

HOLD
 TP: Rs 340 | ▲ 9%

GREENPANEL INDUSTRIES

| Building Materials

| 02 May 2024

Dismal quarter; not out of the woods yet

- Sharp contraction in operating profit (-33% YoY) for sixth consecutive quarter on supply overhang in MDF industry and higher timber prices
- Muted guidance on continued supply-side pressure in domestic MDF industry and timber prices to remain elevated till Q1FY26
- Maintain HOLD; TP cut by 15% to Rs340 per share on sharp earnings cut based on weak Q4FY24 result and bleak outlook

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Dismal Q4FY24: GREENP’s revenue/EBITDA/PAT fell by 10%/33%/57% YoY in Q4FY24. The company missed our EBITDA estimates by 31% for Q4FY24 due to sharper-than-expected correction in MDF realisation (-8% QoQ vs. -2% estimate). MDF realisation was weak due to higher incentives to dealers (4.2%) and inferior product mix (3.8%). ROE fell sharply to 11.4% in FY24 from 23.5% in FY23. GREENP had net debt of Rs 0.3bn in Mar’24 vs. net cash of Rs 1.9bn in Mar’23 due to capex incurred for its ongoing MDF project (Rs 3.5bn in FY24).

Key highlights: MDF sales volume fell by 7.3% YoY in Q4FY24 as lower exports (-75%) more than offset the impact of higher domestic sales (+23%). MDF EBITDA per unit fell sharply by 16% QoQ to a 14-quarter low level in Q4FY24 due to weak realisation and higher timber prices. The plywood segment reported a sharp volume decline for the seventh consecutive quarter (-30% YoY) due to the impact of internal restructuring and exit from the decorative veneer business.

Muted guidance: Management does not expect Indian MDF prices to rise in the near future due to a sharp increase in industry capacity (from 2.3mn CBM in FY23 to 2.9mn CBM in FY24 and further to 3.75mn CBM in FY25). GREENP expects its MDF volume to grow at 15% YoY (export: flat; domestic: +18%) in FY25. The company has not provided margin guidance for FY25, but we expect the MDF margin to remain under pressure in the near future due to (a) continued supply-side pressure in the domestic market; (b) weakening Asian market currency against INR; and (c) higher timber prices. Timber prices rose by 7% in Apr’24 over Q4FY24 and management expects prices to correct from Jun-Jul 2025 once the new plantations come into the market.

Maintain HOLD; cut TP by 15% to Rs340: We maintain our HOLD rating on the stock. We have lowered our TP to Rs340 per share (Rs400 earlier) due to the cut in our EPS estimates (-33.6%/-28.4% for FY25E/FY26E) based on weak Q4FY24 result and bleak outlook. At the current market price, the stock trades at 25.6x on 1Y forward P/E vs. the 5Y average of 19.0x. Our target P/E remains unchanged at 20x on Mar’26E EPS (Sep’25 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GREENP IN/Rs 311
Market cap	US\$ 463.6mn
Free float	47%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 450/Rs 296
Promoter/FPI/DII	53%/4%/23%

