

HOLD
 TP: Rs 365 | ▼ 3%

GREENPANEL INDUSTRIES

Building Materials

29 October 2024

Dismal Q2; MDF margin bottoms out, but recovery to take time

- Sharp contraction in GREENP EBITDA (-57% YoY) for eight straight quarters on supply overhang in MDF industry
- Downgrade MDF volume and margin guidance based on weak H1FY25 performance
- Worst is over, but we maintain HOLD with unchanged TP of Rs 365 in anticipation of gradual recovery in MDF sector margin

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Dismal Q2FY25: GREENP missed our estimates for Q2FY25 (Revenue/EBITDA/APAT: -9%/-32%/-56%) mainly due to lower MDF sales volume (-18% YoY vs -3% estimated) as it preferred to maintain pricing discipline by sacrificing market share. Overall, GREENP Revenue/EBITDA/APAT fell by 16%/57%/76% YoY in Q2FY25.

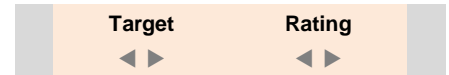
Key highlights: GREENP reported sharp YoY contraction in operating profit for the eighth consecutive quarter due to supply overhang in the MDF industry. MDF segment EBITDA de-grew by 57% YoY in Q2FY25 driven by lower volumes (-17.9% YoY) as well as margin contraction (-129bps QoQ to 9.9%). MDF margin fell below the level seen in the previous bear cycle (14.5% in FY19). The plywood segment reported a sharp volume decline for the ninth consecutive quarter (-10.4% YoY) due to internal restructuring and exit from decorative veneer business.

Guidance: The company targets its domestic MDF volume to grow at 15-18% YoY in H2FY25 and 35% YoY in FY26. Exports volume is expected to be in the range of 6K-7K CBM per month in H2FY25. MDF EBITDA margin is expected to improve by 150-200bps in H2FY25 over Q2FY25 and further improvement of 150-200bps in FY26. 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.

MDF industry dynamics: Management believes the sharp increase in domestic MDF capacity (from 2.5mn CBM in FY23 to 4.1mn CBM in FY25E vs domestic demand of 2.6mn-2.7mn CBM in FY24) is likely to get absorbed over the next three years as domestic demand is anticipated to grow at 14-16% rate per annum.

Maintain HOLD with unchanged TP of Rs 365: While we believe the worst is over for the Indian MDF industry, we maintain our HOLD rating on the GREENP stock in anticipation of gradual recovery in MDF sector margin. We cut our EPS estimates (-22.6%/-13.5%/-9.4% for FY25E/FY26E/FY27E), but we have kept our TP unchanged at Rs 365 due to roll forward of our valuation from Jun'26 to Sep'26. At CMP, the stock trades at 34.8x on 1Y forward P/E vs. the 5Y average of 24.2x. Our target P/E remains unchanged at 20x.

Key changes



Ticker/Price	GREENP IN/Rs 375
Market cap	US\$ 546.5mn
Free float	47%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 450/Rs 268
Promoter/FPI/DII	53%/3%/28%

