

BUY

TP: Rs 48 | ▲ 37%

**GREENPANEL
INDUSTRIES**

Construction Materials

07 November 2019

Healthy quarter; better capacity utilisation to fuel growth

Greenpanel Industries (GREENP), the newly demerged entity of Greenply Industries, reported consolidated revenue growth of 44% YoY in Q2FY20 aided by a 53%/40% upswing in the plywood/MDF segments. Operating margins swelled 11ppt YoY due to better profitability in both businesses. Management has guided for ~60% utilisation in MDF with ~16% margins in FY20. Plywood guidance was maintained at ~Rs 2bn in revenues and 13% margins. Post-demerger, we value the stock at 13x P/E and roll to a new Sep'20 TP of Rs 48 (vs. Rs 54).

Arun Baid

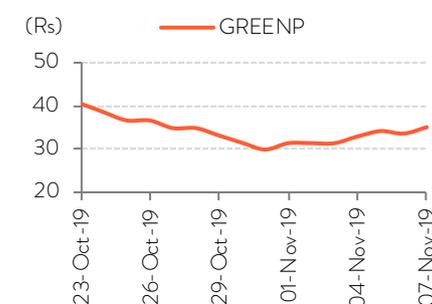
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Strong revenue growth: GREENP (demerged from Greenply in Jul'19 and listed on 23 Oct) posted revenue growth of 44% YoY in Q2, with MDF/plywood up 53%/40%. The company primarily houses Greenply's MDF business, where volumes grew 67% YoY on better utilisation of new capacity while realisations fell 12.5% partly due to higher exports. In plywood, volumes grew 43% YoY off a low base and realisations inched up 2%. Management has guided for MDF utilisation of ~60%, with exports forming 35% of MDF volumes in FY20, and 16% margins.

Ticker/Price	GREENP IN/Rs 35
Market cap	US\$ 60.5mn
Shares o/s	123mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 38/Rs 28
Promoter/FPI/DII	51%/11%/38%

Source: NSE

Operating margins surge: Operating margins expanded 11ppt YoY to 15.6% aided by higher profitability in both MDF and plywood. MDF margins increased 15ppt YoY (+660bps QoQ) to 19.6% due to a low base, better plant utilisation and a 3-5% price increase in North India during Q2. Plywood margins rose ~110bps YoY to 12.1% on account of a better product mix and higher volumes.

STOCK PERFORMANCE

Source: NSE

BUY for 37% upside: GREENP is the leader in India's MDF market and is expected to log a revenue/EBITDA CAGR of 22%/32% over FY19-FY22 (led by expanded capacity), with improving return ratios. Post demerger, we now value the stock on P/E basis at 13x (~30% discount to plywood companies due to lower return ratios) and roll to a Sep'20 TP of Rs 48 (earlier Rs 54, valued at 0.9x BV).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,077	9,427	10,999
EBITDA (Rs mn)	774	1,185	1,451	1,774
Adj. net profit (Rs mn)	228	107	309	534
Adj. EPS (Rs)	1.9	0.9	2.5	4.4
Adj. EPS growth (%)	NA	(53.3)	189.8	73.0
Adj. ROAE (%)	7.1	1.6	4.6	7.5
Adj. P/E (x)	18.8	40.3	13.9	8.0
EV/EBITDA (x)	NA	8.4	6.5	4.9