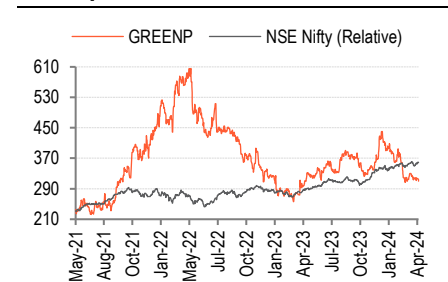
Source: NSE | Price as of 2 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	15,673	16,700	19,809
EBITDA (Rs mn)	2,465	2,413	3,545
Adj. net profit (Rs mn)	1,428	1,365	2,087
Adj. EPS (Rs)	11.6	11.1	17.0
Consensus EPS (Rs)	11.6	16.9	23.1
Adj. ROAE (%)	11.4	9.9	13.8
Adj. P/E (x)	26.7	27.9	18.3
EV/EBITDA (x)	15.7	16.1	10.6
Adj. EPS growth (%)	(43.4)	(4.4)	52.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total operating income	3,966	4,414	(10.2)	3,857	2.8	15,673	17,829	(12.1)
Raw-Material expense	1,834	2,040	(10.1)	1,692	8.4	6,907	7,458	(7.4)
Gross Profit	2,132	2,374	(10.2)	2,166	(1.6)	8,765	10,371	(15.5)
Employee expense	385	319	20.8	335	15.1	1,406	1,397	0.7
Sales Promotion	87	97	(10.2)	85	2.8	355	241	47.4
Other expense	1,147	1,196	(4.1)	1,143	0.3	4,540	4,568	(0.6)
EBITDA	513	762	(32.7)	603	(14.9)	2,465	4,165	(40.8)
D&A	182	172	6.2	179	1.8	729	720	1.3
EBIT	331	590	(44.0)	424	(22.0)	1,736	3,445	(49.6)
Interest cost	2	32	(94.6)	62	(97.2)	123	190	(35.6)
Non-operating expense/(income)	(74)	(85)	(13.3)	(13)	465.9	(219)	(255)	(14.1)
PBT	403	643	(37.4)	374	7.5	1,832	3,510	(47.8)
Tax	105	(46)	(327.5)	28	269.4	405	944	(57.1)
Reported PAT	298	689	(56.8)	346	(13.9)	1,427	2,565	(44.4)
Adjusted PAT	298	689	(56.8)	347	(14.1)	1,428	2,525	(43.5)
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	53.8	53.8	(2)	56.1	(239)	55.9	58.2	(224)
Employee cost	9.7	7.2	249	8.7	103	9.0	7.8	114
Sales Promotion	2.2	2.2	0	2.2	0	2.3	1.3	91
Other cost	28.9	27.1	182	29.6	(73)	29.0	25.6	334
EBITDA margin	12.9	17.3	(433)	15.6	(269)	15.7	23.4	(764)
Tax rate	26.0	(7.2)	3314	7.6	1842	22.1	26.9	(481)
APAT margin	7.5	15.6	(810)	9.0	(148)	9.1	14.2	(505)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

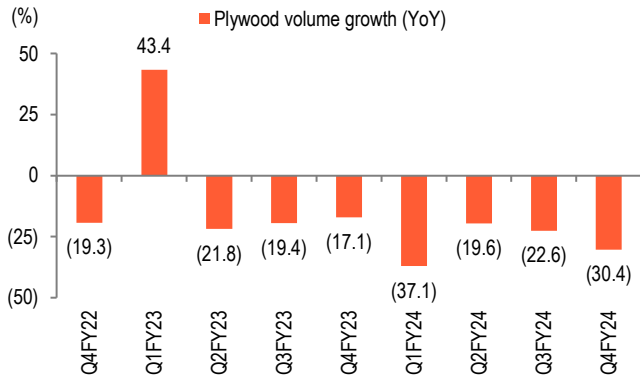
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (Rs mn)								
Plywood	357	545	(34.5)	384	(7.0)	1,622	2,440	(33.5)
MDF	3,609	3,870	(6.7)	3,474	3.9	14,050	15,388	(8.7)
Total	3,966	4,414	(10.2)	3,857	2.8	15,673	17,829	(12.1)
Volumes								
Plywood (mn sqm)	1.4	2.0	(30.4)	1.54	(7.8)	6.2	8.6	(28.0)
MDF (CBM)	1,27,239	1,37,265	(7.3)	1,18,301	7.6	4,84,953	5,06,744	(4.3)
Realisation								
Plywood (Rs/sq ft)	251	267	(5.9)	249	0.8	263	284	(7.7)
MDF (Rs/CBM)	28,325	28,122	0.7	29,300	(3.3)	28,972	30,367	(4.6)
Adjusted EBITDA margin (%)								
Plywood	(12.1)	(1.2)	(1096bps)	(4.4)	(778bps)	(0.3)	0.6	(87bps)
MDF	15.5	20.0	(455bps)	17.8	(226bps)	1.8	2.6	(82bps)
Total	13.0	17.4	(442bps)	15.6	(255bps)	1.6	2.3	(75bps)