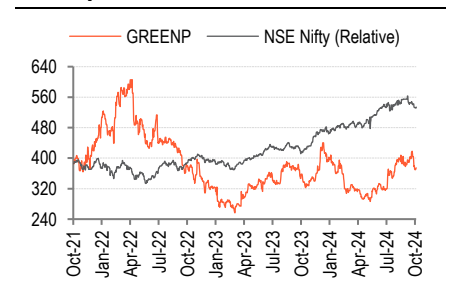
Source: NSE | Price as of 29 Oct 2024

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	9.4	17.1
Adj. ROAE (%)	11.4	6.2	11.5
Adj. P/E (x)	32.2	55.0	27.6
EV/EBITDA (x)	18.9	27.3	14.4
Adj. EPS growth (%)	(43.4)	(41.6)	99.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Total operating income	3,369	3,987	(15.5)	3,650	(7.7)	7,018	7,849	(10.6)	3,684	(8.6)
Raw-Material expense	1,711	1,770	(3.3)	1,785	(4.1)	3,496	3,382	3.4		
Gross Profit	1,658	2,218	(25.3)	1,865	(11.1)	3,522	4,467	(21.2)		
Employee expense	354	354	0.1	362	(2.2)	716	687	4.3		
Sales Promotion	13	32	(57.8)	124	(89.1)	138	183	(24.6)		
Other expense	991	1,141	(13.1)	1,018	(2.7)	2,010	2,250	(10.7)		
EBITDA	299	691	(56.8)	360	(17.1)	659	1,349	(51.1)	439	(31.9)
D&A	193	185	4.3	189	1.9	382	367	4.2		
EBIT	106	506	(79.1)	171	(38.2)	277	982	(71.8)		
Interest cost	34	19	76.9	2	1,340.5	36	59	(38.4)		
Non-operating expense/ (income)	(62)	(68)	(8.7)	(45)	37.7	(124)	(132)	(5.7)		
PBT	134	555	(75.9)	214	(37.3)	365	1,055	(65.4)		
Tax	(51)	145	(135.3)	57	(190.2)	6	272	(98.0)		
Reported PAT	185	410	(54.9)	157	17.7	359	783	(54.1)		
Adjusted PAT	97	410	(76.3)	157	(38.3)	254	783	(67.5)	219	(55.6)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	49.2	55.6	(641)	51.1	(189)	50.2	56.9	(673)		
Employee cost	10.5	8.9	164	9.9	60	10.2	8.7	146		
Sales Promotion	0.4	0.8	(40)	3.4	(300)	2.0	2.3	(37)		
Other cost	29.4	28.6	81	27.9	152	28.6	28.7	(3)		
EBITDA margin	8.9	17.3	(846)	9.9	(101)	9.4	17.2	(779)		
Tax rate	(38.1)	26.1	(6422)	26.5	(6464)	1.5	25.8	(2426)		
APAT margin	2.9	10.3	(740)	4.3	(143)	3.6	10.0	(635)		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

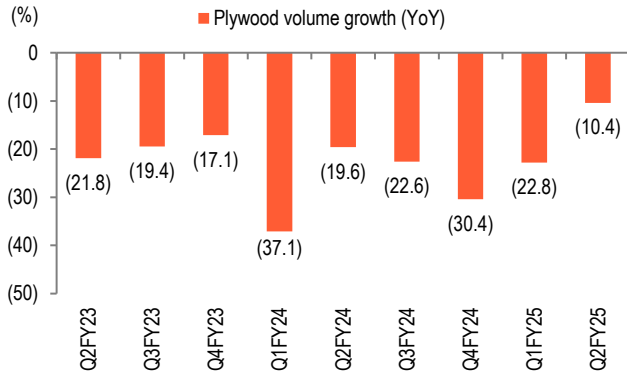
Segment Analysis	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Revenue (Rs mn)								
Plywood	369	432	(14.7)	324	13.9	692	882	(21.5)
MDF	3,000	3,555	(15.6)	3,326	(9.8)	6,326	6,967	(9.2)
Volumes								
Plywood (mn sqm)	1.5	1.6	(10.4)	1.22	20.5	2.7	3.2	(16.5)
MDF (CBM)	1,01,546	1,23,615	(17.9)	1,19,071	(14.7)	2,20,617	2,39,413	(7.9)
Realization								
Plywood (Rs/sq ft)	251	263	(4.8)	265	(5.5)	257	274	(6.0)
MDF (Rs/CBM)	29,131	28,679	1.6	27,864	4.5	28,674	29,102	(1.5)
Adjusted EBITDA (Rs mn)								
Plywood	4	(5)	(177.7)	(11)	(138.0)	(1)	1	(149.8)
MDF	296	689	(57.1)	371	(20.2)	67	133	(49.7)
Adjusted EBITDA margin (%)								
Plywood	1.2	(1.3)	241bps	(3.5)	460bps	(0.1)	0.2	(26bps)
MDF	9.9	19.4	(953bps)	11.1	(129bps)	1.1	1.9	(85bps)

