

BUY

TP: Rs 64 | ▲ 22%

**GREENPANEL
INDUSTRIES**

Construction Materials

06 February 2020

Strong performance marred by forex losses

Greenpanel Industries' (GREENP) Q3FY20 consolidated revenue grew 46% YoY aided by an 85%/37% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 350bps YoY to 15.3% on better plywood margins and higher MDF utilisation. Management maintained FY20 guidance of ~60% utilisation in MDF with ~17% margins. Plywood guidance is at ~Rs 2.2bn in revenues (earlier Rs 2bn) and 13% margins. We upgrade FY20-FY22 EPS by 9-43%, leading to a new Mar'21 TP of Rs 64 (vs. Rs 58).

Arun Baid

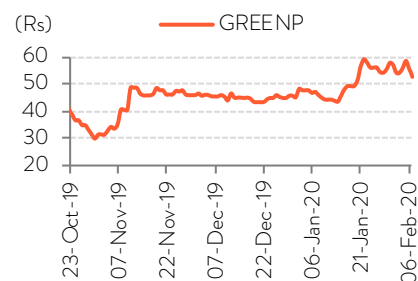
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Strong revenue growth: GREENP's revenue grew 46% YoY to Rs 2.4bn in Q3, with MDF/plywood up 85%/37%. In the MDF business, volumes grew 47% YoY on better utilisation of new capacity while realisations fell 8% partly due to higher exports and some trial-production sales. In plywood, volumes increased 58.5% YoY off a low base and realisations rose 13.5% due to a better product mix. Management has guided for MDF utilisation of ~78% in FY21 (vs. ~60% in FY20), with exports to form 31-32% of MDF volumes.

Ticker/Price	GREENP IN/Rs 52
Market cap	US\$ 90.3mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 61/Rs 28
Promoter/FPI/DII	52%/11%/37%

Source: NSE

Margins swell 350bps YoY: EBITDA margins (ex-forex loss) expanded 350bps YoY (-30bps QoQ) to 15.3% aided by higher plywood profitability and better MDF plant utilisation. MDF margins contracted 420bps YoY to 17.2% due to higher exports (24% vs. 14% YoY) which have lower margins and also price cuts taken earlier. Plywood margins rose ~190bps YoY to 11.5% on a better mix and higher volumes. Management has guided for 18%/13% MDF/plywood margins in FY21. Unhedged euro exposure led to an MTM loss of Rs 118mn in Q3.

STOCK PERFORMANCE

Source: NSE

Maintain BUY: We raise FY20-FY22 EBITDA estimates by 2-7% post the Q3 beat. The PAT upgrade is higher at 9-43% due to a lower base. We continue to like GREENP for its strong growth prospects, debt reduction and improving return ratios. Maintain BUY with a revised TP of Rs 64 (13x forward P/E).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,447	9,884	11,225
EBITDA (Rs mn)	774	1,279	1,558	1,823
Adj. net profit (Rs mn)	228	161	382	599
Adj. EPS (Rs)	1.9	1.3	3.1	4.9
Adj. EPS growth (%)	NA	(29.2)	137.0	56.7
Adj. ROAE (%)	7.1	2.5	5.6	8.2
Adj. P/E (x)	28.2	39.9	16.8	10.7
EV/EBITDA (x)	NA	7.2	7.6	6.1

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenue	2,356	1,614	46.0	1,921	22.6	6,388	4,243	50.5
COGS	1,118	709	57.8	837	33.6	2,974	1,742	70.7
% of sales	47.5	43.9	355bps	43.6	389bps	46.6	41.1	550bps
Employee expenses	254	210	21.2	249	2.1	738	593	24.5
% of sales	10.8	13.0	(221bps)	13.0	(218bps)	11.6	14.0	(241bps)
Operating Expenses	623	505	23.4	535	16.5	1,734	1,337	29.7
% of sales	26.5	31.3	(485bps)	27.9	(139bps)	27.1	31.5	(436bps)
EBITDA	360	190	89.5	299	20.1	941	571	64.8
EBITDA Margin	15.3	11.8	350bps	15.6	(32bps)	14.7	13.5	128bps
Depreciation/Amortisation	171	157	8.8	181	(5.1)	512	370	38.7
EBIT	188	32	481.9	119	58.4	429	202	112.8
EBIT Margin	8.0	2.0	599bps	6.2	181bps	6.7	4.8	197bps
Net Interest Expenses	65	76	(15.2)	58	12.5	204	161	27.3
Other Income	6	2	202.4	8	(21.7)	13	9	46.8
PBT	130	(42)	(408.9)	69	87.7	237	50	378.8
Tax Expenses	7	69	(89.7)	25	(71.2)	40	(194)	(120.7)
Net Income before extraordinary items	123	(111)	(210.7)	45	175.5	197	244	(19.2)
Forex gain/(loss)	(118)	215	(154.9)	(7)	1692.6	(128)	0	NA
Reported Net Income	5	104	(95.6)	38	(87.9)	69	244	(71.7)