Source: Company, BOBCAPS Research

Earnings call highlights

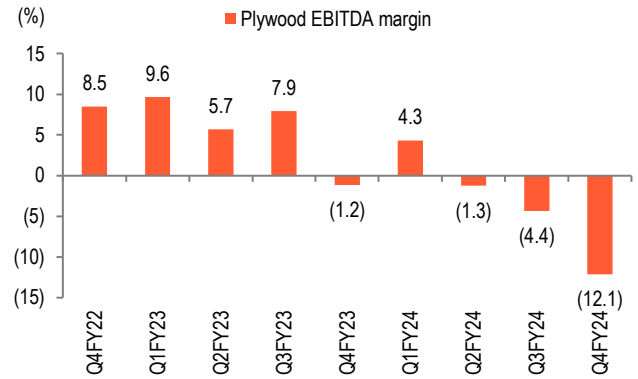
- **MDF industry dynamics:** MDF industry capacity rose to 2.9mn CBM in FY24 from 2.3mn CBM in FY23 and is expected to rise to 3.75mn CBM in FY25. MDF industry demand is estimated to be around 2.4mn CBM in FY24 (+10% YoY).
- **MDF pricing scenario:** Management does not expect Indian MDF prices to pick-up in the next two quarters due to significant capacity addition in the domestic market. GREENP MDF realisation fell by 8% QoQ in Q4FY24 due to the impact of volume incentive (-4.2%) and inferior product mix (-3.8%). The company intends to continue with its volume incentive programme in Q1FY25 as well.
- **MDF imports:** The pace of MDF imports slowed down in the months of Mar and Apr 2024 due to fear of BIS implementation. Post deferment of BIS norms implementation, the pace of MDF imports is expected to rise from May'24 onwards.
- **Volume growth outlook:** The company expects its volume to grow by 8% YoY for plywood and 15% YoY for MDF. It predicts MDF exports volume to be flat and domestic MDF volume to grow by 18% YoY in FY25. The share of low-margin MDF products for OEM is targeted to decline to 20% in FY25 from 27% in Q4FY24.
- **Timber:** Prices have gone up by 10.2% QoQ for North India and 18.9% QoQ for South India in Q4FY24. It rose further by 7% in the month of Apr'24 over Q4FY24. Timber prices increased due to the lack of plantation activities during the COVID period (i.e. 2020 and 2021). Timber prices are expected to correct from Jun/Jul'25 once the new plantations come into the market.
- **Plywood:** GREENP's plywood segment reported a sharp decline in volumes for the past few quarters due to the impact of its team and distribution network restructuring as well as its exit from the decorative veneer business. Management expects the restructuring exercise to be completed by Q1FY25 and the segment volume to pick-up from Q2FY25.
- **Capex:** The company plans to add 231,000cbm of MDF capacity at its existing Andhra Pradesh plant at a cost of Rs 6bn by Q4FY25. Capex is estimated to be Rs 2.0 bn for FY24 and Rs 0.5bn for FY25.
- **Capital allocation:** GREENP has no plan to add any new MDF capacity over the next two to three years and may look forward to increasing its plywood capacity once the existing plant capacity gets ramped up to 85-90% mark in future. Management has no intention of entering any new product category in future.

Fig 3 – GREENP reported a sharp decline in plywood volumes for the 7th consecutive quarter...



