

**HOLD**  
 TP: Rs 365 | ▲ 2%

**GREENPANEL  
 INDUSTRIES**

Building Materials

30 July 2024

**Dismal Q1; MDF margin bottoms out, but recovery to take time**

- Sharp contraction in GREENP EBITDA (-45% YoY) for seventh straight quarter on supply overhang in MDF industry and rising timber prices
- Maintained guidance of MDF volume growth of 15% with EBITDA margin of 16.0-16.5% for FY25 – appears optimistic based on poor Q1
- Maintain HOLD; raise TP by 7% to Rs 365 on roll forward of valuation from Mar’26 to Jun’26

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**Dismal Q1FY25:** GREENP’s revenue/EBITDA/PAT fell by 5.5%/45.2%/57.8% YoY in Q1FY25. The company missed our EBITDA estimates by 33% for Q1FY25 due to lower MDF volumes (+2.8% YoY vs +9.2% estimated) and weak MDF realisation (-1.6% QoQ on higher export mix). Net debt rose from Rs 0.3bn in Mar’24 to Rs 1.0bn in Jun’24 due to capex incurred for its ongoing MDF project.

**Key highlights:** GREENP’s MDF sales volume grew by 2.8% YoY in Q1FY25 as higher domestic volume (+10%) more than offset the impact of weak exports (-21%). MDF margin fell below the level seen in the previous bear cycle (11.2% in Q1FY25 vs 14.5% in FY19) due to a supply overhang in the domestic market. The plywood segment reported a sharp volume decline for the eighth consecutive quarter (-23% YoY) due to internal restructuring and exit from decorative veneer business.

**Optimistic guidance:** GREENP maintained MDF volume growth guidance of 15% with EBITDA margin of 16.0-16.5% for FY25, which we believe to be an optimistic target due to the high asking run rate of 19% for the remaining 9MFY25 (whereas it has been struggling to grow its MDF volume over the past 15 quarters). Margin guidance is not likely to be met as GREENP has no plans to hike prices in the near future and the new MDF capacity (expected to become operational in Q3FY25) is likely to reach break-even point by end-Mar’25. The Indian MDF industry’s dynamics is likely to remain weak in FY26 due to a sharp increase in capacity (from 3.5mn CBM in FY24 to 4.1mn CBM in FY25E vs domestic demand of 2.9-3.0mn CBM in FY25E).

**Maintain HOLD; raise TP by 7% to Rs 365:** We believe the worst is over for the Indian MDF industry as the industry margin appears to bottom out in light of restricted imports due to high ocean freight rate and near-completion of the ongoing MDF project. However, we maintain our HOLD rating on the GREENP stock as we believe the recovery in MDF margin is likely to be more gradual in nature due to unfavourable supply-demand fundamentals. We cut our EPS estimates (-21.0%/-7.8% for FY25/FY26), but raise our TP to Rs 365 (Rs 340 earlier) as we roll forward our valuation from Mar’26 to Jun’26. At CMP, the stock trades at 32.1x on 1Y forward P/E vs. the 5Y average of 21.0x. Our target P/E remains unchanged at 20x.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	GREENP IN/Rs 356
Market cap	US\$ 521.7mn
Free float	47%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 450/Rs 268
Promoter/FPI/DII	53%/2%/27%