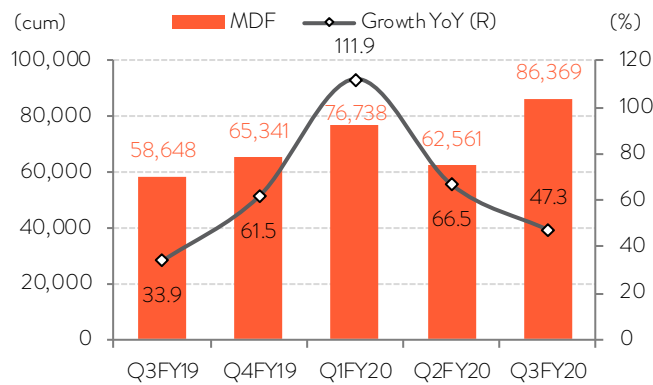
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL RESULTS

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue								
Plywood & Allied products	585	317	84.5	555	5.5	1,658	1,009	64.4
MDF	1,771	1,296	36.6	1,366	29.6	4,730	3,235	46.2
Total	2,356	1,614	46.0	1,921	22.6	6,388	4,243	50.5
Less: Inter Segment revenue	0	0	n.m.	0	n.m.	0	0	n.m.
Net revenues	2,356	1,614	46.0	1,921	22.6	6,388	4,243	50.5
Profit before interest & tax								
Plywood & Allied products	74	33	126.4	76	(2.6)	244	135	80.4
MDF	202	173	16.3	143	40.9	466	304	53.3
Total	276	206	33.8	220	25.7	710	439	61.6
EBIT Margin (%)								
Plywood & Allied products	12.7	10.4	235bps	13.8	(106bps)	14.7	13.4	131bps
MDF	11.4	13.4	(199bps)	10.5	91bps	9.9	9.4	45bps

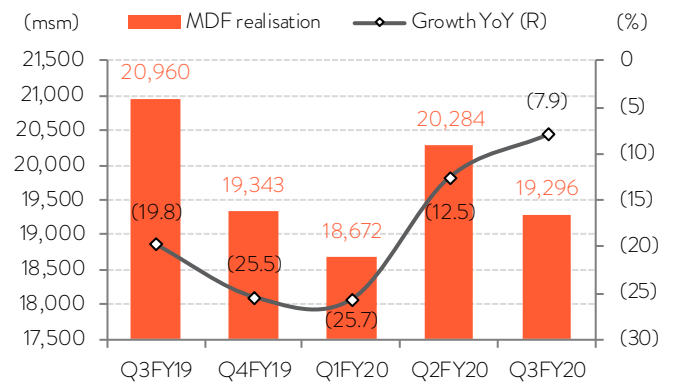
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY MDF VOLUMES



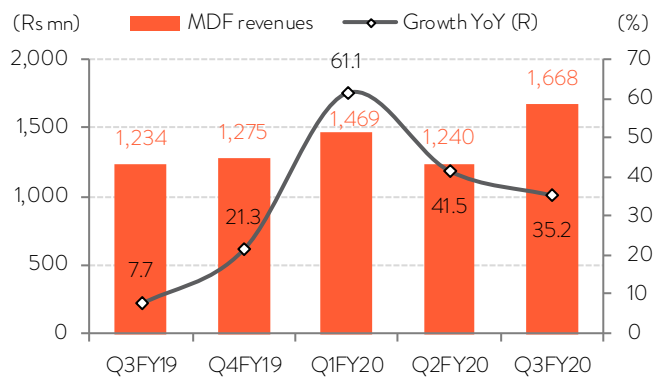
Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY MDF REALISATION