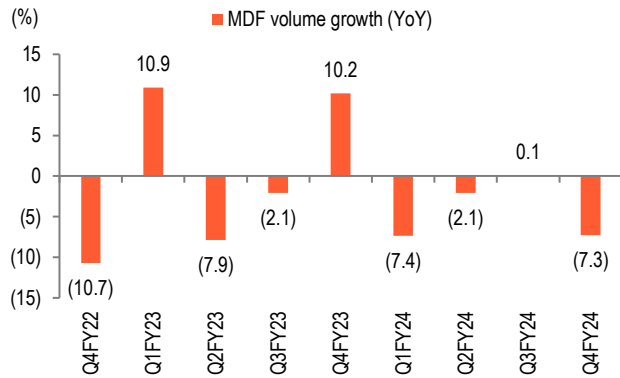
Source: Company, BOBCAPS Research

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



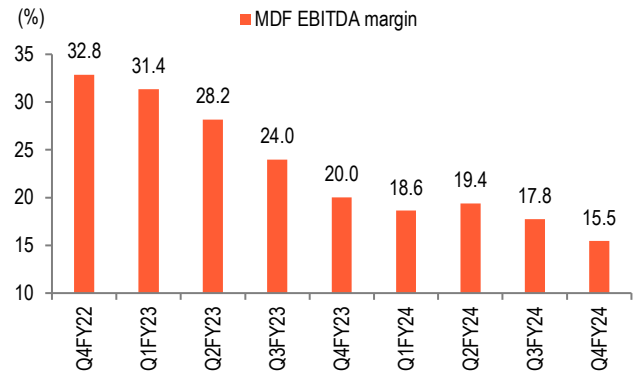
Source: Company, BOBCAPS Research

Fig 5 – MDF volumes fell by 7.3% YoY in Q4FY24 on lower exports (-75%)...



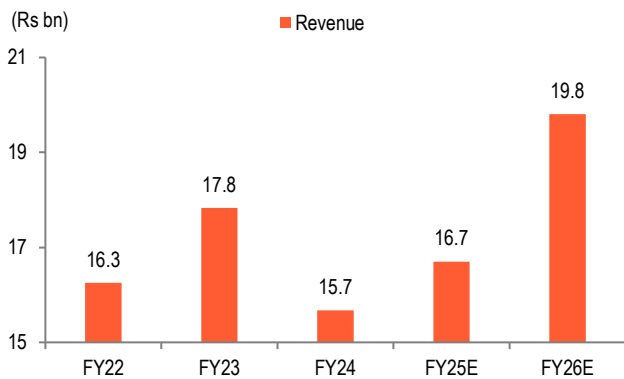
Source: Company, BOBCAPS Research

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



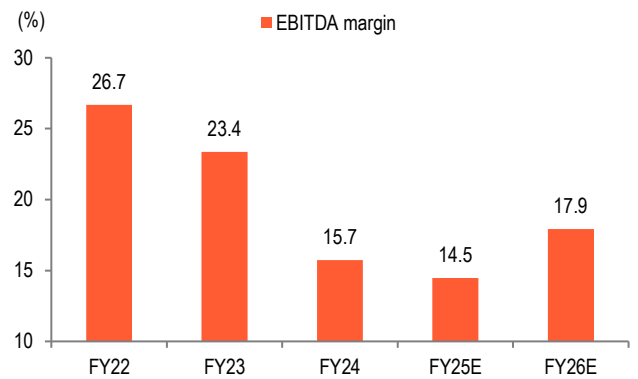
Source: Company, BOBCAPS Research

Fig 7 – GREENP’s revenue is projected to grow at a 12.4% CAGR over FY24-FY26E



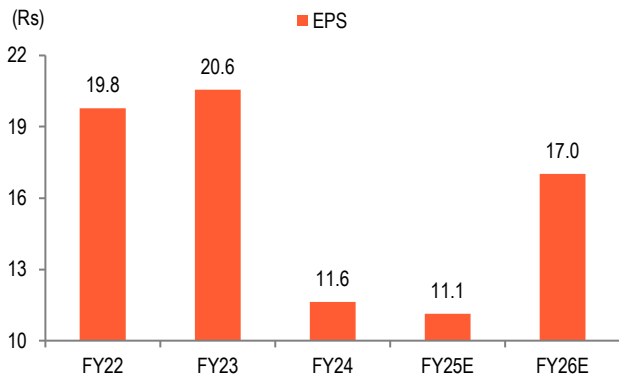
Source: Company, BOBCAPS Research

Fig 8 – EBITDA margin to improve from 15.7% in FY24 to 17.9% in FY26E as timber prices to correct from Q2FY26