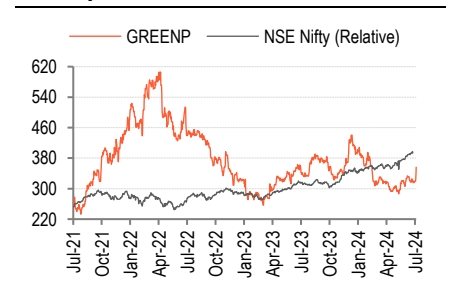
Source: NSE | Price as of 30 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	15,673	16,568	20,335
EBITDA (Rs mn)	2,465	2,085	3,423
Adj. net profit (Rs mn)	1,428	1,079	1,924
Adj. EPS (Rs)	11.6	8.8	15.7
Consensus EPS (Rs)	11.6	12.3	18.2
Adj. ROAE (%)	11.4	7.9	13.0
Adj. P/E (x)	30.6	40.5	22.7
EV/EBITDA (x)	18.0	21.3	12.6
Adj. EPS growth (%)	(43.4)	(24.4)	78.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	3,650	3,862	(5.5)	3,966	(8.0)
Raw Material expense	1,785	1,612	10.7	1,834	(2.7)
Gross Profit	1,865	2,250	(17.1)	2,132	(12.5)
Employee expense	362	333	8.8	385	(6.0)
Sales Promotion	124	151	(17.6)	87	42.2
Other expense	1,018	1,109	(8.2)	1,147	(11.2)
EBITDA	360	658	(45.2)	513	(29.7)
D&A	189	182	4.0	182	3.8
EBIT	171	476	(64.0)	331	(48.2)
Interest cost	2	40	(94.1)	2	34.3
Non-operating expense/(income)	(45)	(64)	(29.2)	(74)	(39.0)
PBT	214	500	(57.2)	403	(46.9)
Tax	57	127	(55.5)	105	(45.9)
Reported PAT	157	373	(57.8)	298	(47.3)
Adjusted PAT	157	373	(57.8)	298	(47.3)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>
Gross margin	51.1	58.3	(716)	53.8	(266)
Employee cost	9.9	8.6	131	9.7	21
Sales Promotion	3.4	3.9	(50)	2.2	120
Other cost	27.9	28.7	(81)	28.9	(101)
EBITDA margin	9.9	17.0	(716)	12.9	(306)
Tax rate	26.5	25.5	104	26.0	51
APAT margin	4.3	9.6	(534)	7.5	(321)

Source: Company, BOBCAPS Research

**Fig 2 – Segment financials**

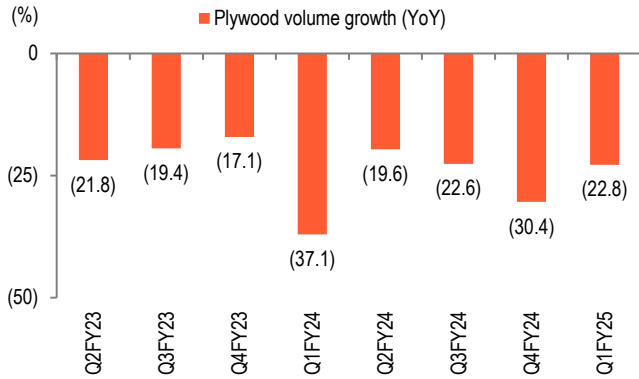
Segment Analysis	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Revenue (Rs mn)</b>					
Plywood	324	450	(28.1)	357	(9.3)
MDF	3,326	3,412	(2.5)	3,609	(7.9)
<b>Total</b>	<b>3,650</b>	<b>3,862</b>	<b>(5.5)</b>	<b>3,966</b>	<b>(8.0)</b>
<b>Volumes</b>					
Plywood (mn sqm)	1.2	1.6	(22.8)	1.42	(14.1)
MDF (CBM)	1,19,071	1,15,798	2.8	1,27,239	(6.4)
<b>Realisation</b>					
Plywood (Rs/sq ft)	265	285	(6.8)	251	5.6
MDF (Rs/CBM)	27,864	29,376	(5.1)	28,325	(1.6)
<b>Adjusted EBITDA (Rs mn)</b>					
Plywood	(11)	19	(157.7)	(43)	(74.2)
MDF	371	636	(41.7)	559	(33.7)
<b>Adjusted EBITDA margin (%)</b>					
Plywood	(3.5)	4.3	(776)	(12.1)	869
MDF	11.1	18.6	(749)	15.5	(434)