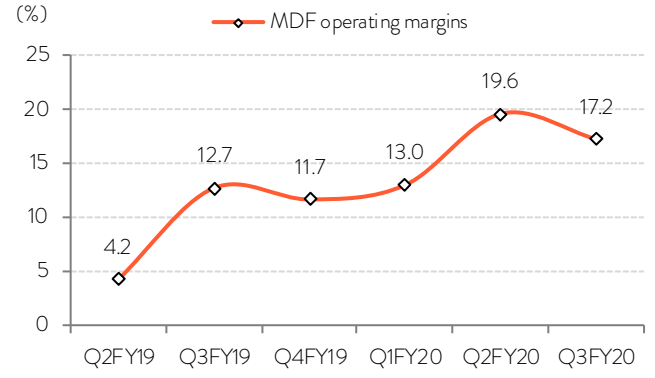
Source: Company, BOBCAPS Research

FIG 5 – QUARTERLY MDF REVENUES



Source: Company, BOBCAPS Research

FIG 6 – QUARTERLY MDF EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- GREENP has repaid long-term debt of Rs 800mn in 9MFY20 and plans to pay another Rs 250mn in Q4FY20. For FY21, scheduled debt repayment totals Rs 720mn. The company has reduced long-term debt from ~Rs 5.3bn in Mar'19 to Rs 4.6bn as of Dec'19.
- MTM losses of Rs 118mn in Q3 (Rs 12.5mn in other expenses and Rs 105.5mn in interest cost) were primarily due to adverse movement in the euro. The company has euro loans of ~Rs 3bn that have not been hedged due to the high cost of hedging prevailing in forex markets.
- Working capital cycle has been reduced by 11 days QoQ and 38 days YoY due to a reduction in inventory. The company has partly sold off trial production MDF in Q3 and will sell the remaining stock in Q4 – this has resulted in a significant decline in working capital days.
- Effective tax rate will be 30% for FY20, but the tax outflow will be on MAT basis (~17.5%).

- The company has no significant capex plans and envisages yearly maintenance capex of Rs 100mn-120mn.

MDF

- MDF realisations declined by ~8% YoY in the quarter due to higher exports and sale of trial MDF products. The latter also led to an EBITDA loss of ~Rs 23mn.
- In order to expand its MDF sales, GREENP is looking to enhance its distributor reach in smaller towns and cities.
- Management expects capacity utilisation of 60% in FY20 and 78% in FY21.
- Operating margins from this segment are guided at ~17%/18% in FY20/FY21.
- The company expects 30-32% 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 in a few months.
- GREENP is not facing any pricing pressure in domestic MDF markets.

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% in both FY20/FY21.
- The company derives ~10% of segmental revenues from deco plywood.

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 23%/33% 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.

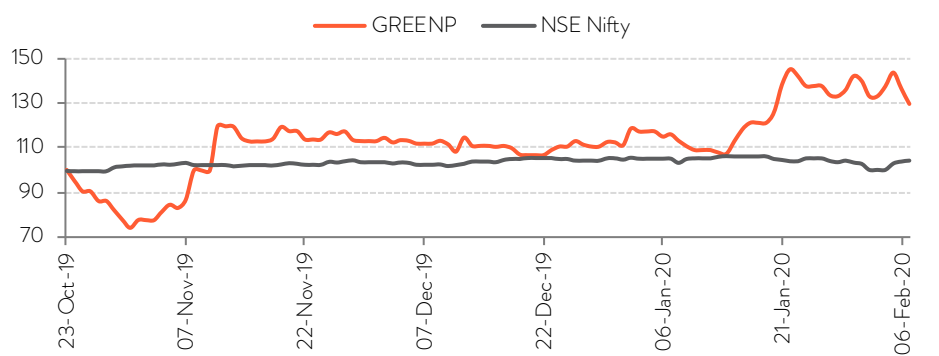
We increase our FY20-FY22 EBITDA estimates by 2-7% due to the Q3FY20 operational beat. Our PAT estimates stand revised upward by a much higher 9-43% due to a low base. Maintain BUY with a revised Mar'21 target price of Rs 64 (earlier Rs 58), set at an unchanged 13x FY22E P/E.

FIG 7 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	8,447	9,884	11,225	8,143	9,563	11,070	3.7	3.4	1.4
EBITDA	1,279	1,558	1,823	1,194	1,477	1,796	7.1	5.5	1.5
PAT	161	382	599	113	326	549	43.0	17.1	9.1

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- further slowdown in the housing sector;
- fall in international MDF prices, resulting in higher imports and pressure on domestic markets; and
- 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	8,447	9,884	11,225
EBITDA	774	1,279	1,558	1,823
Depreciation	(530)	(702)	(711)	(720)
EBIT	244	577	847	1,102
Net interest income/(expenses)	(246)	(357)	(309)	(226)
Other income/(expenses)	8	14	15	17
Exceptional items	118	0	0	0
EBT	6	234	554	894
Income taxes	222	(72)	(172)	(295)
Extraordinary items	0	0	0	0
Min. int./Inc. from associates	0	0	0	0
Reported net profit	346	161	382	599
Adjustments	(118)	0	0	0
Adjusted net profit	228	161	382	599

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20E	FY21E	FY22E
Accounts payables	816	1,111	1,273	1,415
Other current liabilities	1,197	1,296	1,517	1,722
Provisions	126	127	128	135
Debt funds	5,865	5,127	4,377	3,337
Other liabilities	121	151	223	357
Equity capital	123	123	123	123
Reserves & surplus	6,332	6,494	6,876	7,474
Shareholders' fund	6,455	6,616	6,998	7,597
Total liabilities and equities	14,580	14,427	14,516	14,562
Cash and cash eq.	199	53	95	177
Accounts receivables	456	717	839	953
Inventories	1,345	1,574	1,841	2,061
Other current assets	1,167	1,273	1,489	1,692
Investments	0	0	0	0
Net fixed assets	11,375	10,811	10,250	9,680
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	14,427	14,516	14,562