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Net Revenue	1,921	1,336	43.8	2,111	(9.0)
COGS	837	525	59.4	1,019	(17.8)
% of sales	43.6	39.3	426bps	48.2	(466bps)
Employee expenses	249	209	18.9	235	5.9
% of sales	13.0	15.7	(271bps)	11.1	182bps
Operating Expenses	535	546	(1.9)	580	(7.7)
% of sales	27.9	40.8	(1,298bps)	27.5	39bps
EBITDA	299	55	439.8	277	7.9
EBITDA Margin	15.6	4.2	1,144bps	13.1	245bps
Depreciation/Amortisation	181	133	35.7	161	12.4
EBIT	119	(78)	NA	117	1.8
EBIT Margin	6.2	(5.8)	1,200bps	5.5	66bps
Net Interest Expenses	58	199	(71.1)	87	(33.8)
Other Income	8	2	336.6	3	128.1
PBT	69	(275)	NA	33	108.0
Tax Expenses	25	(299)	NA	8	190.3
Net Income before extraordinary items	45	24	87.0	25	79.9
Extraordinary items	(7)	2	NA	2	NA
Reported Net Income	38	26	48.0	27	42.8

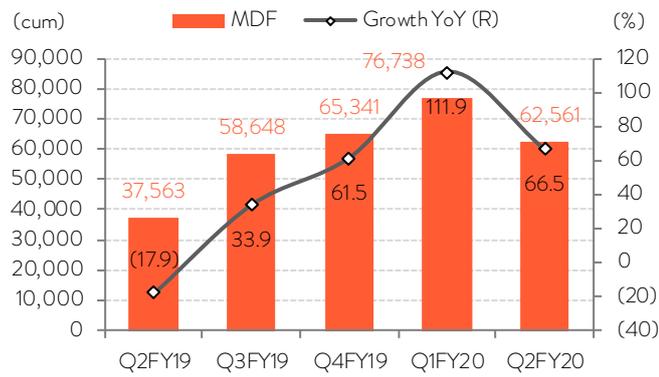
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY19	QoQ (%)
Revenue					
Plywood & Allied products	555	362	53.2	518	7.1
MDF	1,366	974	40.3	1,593	(14.3)
Total	1,921	1,336	43.8	2,111	(9.0)
Less: Inter Segment revenue	0	0	n.m.	0	n.m.
Net revenues	1,921	1,336	43.8	2,111	(9.0)
Profit before interest & tax					
Plywood & Allied products	76	50	52.6	93	(18.2)
MDF	143	(47)	(403.0)	121	18.1
Total	220	3	NM	215	2.3
EBIT Margin (%)					
Plywood & Allied products	13.8	13.8	(6bps)	18.0	(427bps)
MDF	10.5	(4.9%)	1,534bps	7.6	287bps

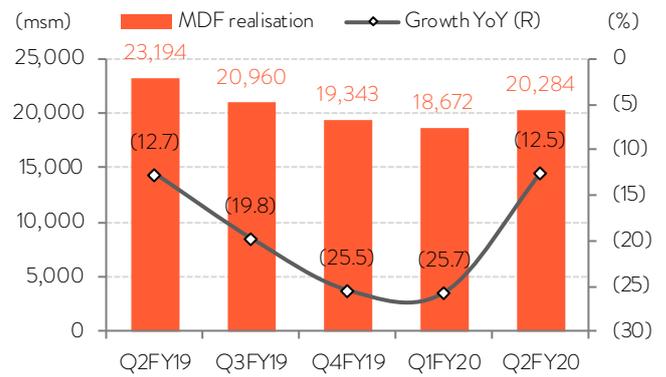
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



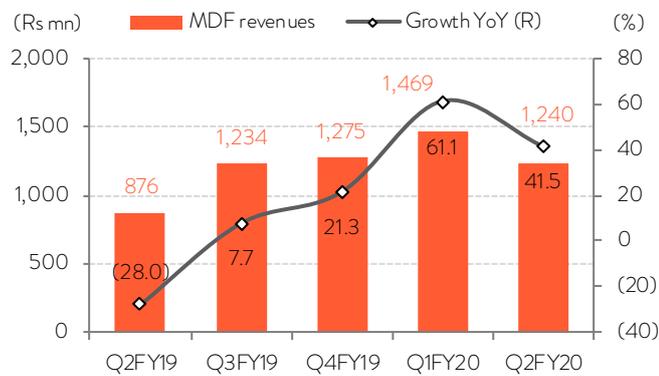
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