Source: Company, BOBCAPS Research

## Earnings call highlights

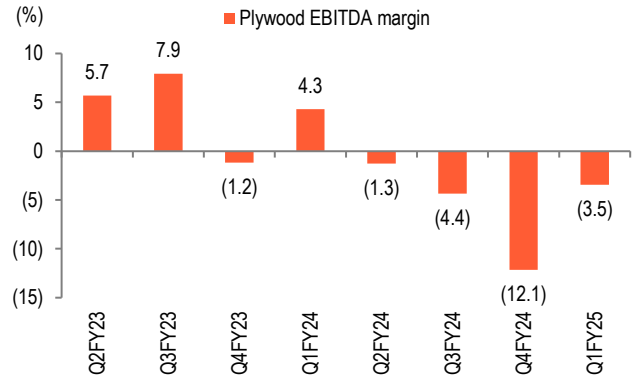
- **MDF industry dynamics:** MDF industry capacity is expected to increase from 3.5mn CBM in FY24 from 4.1mn CBM in FY25. As per management, MDF industry demand is estimated to be around 2.5mn-2.6mn CBM in FY24, which is growing at 15-20%.
- **MDF imports:** The pace of MDF imports slowed in Q1FY25 due to steep rise in ocean freight rate. Imports are not expected to go up at least for the next two quarters due to high ocean freight rate.
- **MDF outlook:** The company maintained its MDF volume growth guidance of 15% YoY for FY25. The company expects its MDF EBITDA margin to be in the range of 16.0%-16.5% in FY25 (vs 11.1% clocked in Q1FY25).
- **Timber:** Prices have gone up by 5.4% QoQ (North India: +7.3%; South India: +4.2%) in Q1FY25. Going forward, the company does not expect any major inflation in its timber cost due to use of new species in its raw material mix.
- **Plywood:** GREENP's plywood segment reported a sharp decline in volumes in the past few quarters due to the impact of restructuring of its team and distribution network as well as its exit from the decorative veneer business. Management expects the segment volume to pick up from Q2FY25.
- **Capex:** The company plans to add 231,000 CBM of MDF capacity at its existing Andhra Pradesh plant at a cost of Rs 6bn by Q3FY25. Capex is estimated to be Rs 2.0bn for FY24 and Rs 0.5bn for FY25. The company expects the new MDF plant to reach breakeven at a capacity utilisation of 55% (which is expected to happen by the end of Mar'25).
- **Value-added product (VAP):** The company plans to increase the share of VAP as a proportion of its domestic MDF volume from 47% in Q1FY25 to 60-65% over the next two years.