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	863	1,093	1,319
Interest expenses	357	309	226
Non-cash adjustments	0	0	0
Changes in working capital	(201)	(222)	(181)
Other operating cash flows	0	0	0
Cash flow from operations	1,019	1,180	1,363
Capital expenditures	(100)	(150)	(150)
Change in investments	0	0	0
Other investing cash flows	30	72	134
Cash flow from investing	(70)	(78)	(16)
Equities issued/Others	0	0	0
Debt raised/repaid	(738)	(750)	(1,040)
Interest expenses	(357)	(309)	(226)
Dividends paid	0	0	0
Other financing cash flows	0	0	0
Cash flow from financing	(1,096)	(1,059)	(1,266)
Changes in cash and cash eq.	(146)	43	82
Closing cash and cash eq.	53	95	177

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20E	FY21E	FY22E
Reported EPS	2.8	1.3	3.1	4.9
Adjusted EPS	1.9	1.3	3.1	4.9
Dividend per share	0.0	0.0	0.0	0.0
Book value per share	52.6	54.0	57.1	62.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20E	FY21E	FY22E
EV/Sales	NA	1.1	1.2	1.0
EV/EBITDA	NA	7.2	7.6	6.1
Adjusted P/E	28.2	39.9	16.8	10.7
P/BV	1.0	1.0	0.9	0.8

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	40.5	65.4	81.1
EBIT margin (EBIT/Revenue)	4.1	6.8	8.6	9.8
Asset turnover (Revenue/Avg TA)	82.2	58.2	68.3	77.2
Leverage (Avg TA/Avg Equity)	2.3	2.2	2.1	2.0
Adjusted ROAE	7.1	2.5	5.6	8.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
YoY growth (%)				
Revenue	NA	41.0	17.0	13.6
EBITDA	NA	65.2	21.8	16.9
Adjusted EPS	NA	(29.2)	137.0	56.7
Profitability & Return ratios (%)				
EBITDA margin	12.9	15.1	15.8	16.2
EBIT margin	4.1	6.8	8.6	9.8
Adjusted profit margin	3.8	1.9	3.9	5.3
Adjusted ROAE	7.1	2.5	5.6	8.2
ROCE	4.0	3.3	5.1	6.6
Working capital days (days)				
Receivables	14	25	29	29
Inventory	96	145	146	148
Payables	29	49	52	52
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	1.6	2.7	4.9
Adjusted debt/equity	0.9	0.8	0.6	0.4

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

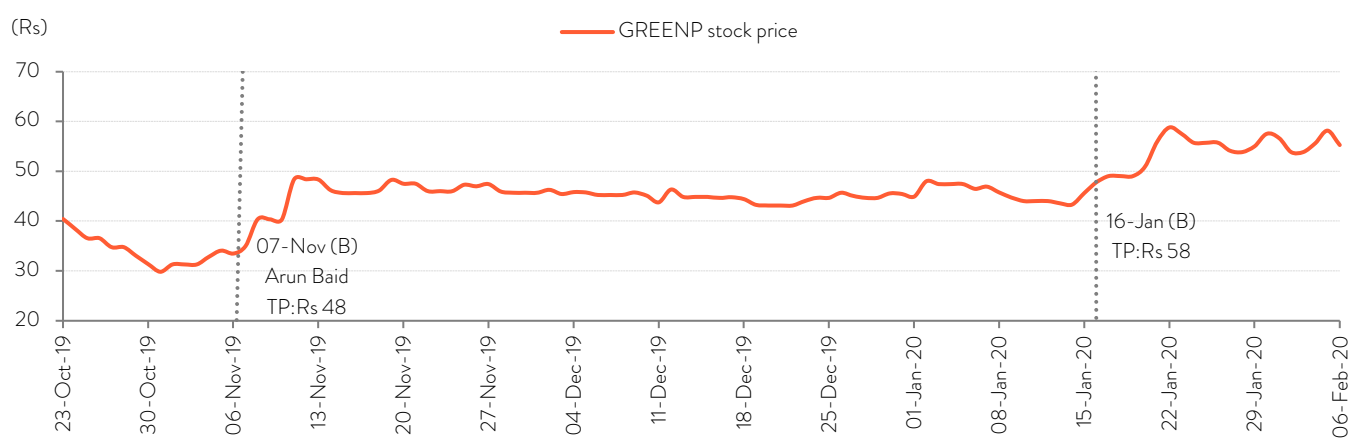
ADD – Expected return from >+5% to +15%

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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