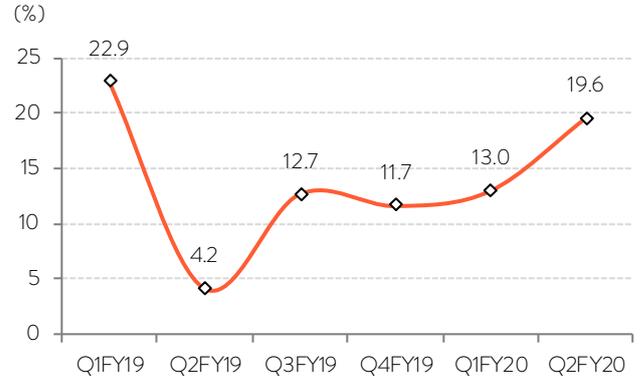
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- GREENP has a debt repayment schedule of Rs 810mn in FY20 and Rs 720mn each in FY21 and FY22.
- Interest outflow expected in FY20/FY21 is Rs 340mn/Rs 310mn.
- Effective tax rate will be 30% for FY20 and FY21, but tax outflow will be on MAT (~17.5%).
- The company has no significant capex plans and envisages yearly maintenance capex of ~Rs 100mn.

MDF

- Management expects capacity utilisation of 60% in FY20 and 80% in FY21.
- Operating margins are guided at 16%/18% in FY20/FY21 from this segment.

- The company expects 35% of MDF segment revenues to come from exports in FY20. Major export markets include the Middle East and Southeast Asia.
- The government has started investigations into the subsidy given on MDF imports and a decision is likely by Q4FY20.
- GREENP is not facing any pricing pressure in MDF markets and does not foresee price wars going ahead.
- Raw material prices have been stable and management does not anticipate any pressure on this front.
- GREENP is striving to reduce power and resin consumption in order to improve margins.
- The company plans to further improve its distribution reach in order to tap the growing market.

Plywood

- Management is targeting plywood capacity utilisation of 80% in FY20 and full utilisation in FY21.
- Operating margins from this segment are guided at 13%/14% in FY20/FY21.
- In the current quarter, the price of eucalyptus wood used in plywood production increased by 8% which impacted margins. The company does not expect any further pressure going ahead.

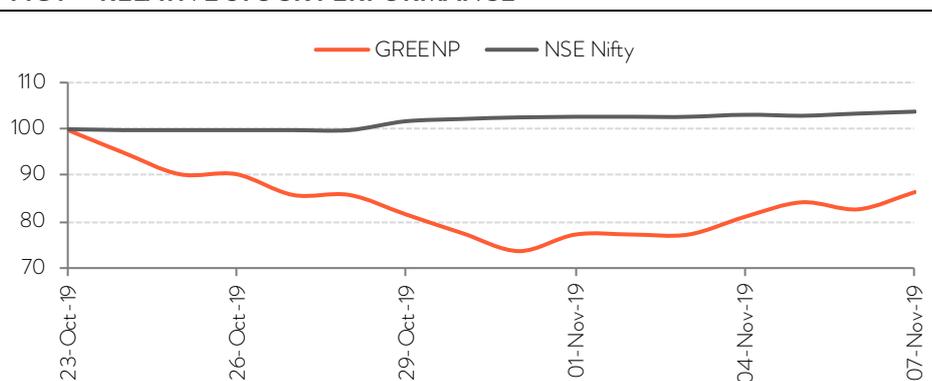
Valuation methodology

GREENP is the demerged entity of Greenply Industries (MTLM IN), carved out primarily to house the latter's MDF business. The company was demerged in Jul'19 and listed on 23 Oct 2019. This makes GREENP the largest MDF player in the country with an installed capacity of 560,000cbm spread across two facilities in Uttarakhand and Andhra Pradesh. The AP facility commissioned in Jul'18 with a capacity of 360,000cbm per year is the largest MDF plant in Asia.