**Fig 3 – GREENP reported a sharp decline in plywood volumes for the 8<sup>th</sup> consecutive quarter...**



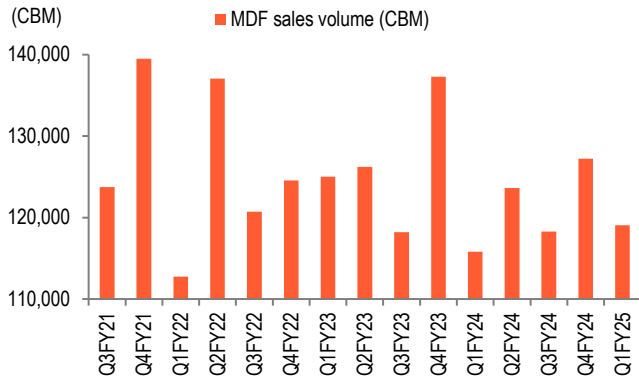
Source: Company, BOBCAPS Research

**Fig 4 – ... with negative operating margin on high timber prices and negative operating leverage**



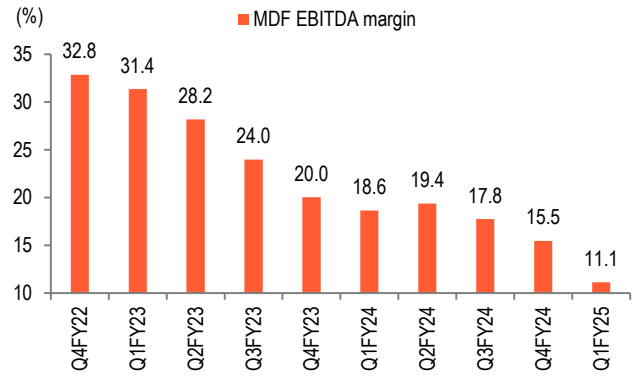
Source: Company, BOBCAPS Research

**Fig 5 – GREENP has struggled to grow its MDF volumes in the past 15 consecutive quarters...**



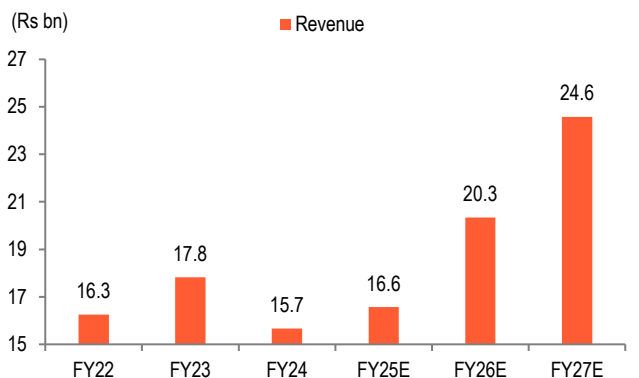
Source: Company, BOBCAPS Research

**Fig 6 – ... and margins have come under severe stress over the past few quarters on supply-side pressure**



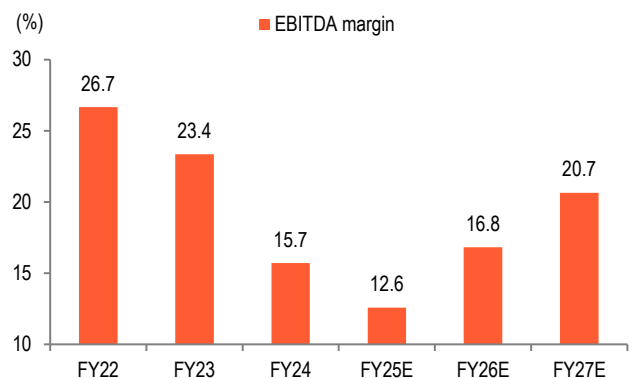
Source: Company, BOBCAPS Research

**Fig 7 – GREENP’s revenue is projected to grow at 16.2% CAGR over FY24-FY27E**



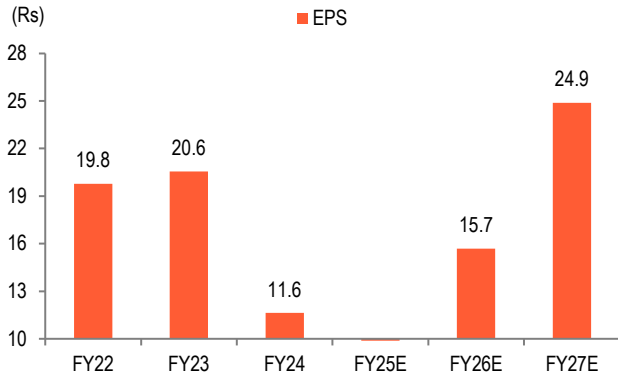
Source: Company, BOBCAPS Research

**Fig 8 – EBITDA margin to improve from 15.7% in FY24 to 20.7% in FY27E**



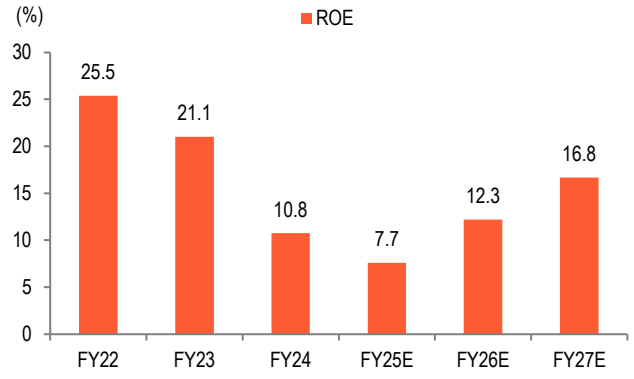
Source: Company, BOBCAPS Research

**Fig 9 – EPS is projected to grow at 28.8% CAGR over FY24-FY27E over a low base...**



Source: Company, BOBCAPS Research

**Fig 10 – ... and ROE is expected to gradually improve from 10.8% in FY24 to 16.8% in FY27E**



Source: Company, BOBCAPS Research