Source: Company, BOBCAPS Research

Earnings call highlights

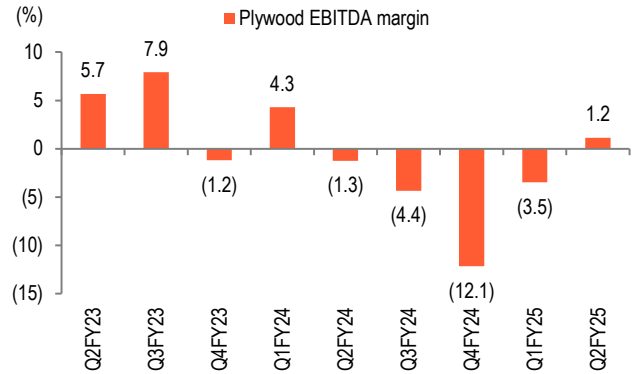
- **MDF industry dynamics:** MDF industry capacity is expected to increase from 2.5mn CBM in FY23 to 4.1mn CBM in FY25. As per management, MDF industry demand is estimated to be around 2.6mn-2.7mn CBM in FY24. The company expects the excess capacity to get absorbed over the next three years as domestic demand is anticipated to grow at 14-16% per annum.
- **MDF segment outlook:** Domestic sales volume is expected to grow at 15-18% YoY in H2FY25 and +35% in FY26. Exports volume is expected to be in the range of 6K-7K CBM per month in H2FY25. The company expects the MDF segment's margin to improve by 150-200bps YoY in H2FY25 over Q2FY25 and further improvement of 150-200bps in FY26. The company expects to hike prices from Dec'24 or Q4FY25 onwards.
- **Timber:** The price has gone down by 1.0-1.5% QoQ in Q2FY25 due to the use of new species in its raw-material mix. However, management expects timber prices to remain at elevated levels in the near future and expects to see some moderation in FY26 and significant reduction in FY27 only.
- **Plywood:** GREENP's plywood segment reported a sharp decline in volumes in the past few quarters due to the impact of the 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 over the next two quarters (vs Q2FY25 earlier).
- **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 0.3bn for H2FY25 and Rs 0.5bn for FY26. The company expects its new MDF plant to operate at 50% in FY26 and 75-80% in FY27. The new MDF unit would mainly cater to thin MDF market (which accounts for 30-35% of total domestic MDF market). Thin MDF realisation would be 6-7% higher than thick MDF, but its margin profile would be similar to thick MDF.
- **Value-added product (VAP):** The company plans to increase the share of VAP as a proportion of its domestic MDF volume from 54% in Q2FY25 to 65% by FY27 (of existing capacity).

Fig 3 – GREENP reported a sharp decline in plywood volumes for the 9th consecutive quarter



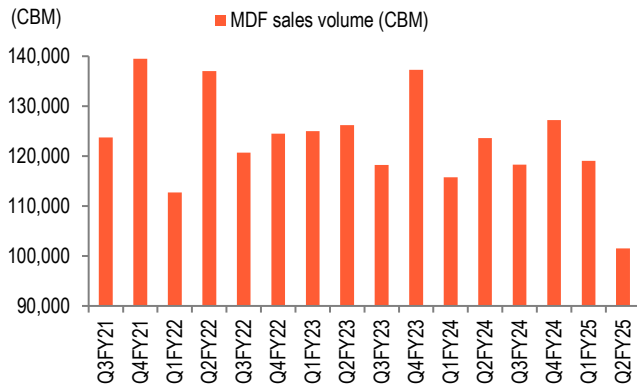
Source: Company, BOBCAPS Research

Fig 4 – Plywood segment posted positive operating margin due to cost savings benefits from restructuring



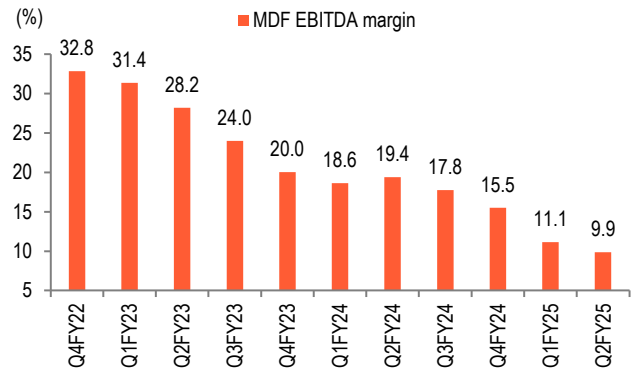
Source: Company, BOBCAPS Research

Fig 5 – GREENP has struggled to grow its MDF volumes in the past 16 consecutive quarters...