India's MDF market is estimated at Rs 19bn and projected to grow to Rs 25bn by 2024. This product is expected to replace low-cost plywood (an estimated Rs 50bn market) due to its superior quality and competitive pricing. Aided by its leadership position and increasing capacity utilisation at AP, we expect GREENP to witness a robust revenue/EBITDA CAGR of 22%/32% over FY19-FY22. Return ratios are also estimated to rise over this period due to better profitability and capacity utilisation. D/E which stood at 0.9x in FY19 is forecast to improve to 0.4x by FY22.

Post demerger, we move from a P/BV to a P/E-based valuation for GREENP as we have detailed financials – ascribing a P/E multiple of 13x to the stock (~30% discount to plywood companies due to its lower return ratios) and rolling valuations forward to Sep'21, we have a revised target price of Rs 48 (earlier Rs 54, valued at 0.9x BV). We believe GREENP's multiples have significant room for expansion as debt reduces and return ratios improve. BUY.

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates are:

- further slowdown in the housing sector;
- fall in international MDF prices, resulting in higher imports and pressure on domestic markets;
- lower capacity utilisation in domestic MDF markets, resulting in price cuts by competition, thus hurting the company's profitability.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E
Total revenue	5,991	8,077	9,427	10,999
EBITDA	774	1,185	1,451	1,774
Depreciation	(530)	(702)	(708)	(714)
EBIT	244	483	743	1,060
Net interest income/(expenses)	(246)	(341)	(309)	(278)
Other income/(expenses)	8	12	13	15
Exceptional items	118	0	0	0
EBT	6	154	447	797
Income taxes	222	(48)	(139)	(263)
Extraordinary items	0	0	0	0
Min. int./Inc. from associates	0	0	0	0
Reported net profit	346	107	309	534
Adjustments	(118)	0	0	0
Adjusted net profit	228	107	309	534

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E
Accounts payables	816	1,062	1,214	1,386
Other current liabilities	1,197	1,239	1,446	1,688
Provisions	126	121	123	132
Debt funds	5,865	5,127	4,377	3,337
Other liabilities	121	141	199	318
Equity capital	123	123	123	123
Reserves & surplus	6,332	6,439	6,748	7,282
Shareholders' fund	6,455	6,561	6,870	7,404
Total liabilities and equities	14,580	14,251	14,228	14,265
Cash and cash eq.	199	33	48	66
Accounts receivables	456	686	801	934
Inventories	1,345	1,505	1,756	2,019
Other current assets	1,167	1,217	1,420	1,657
Investments	0	0	0	0
Net fixed assets	11,375	10,811	10,203	9,589
CWIP	38	0	0	0
Intangible assets	0	0	0	0
Deferred tax assets, net	0	0	0	0
Other assets	0	0	0	0
Total assets	14,580	14,251	14,228	14,265

Source: Company, BOBCAPS Research | Note: Listed on 23 Oct 2019 post demerger from Greenply Industries

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	809	1,017	1,248
Interest expenses	341	309	278
Non-cash adjustments	0	0	0
Changes in working capital	(156)	(209)	(210)
Other operating cash flows	0	0	0
Cash flow from operations	993	1,116	1,316
Capital expenditures	(100)	(100)	(100)
Change in investments	0	0	0
Other investing cash flows	20	58	120
Cash flow from investing	(80)	(42)	20
Equities issued/Others	0	0	0
Debt raised/repaid	(738)	(750)	(1,040)
Interest expenses	(341)	(309)	(278)
Dividends paid	0	0	0
Other financing cash flows	0	0	0
Cash flow from financing	(1,079)	(1,059)	(1,318)
Changes in cash and cash eq.	(166)	16	17
Closing cash and cash eq.	33	48	66