## Valuation methodology

We believe the worst is over for the Indian MDF industry as the industry margin appears to bottom out in light of restricted imports on the back of high ocean freight rate and near-completion of the ongoing MDF project. However, we maintain our HOLD rating on the GREENP stock as we believe the recovery in MDF industry margin is likely to be more gradual in nature due to unfavourable supply-demand fundamentals.

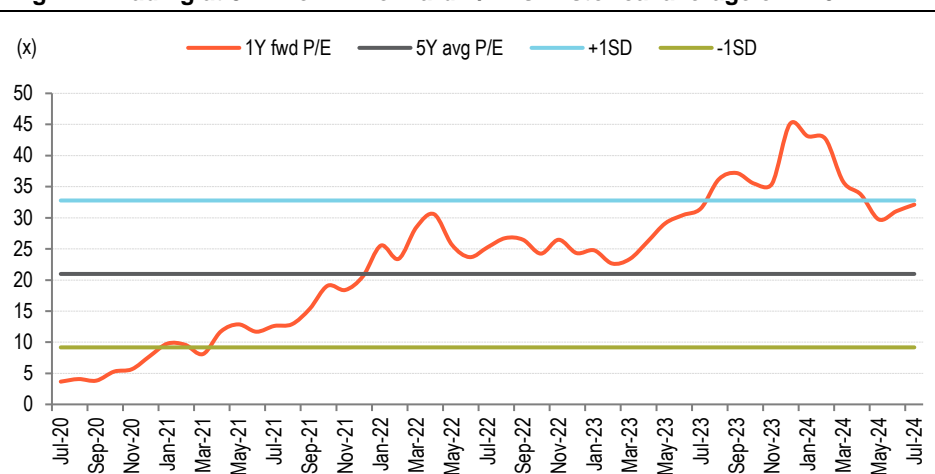
We cut our EPS estimates (-21.0%/-7.8% for FY25/FY26), but we have increased our TP to Rs 365 (from Rs 340) due to the valuation roll forward from Mar'26 to Jun'26. At CMP, the stock trades at 32.1x on 1Y forward P/E vs. the 5Y average of 21.0x. Our target P/E remains unchanged at 20x. We have introduced FY27 estimates.

**Fig 11 – Revised estimates**

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	16.6	20.3	16.7	19.8	(0.8)	2.7
EBITDA	2.1	3.4	2.4	3.5	(13.6)	(3.4)
EBITDA Margin	12.6	16.8	14.5	17.9	(187bps)	(106bps)
EPS (Rs)	8.8	15.7	11.1	17.0	(21.0)	(7.8)

Source: BOBCAPS Research

**Fig 12 – Trading at 32.1x on 1Y forward P/E vs. historical average of 21.0x**



**Fig 13 – Key assumptions**

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenue mix</b>						
MDF	84.2	86.3	89.6	89.7	90.5	91.1
Plywood	15.8	13.7	10.4	10.3	9.5	8.9
<b>Sales volume growth</b>						
MDF	30.1	2.4	(4.3)	9.9	20.2	18.5
Plywood	9.5	(7.7)	(28.0)	1.4	10.0	10.0
<b>EBITDA margin</b>						
MDF	30.5	26.0	17.8	13.6	17.8	22.0
Plywood	9.9	5.0	(1.8)	2.4	4.9	5.3