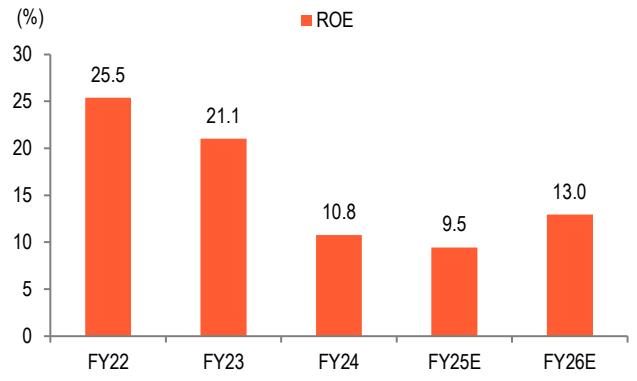
Source: Company, BOBCAPS Research

Fig 9 – EPS is projected to grow at 20.8% CAGR over FY24-FY26E over a low base...



Source: Company, BOBCAPS Research

Fig 10 – ...and ROE is expected to improve from 10.8% in FY24 to 13.0% in FY26



Source: Company, BOBCAPS Research

Valuation methodology

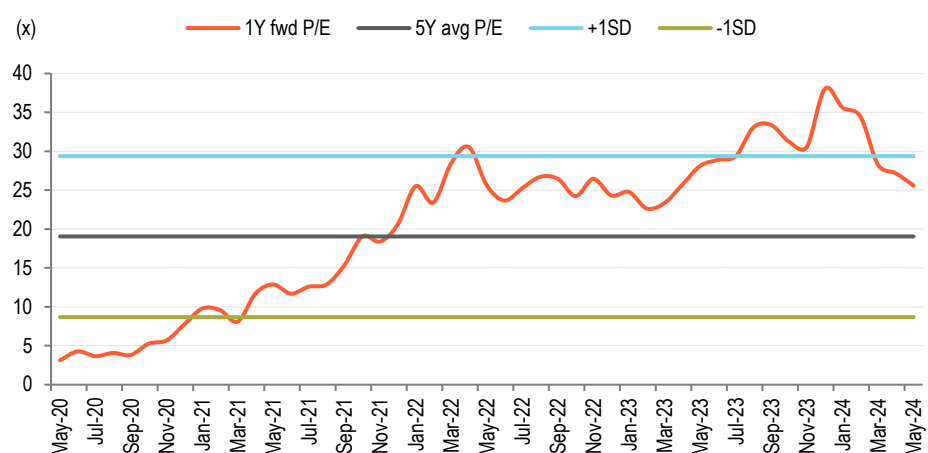
We maintain our HOLD rating on the stock with a revised TP of Rs340 per share (Rs 400 earlier) as we expect (a) GREENP to deliver a 21% earnings CAGR over FY24-FY26 on a weak base; (b) strong balance sheet as the company is likely to remain net debt free in FY26 even after the completion of a large brownfield MDF expansion project; and (c) ROE to slightly improve to 13.8% in FY26 from 11.4% in FY24 in anticipation of the ramp up of its MDF capacity and softening timber prices from Q2FY26. At the current market price, the stock trades at 25.6x on 1Y forward P/E vs 5Y average of 19.0x. Our target P/E remains unchanged at 20x on Mar'26E EPS (Sep'25 earlier).

Fig 11 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	16.7	19.8	18.3	21.7	(8.9)	(8.9)
EBITDA	2.4	3.5	3.6	4.9	(32.5)	(27.4)
EBITDA Margin	14.5	17.9	19.5	22.4	(505bps)	(455bps)
Adjusted PAT	1.4	2.1	2.1	2.9	(33.6)	(28.4)
EPS (Rs)	11.1	17.0	16.8	23.7	(33.6)	(28.4)