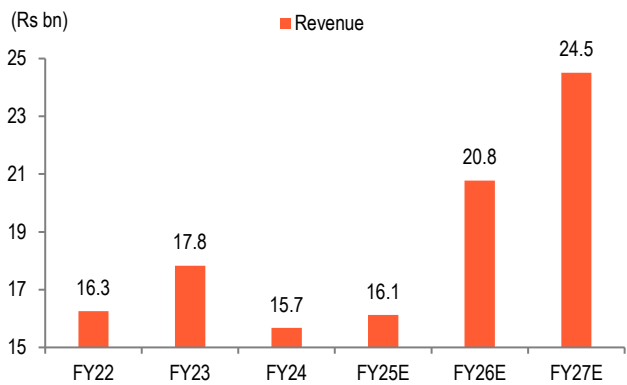
Source: Company, BOBCAPS Research

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



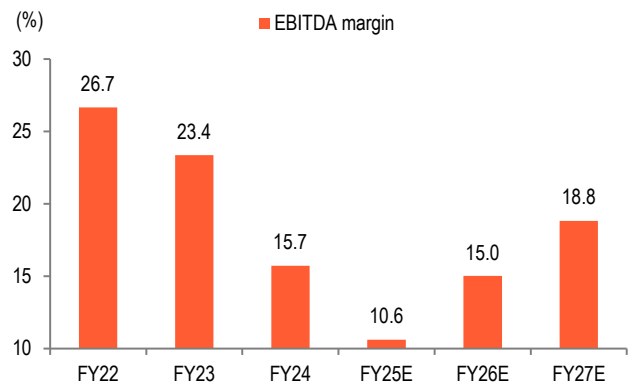
Source: Company, BOBCAPS Research

Fig 7 – GREENP’s revenue is projected to grow at 16.1% CAGR over FY24-FY27E



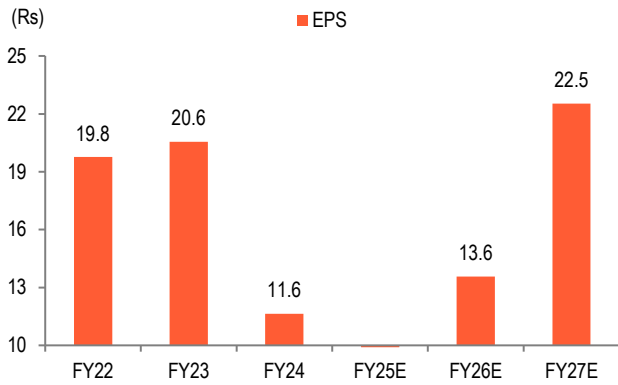
Source: Company, BOBCAPS Research

Fig 8 – EBITDA margin to improve from 15.7% in FY24 to 18.8% in FY27E



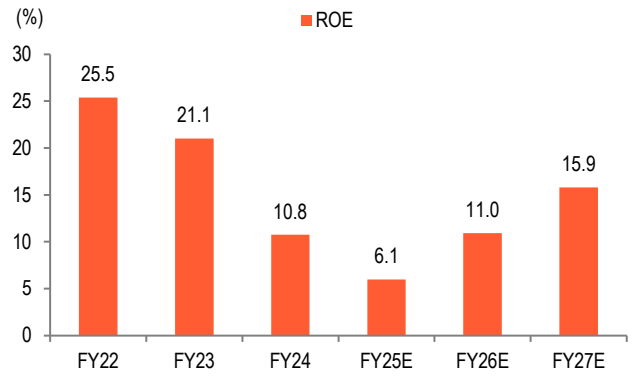
Source: Company, BOBCAPS Research

Fig 9 – EPS is projected to grow at 24.6% CAGR over FY24-FY27E over a low base...



Source: Company, BOBCAPS Research

Fig 10 – ... and ROE is expected to improve gradually from 10.8% in FY24 to 15.9% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

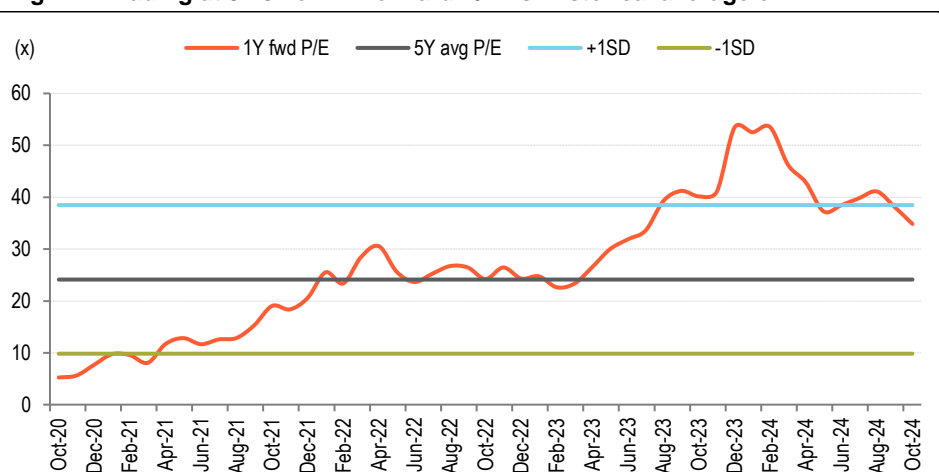
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Fig 11 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	16.1	20.8	24.5	16.6	20.3	24.6	(2.7)	2.2	(0.2)
EBITDA	1.7	3.1	4.6	2.1	3.4	5.1	(18.0)	(8.9)	(9.1)
EBITDA Margin	10.6	15.0	18.8	12.6	16.8	20.7	(198bps)	(181bps)	(184bps)
Adjusted PAT	0.8	1.7	2.8	1.1	1.9	3.1	(22.6)	(13.5)	(9.4)
EPS (Rs)	6.8	13.6	22.5	8.8	15.7	24.9	(22.6)	(13.5)	(9.4)