Source: Company, 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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	623	650	HOLD
Astral	ASTRA IN	7.0	2,194	2,200	HOLD
Century Plyboards	CPBI IN	1.9	718	700	HOLD
Cera Sanitaryware	CRS IN	1.4	9,081	7,700	HOLD
Finolex Industries	FNXP IN	2.4	322	325	HOLD
Greenlam Industries	GRLM IN	0.9	569	560	HOLD
Greenpanel Industries	GREENP IN	0.5	356	365	HOLD
Greenply Industries	MTLM IN	0.5	325	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	451	600	BUY
Kajaria Ceramics	KJC IN	2.9	1,515	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	670	750	HOLD
Somany Ceramics	SOMC IN	0.4	773	900	BUY
Supreme Industries	SI IN	8.1	5,326	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jul 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>17,829</b>	<b>15,673</b>	<b>16,568</b>	<b>20,335</b>	<b>24,578</b>
EBITDA	4,165	2,465	2,085	3,423	5,078
Depreciation	720	729	753	920	1,093
EBIT	3,445	1,736	1,332	2,503	3,985
Net interest inc./(exp.)	(190)	(123)	(64)	(111)	(86)
Other inc./(exp.)	194	219	180	180	180
Exceptional items	0	0	0	0	0
EBT	3,449	1,832	1,448	2,572	4,079
Income taxes	944	405	369	647	1,027
Extraordinary items	(61)	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>2,565</b>	<b>1,427</b>	<b>1,079</b>	<b>1,924</b>	<b>3,052</b>
Adjustments	(45)	1	0	0	0
<b>Adjusted net profit</b>	<b>2,521</b>	<b>1,428</b>	<b>1,079</b>	<b>1,924</b>	<b>3,052</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,111	1,094	1,156	1,419	1,715
Other current liabilities	578	622	622	622	622
Provisions	17	25	26	32	39
Debt funds	1,904	2,680	2,480	1,980	1,480
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	13,882	15,500	18,061
Shareholders' fund	11,939	13,171	14,005	15,622	18,184
<b>Total liab. and equities</b>	<b>17,048</b>	<b>18,907</b>	<b>19,605</b>	<b>20,991</b>	<b>23,355</b>
Cash and cash eq.	3,778	2,379	1,851	2,649	4,975
Accounts receivables	444	290	307	377	455
Inventories	1,525	2,016	1,908	2,288	2,774
Other current assets	592	610	624	684	751
Investments	0	0	0	0	0
Net fixed assets	9,453	9,447	8,943	14,400	13,807
CWIP	49	3,127	5,377	0	0
Intangible assets	463	375	375	375	375
Deferred tax assets, net	0	0	0	0	0
Other assets	744	664	218	218	218
<b>Total assets</b>	<b>17,048</b>	<b>18,907</b>	<b>19,605</b>	<b>20,991</b>	<b>23,355</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>3,376</b>	<b>1,557</b>	<b>1,872</b>	<b>2,551</b>	<b>3,739</b>
Capital expenditures	(823)	(3,633)	(2,054)	(1,000)	(500)
Change in investments	0	0	0	0	0
Other investing cash flows	255	219	165	165	165
<b>Cash flow from investing</b>	<b>(569)</b>	<b>(3,414)</b>	<b>(1,890)</b>	<b>(835)</b>	<b>(335)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(922)	775	(200)	(500)	(500)
Interest expenses	(190)	(123)	(64)	(111)	(86)
Dividends paid	(184)	(184)	(245)	(307)	(491)
Other financing cash flows	41	(11)	0	0	0
<b>Cash flow from financing</b>	<b>(1,255)</b>	<b>458</b>	<b>(510)</b>	<b>(918)</b>	<b>(1,077)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,552</b>	<b>(1,399)</b>	<b>(527)</b>	<b>798</b>	<b>2,326</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,778</b>	<b>2,379</b>	<b>1,851</b>	<b>2,649</b>	<b>4,975</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	20.9	11.6	8.8	15.7	24.9
Adjusted EPS	20.6	11.6	8.8	15.7	24.9
Dividend per share	1.5	1.5	2.0	2.5	4.0
Book value per share	97.4	107.4	114.2	127.4	148.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.3	2.8	2.7	2.1	1.8
EV/EBITDA	10.0	18.0	21.3	12.6	8.5
Adjusted P/E	17.3	30.6	40.5	22.7	14.3
P/BV	3.7	3.3	3.1	2.8	2.4