Source: BOBCAPS Research

Fig 12 – Trading at 25.6x on 1Y forward P/E vs. historical average of 19.0x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue mix						
MDF	78.7	84.2	86.3	89.6	89.9	90.6
Plywood	21.3	15.8	13.7	10.4	10.1	9.4
Sales volume growth						
MDF	20.4	30.1	2.4	(4.3)	12.6	18.5
Plywood	(0.2)	9.5	(7.7)	(28.0)	8.5	10.0
EBITDA margin						
MDF	22.7	30.5	26.0	17.8	15.5	18.9
Plywood	10.4	9.9	5.0	(1.8)	3.3	5.9

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	656	600	SELL
Astral	ASTRA IN	6.8	2,063	2,000	HOLD
Century Plyboards	CPBI IN	1.8	658	700	HOLD
Cera Sanitaryware	CRS IN	1.1	7,047	7,700	HOLD
Finolex Industries	FNXP IN	2.0	269	230	HOLD
Greenlam Industries	GRLM IN	0.9	588	500	HOLD
Greenpanel Industries	GREENP IN	0.5	311	340	HOLD
Greenply Industries	MTLM IN	0.4	256	300	BUY
Hindware Home Innovation	HINDWARE IN	0.3	353	600	BUY
Kajaria Ceramics	KJC IN	2.3	1,196	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	636	650	HOLD
Somany Ceramics	SOMC IN	0.3	630	900	BUY
Supreme Industries	SI IN	7.4	4,812	4,650	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	16,250	17,829	15,673	16,700	19,809
EBITDA	4,334	4,165	2,465	2,413	3,545
Depreciation	734	720	729	753	920
EBIT	3,600	3,445	1,736	1,660	2,625
Net interest inc./(exp.)	(171)	(190)	(123)	(124)	(124)
Other inc./(exp.)	90	194	219	288	288
Exceptional items	29	0	0	0	0
EBT	3,489	3,449	1,832	1,824	2,788
Income taxes	1,085	944	405	459	702
Extraordinary items	0	(61)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,405	2,565	1,427	1,365	2,087
Adjustments	20	(45)	1	0	0
Adjusted net profit	2,425	2,521	1,428	1,365	2,087

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	1,378	1,111	1,094	1,165	1,382
Other current liabilities	534	578	622	622	622
Provisions	30	17	25	27	31
Debt funds	2,826	1,904	2,680	2,480	1,980
Other liabilities	1,139	1,499	1,316	1,316	1,316
Equity capital	123	123	123	123	123
Reserves & surplus	9,394	11,816	13,049	14,168	15,887
Shareholders' fund	9,516	11,939	13,171	14,291	16,009
Total liab. and equities	15,424	17,048	18,907	19,900	21,341
Cash and cash eq.	2,226	3,778	2,379	2,269	3,232
Accounts receivables	414	444	290	309	367
Inventories	1,658	1,525	2,016	1,782	2,072
Other current assets	564	592	610	626	675
Investments	0	0	0	0	0
Net fixed assets	9,948	9,453	9,447	8,943	14,400
CWIP	0	49	3,127	5,377	0
Intangible assets	434	463	375	375	375
Deferred tax assets, net	0	0	0	0	0
Other assets	179	744	664	218	218
Total assets	15,424	17,048	18,907	19,900	21,341

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	3,748	3,376	1,557	2,349	2,791
Capital expenditures	(302)	(823)	(3,633)	(2,054)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	60	255	219	165	165
Cash flow from investing	(241)	(569)	(3,414)	(1,890)	(835)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,642)	(922)	775	(200)	(500)
Interest expenses	(171)	(190)	(123)	(124)	(124)
Dividends paid	(184)	(184)	(184)	(245)	(368)
Other financing cash flows	(8)	41	(11)	0	0
Cash flow from financing	(2,005)	(1,255)	458	(569)	(992)
Chg in cash & cash eq.	1,501	1,552	(1,399)	(109)	963
Closing cash & cash eq.	2,226	3,778	2,379	2,269	3,232