Source: BOBCAPS Research

Fig 12 – Trading at 34.8x on 1Y forward P/E vs. historical average of 24.2x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix						
MDF	84.2	86.3	89.6	90.5	91.8	92.1
Plywood	15.8	13.7	10.4	9.5	8.2	7.9
Sales volume growth						
MDF	30.1	2.4	(4.3)	3.3	24.2	15.0
Plywood	9.5	(7.7)	(28.0)	(2.6)	10.0	10.0
EBITDA margin						
MDF	30.5	26.0	17.8	12.0	15.7	19.8
Plywood	9.9	5.0	(1.8)	2.0	5.2	5.5

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 delays 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	0.2	510	550	HOLD
Astral	ASTRA IN	5.6	1,760	2,200	HOLD
Century Plyboards	CPBI IN	2.2	841	725	HOLD
Finolex Industries	FNXP IN	2.1	289	300	HOLD
Greenlam Industries	GRLM IN	0.8	511	560	HOLD
Greenpanel Industries	GREENP IN	0.5	375	365	HOLD
Greenply Industries	MTLM IN	0.5	355	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	301	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,209	1,450	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.6	482	750	BUY
Somany Ceramics	SOMC IN	0.3	653	900	BUY
Supreme Industries	SI IN	6.6	4,336	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Oct 2024

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	2.5	3.0	2.9	2.2	1.8
EV/EBITDA	10.5	18.9	27.3	14.4	9.7
Adjusted P/E	18.2	32.2	55.0	27.6	16.6
P/BV	3.8	3.5	3.3	3.0	2.6

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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

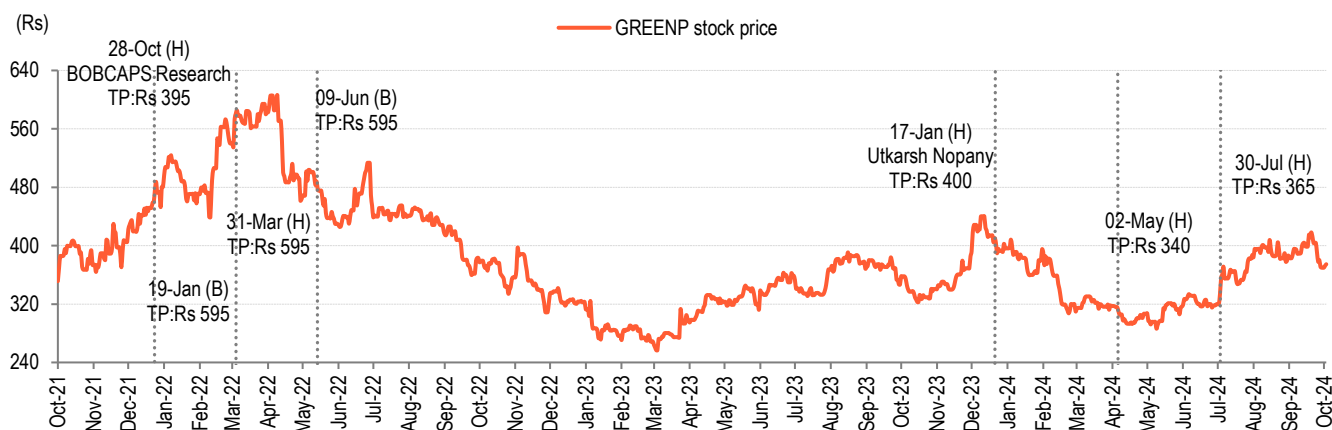
HOLD – Expected return from -6% to +15%

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

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