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.1	77.9	74.5	74.8	74.8
Interest burden (PBT/EBIT)	100.1	105.5	108.7	102.8	102.4
EBIT margin (EBIT/Revenue)	19.3	11.1	8.0	12.3	16.2
Asset turnover (Rev./Avg TA)	104.6	82.9	84.5	96.9	105.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	21.1	10.8	7.7	12.3	16.8

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	9.7	(12.1)	5.7	22.7	20.9
EBITDA	(3.9)	(40.8)	(15.4)	64.2	48.4
Adjusted EPS	3.9	(43.4)	(24.4)	78.4	58.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	23.4	15.7	12.6	16.8	20.7
EBIT margin	19.3	11.1	8.0	12.3	16.2
Adjusted profit margin	14.1	9.1	6.5	9.5	12.4
Adjusted ROAE	23.5	11.4	7.9	13.0	18.1
ROCE	26.3	12.3	9.2	15.2	21.2
<b>Working capital days (days)</b>					
Receivables	9	7	7	7	7
Inventory	31	47	42	41	41
Payables	23	25	25	25	25
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.1	1.1	1.1	1.1
Current ratio	2.7	2.6	1.9	2.2	3.0
Net interest coverage ratio	18.1	14.2	20.6	22.4	46.1
Adjusted debt/equity	(0.2)	0.0	0.1	0.0	(0.1)

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



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

**BUY** – Expected return >+15%

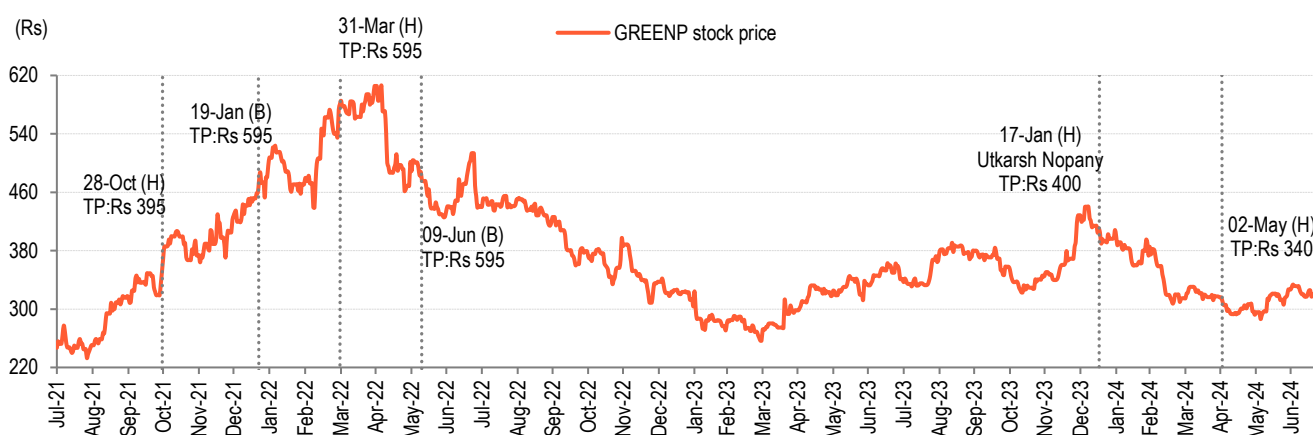
**HOLD** – Expected return from -6% to +15%

**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.

### Ratings and Target Price (3-year history): GREENPANEL INDUSTRIES (GREENP IN)



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

#### Analyst certification

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