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20E	FY21E	FY22E
Reported EPS	2.8	0.9	2.5	4.4
Adjusted EPS	1.9	0.9	2.5	4.4
Dividend per share	0.0	0.0	0.0	0.0
Book value per share	52.6	53.5	56.0	60.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20E	FY21E	FY22E
EV/Sales	NA	1.2	1.0	0.8
EV/EBITDA	NA	8.4	6.5	4.9
Adjusted P/E	18.8	40.3	13.9	8.0
P/BV	0.7	0.7	0.6	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	184.0	69.0	69.0	67.0
Interest burden (PBT/EBIT)	50.7	32.0	60.2	75.2
EBIT margin (EBIT/Revenue)	4.1	6.0	7.9	9.6
Asset turnover (Revenue/Avg TA)	82.2	56.0	66.2	77.2
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	2.0
Adjusted ROAE	7.1	1.6	4.6	7.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets | Note: Listed on 23 Oct 2019 post demerger from Greenply Industries

Ratio Analysis

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
YoY growth (%)				
Revenue	NA	34.8	16.7	16.7
EBITDA	NA	53.0	22.4	22.3
Adjusted EPS	NA	(53.3)	189.8	73.0
Profitability & Return ratios (%)				
EBITDA margin	12.9	14.7	15.4	16.1
EBIT margin	4.1	6.0	7.9	9.6
Adjusted profit margin	3.8	1.3	3.3	4.9
Adjusted ROAE	7.1	1.6	4.6	7.5
ROCE	4.0	2.8	4.5	6.5
Working capital days (days)				
Receivables	14	26	29	29
Inventory	96	148	146	147
Payables	29	50	52	51
Ratios (x)				
Gross asset turnover	0.9	0.6	0.7	0.8
Current ratio	0.9	0.9	1.0	1.1
Net interest coverage ratio	1.0	1.4	2.4	3.8
Adjusted debt/equity	0.9	0.8	0.6	0.4

Source: Company, BOBCAPS Research | Note: Listed on 23 Oct 2019 post demerger from Greenply Industries

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

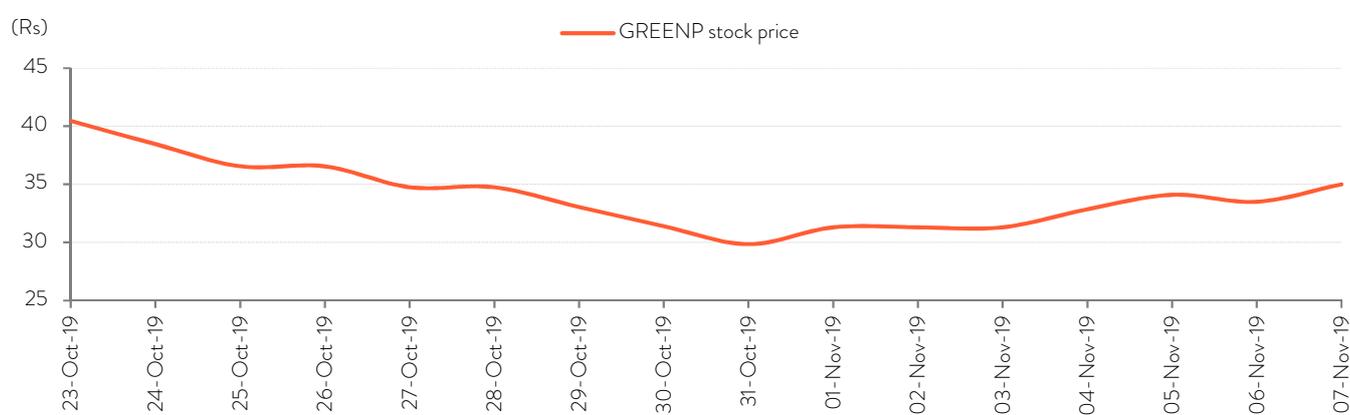
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: GREENPANEL INDUSTRIES (GREENP IN)



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

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