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	19.6	20.9	11.6	11.1	17.0
Adjusted EPS	19.8	20.6	11.6	11.1	17.0
Dividend per share	1.5	1.5	1.5	2.0	3.0
Book value per share	77.6	97.4	107.4	116.5	130.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	2.1	2.0	2.5	2.3	1.9
EV/EBITDA	7.7	8.6	15.7	16.1	10.6
Adjusted P/E	15.7	15.1	26.7	27.9	18.3
P/BV	4.0	3.2	2.9	2.7	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	69.5	73.1	77.9	74.8	74.8
Interest burden (PBT/EBIT)	96.9	100.1	105.5	109.9	106.2
EBIT margin (EBIT/Revenue)	22.2	19.3	11.1	9.9	13.3
Asset turnover (Rev./Avg TA)	105.4	104.6	82.9	83.9	92.8
Leverage (Avg TA/Avg Equity)	1.6	1.4	1.4	1.4	1.3
Adjusted ROAE	25.5	21.1	10.8	9.5	13.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	59.2	9.7	(12.1)	6.6	18.6
EBITDA	112.0	(3.9)	(40.8)	(2.1)	46.9
Adjusted EPS	248.8	3.9	(43.4)	(4.4)	52.9
Profitability & Return ratios (%)					
EBITDA margin	26.7	23.4	15.7	14.5	17.9
EBIT margin	22.2	19.3	11.1	9.9	13.3
Adjusted profit margin	14.9	14.1	9.1	8.2	10.5
Adjusted ROAE	28.8	23.5	11.4	9.9	13.8
ROCE	29.9	26.3	12.3	11.6	16.2
Working capital days (days)					
Receivables	9	9	7	7	7
Inventory	37	31	47	39	38
Payables	31	23	25	25	25
Ratios (x)					
Gross asset turnover	1.1	1.3	1.1	1.1	1.1
Current ratio	1.6	2.7	2.6	2.1	2.4
Net interest coverage ratio	21.1	18.1	14.2	13.4	21.2
Adjusted debt/equity	0.1	(0.2)	0.0	0.0	0.0

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%

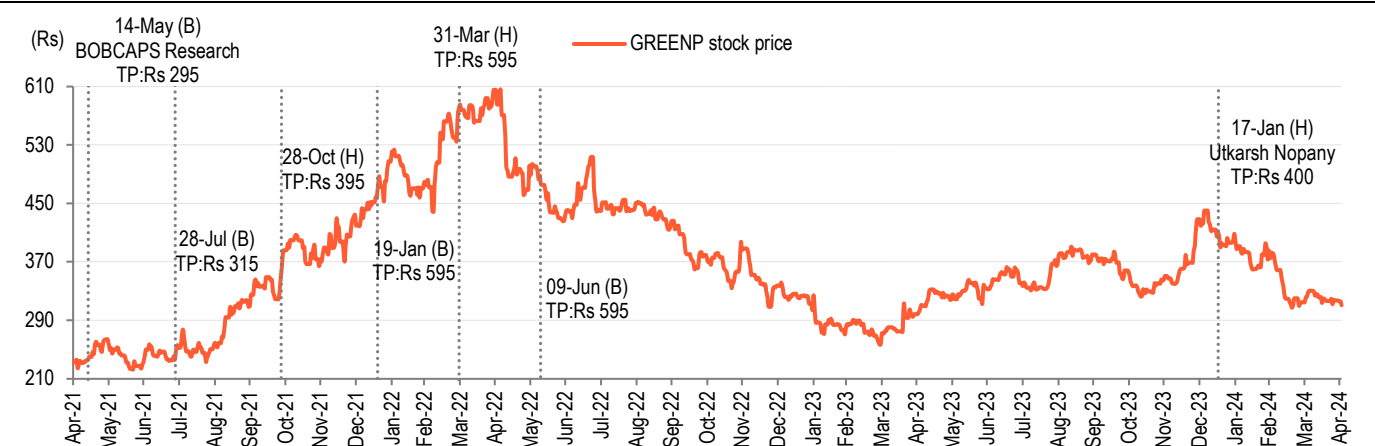
HOLD – Expected return from -6% to +15%

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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