5,302
Depreciation	(692)	(686)	(734)	(754)	(771)
EBIT	740	1,391	3,571	3,947	4,531
Net interest inc./(exp.)	(302)	(247)	(171)	(180)	(90)
Other inc./(exp.)	22	31	90	52	89
Exceptional items	(343)	(165)	0	0	0
EBT	460	1,175	3,489	3,819	4,530
Income taxes	28	(322)	(1,085)	(1,146)	(1,359)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**145**	**688**	**2,405**	**2,673**	**3,171**
Adjustments	108	120	0	0	0
Adjusted net profit	**253**	**808**	**2,405**	**2,673**	**3,171**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	1,207	1,297	1,378	2,337	2,590
Other current liabilities	1,036	1,186	879	2,134	2,365
Provisions	120	96	141	185	206
Debt funds	5,611	4,469	2,826	1,712	532
Other liabilities	69	202	682	682	1,226
Equity capital	123	123	123	123	123
Reserves & surplus	6,494	7,181	9,394	11,258	13,470
Shareholders' fund	6,616	7,304	9,516	11,381	13,593
Total liab. and equities	**14,658**	**14,552**	**15,424**	**18,432**	**20,512**
Cash and cash eq.	115	720	2,226	2,802	4,714
Accounts receivables	705	778	414	1,473	1,633
Inventories	1,539	1,494	1,658	2,794	3,097
Other current assets	1,131	783	743	1,524	1,689
Investments	0	0	0	0	0
Net fixed assets	11,107	10,741	10,380	9,776	9,315
CWIP	57	36	0	60	61
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**	**15,424**	**18,432**	**20,512**

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	**720**	**2,158**	**3,368**	**2,889**	**3,909**
Capital expenditures	(242)	(127)	(337)	(210)	(311)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	481	0	544
Cash flow from investing	**(242)**	**(127)**	**144**	**(210)**	**232**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(255)	(1,142)	(1,642)	(1,114)	(1,180)
Interest expenses	(302)	(247)	(171)	(180)	(90)
Dividends paid	(44)	(208)	(1,698)	(809)	(959)
Other financing cash flows	(4)	(37)	0	0	0
Cash flow from financing	**(605)**	**(1,634)**	**(3,512)**	**(2,103)**	**(2,229)**
Chg in cash & cash eq.	**(127)**	**396**	**0**	**576**	**1,912**
Closing cash & cash eq.	**72**	**512**	**720**	**2,802**	**4,714**

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	1.2	5.6	19.6	21.8	25.9
Adjusted EPS	2.1	6.6	19.6	21.8	25.9
Dividend per share	0.3	1.4	4.9	5.5	6.5
Book value per share	54.0	59.6	77.6	92.8	110.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	6.5	5.8	3.6	3.0	2.6
EV/EBITDA	39.7	28.7	13.6	12.0	10.2
Adjusted P/E	213.7	66.9	22.5	20.2	17.0
P/BV	8.2	7.4	5.7	4.8	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	216.0	80.0	68.9	70.0	70.0
Interest burden (PBT/EBIT)	15.8	72.6	97.7	96.8	100.0
EBIT margin (EBIT/Revenue)	8.4	13.6	22.0	21.3	22.0
Asset turnover (Rev./Avg TA)	60.0	69.9	108.4	109.5	105.5
Leverage (Avg TA/Avg Equity)	2.2	2.1	1.8	1.6	1.6
Adjusted ROAE	3.9	11.6	28.6	25.6	25.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	46.3	16.4	59.2	14.1	10.8
EBITDA	84.8	45.1	107.2	9.2	12.8
Adjusted EPS	11.0	219.4	197.6	11.2	18.6
Profitability & Return ratios (%)					
EBITDA margin	16.3	20.4	26.5	25.3	25.8
EBIT margin	8.4	13.6	22.0	21.3	22.0
Adjusted profit margin	2.9	7.9	14.8	14.4	15.4
Adjusted ROAE	3.9	11.6	28.6	25.6	25.4
ROCE	6.0	7.9	20.4	21.7	23.3
Working capital days (days)					
Receivables	24	27	13	19	28
Inventory	134	120	86	103	124
Payables	50	56	41	49	59
Ratios (x)					
Gross asset turnover	0.6	0.7	1.1	1.2	1.4
Current ratio	1.0	1.1	1.4	1.8	2.1
Net interest coverage ratio	2.5	5.6	20.9	21.9	50.5
Adjusted debt/equity	0.8	0.5	0.1	(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%

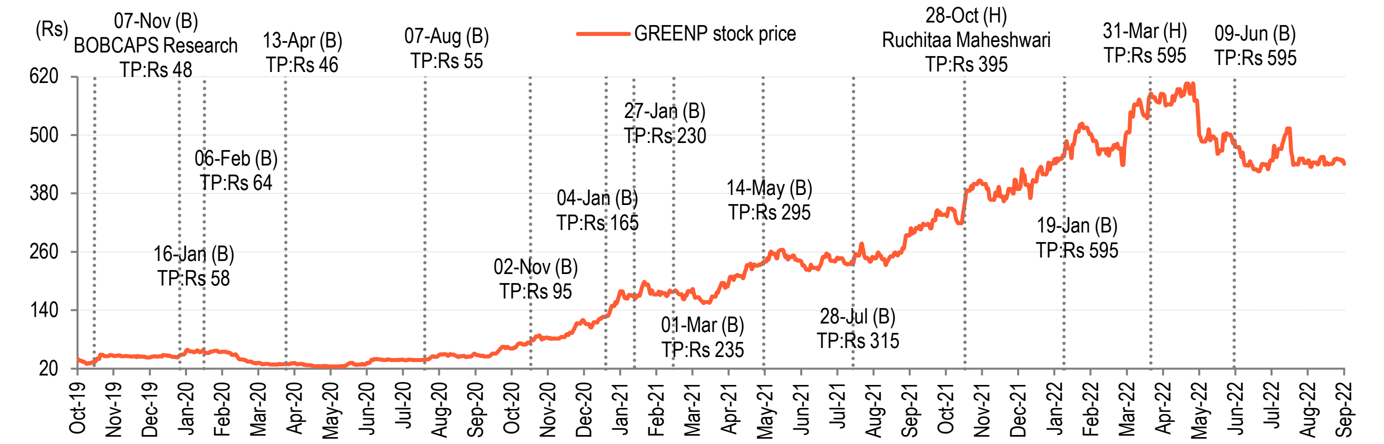
HOLD – Expected return from -6% to +15%

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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