

BUY

TP: Rs 210 | ▲ 31%

GREENPLY INDUSTRIES

Construction Materials

27 November 2019

Upbeat margin guidance

We attended Greenply Industries' (GIL) analyst meet. Key takeaways:

- (1) GIL aims to achieve pre-tax ROCE of 30% over the next three years.
- (2) Management is focused on tightening the working capital cycle, especially debtor days which are guided to improve to 81-85 days from ~93 in H1FY20.
- (3) The company expects consolidated revenue growth of 12-14% YoY in FY20 alongside better operating margins in both India and Gabon operations. Maintain BUY with an unchanged Sep'20 TP of Rs 210.

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Revenue growth of 12-14% guided for FY20: Management has guided for consolidated revenue growth of 12-14% in FY20, with India business growing at 8-10% YoY. Gabon revenues for the year are guided to increase to ~Rs 2bn (+55% YoY) aided by the expanded capacity commissioned in Nov'19.

Robust margin outlook for India and Gabon: GIL expects blended EBITDA margins to improve in FY20, with the India margin outlook at ~11% (vs. 9.4% in FY19) and Gabon at 17-18% (vs. 16.1% in FY19). India business margins should benefit from stable raw material cost and discontinuation of the lossmaking wallpaper business, while Gabon could gain from better utilisation of capacities.

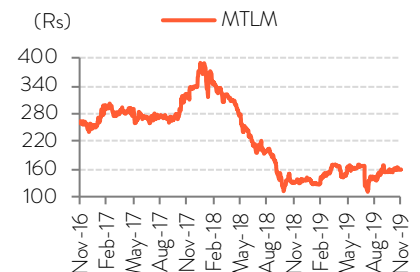
Targeting pre-tax ROCE of 30%, tighter working capital cycle: GIL aims to have pre-tax ROCE of 30% over the next three years, driven by lower capex (following increased outsourcing) and optimum utilisation of the Gabon expansion. The working capital cycle which rose by ~11 days in H1FY20 mainly due to higher debtor days (+12 days YoY) is expected to improve in H2.

Maintain BUY: We continue to like GIL for its market leadership in the organised plywood segment, strong brand name and wide distribution reach. Maintain BUY with an unchanged TP of Rs 210, set at 18x forward P/E.

Ticker/Price	MTLM IN/Rs 161
Market cap	US\$ 275.9mn
Shares o/s	123mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 195/Rs 112
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	15,612	17,804	19,584
EBITDA (Rs mn)	715	1,507	1,772	2,088	2,330
Adj. net profit (Rs mn)	253	852	1,025	1,325	1,526
Adj. EPS (Rs)	2.1	6.9	8.4	10.8	12.4
Adj. EPS growth (%)	NA	236.1	20.3	29.3	15.2
Adj. ROAE (%)	3.1	14.0	27.4	28.6	26.7
Adj. P/E (x)	77.7	23.1	19.2	14.9	12.9
EV/EBITDA (x)	NA	NA	13.7	10.5	9.2

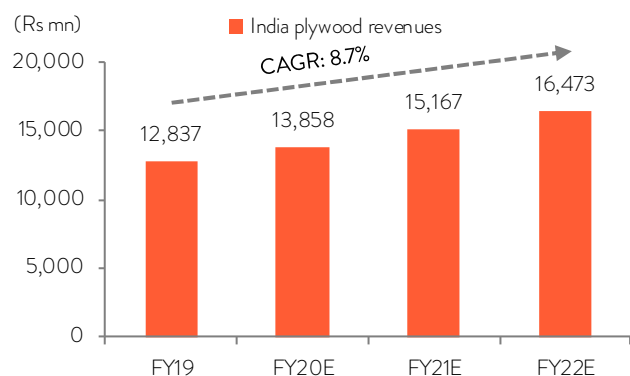
Source: Company, BOBCAPS Research

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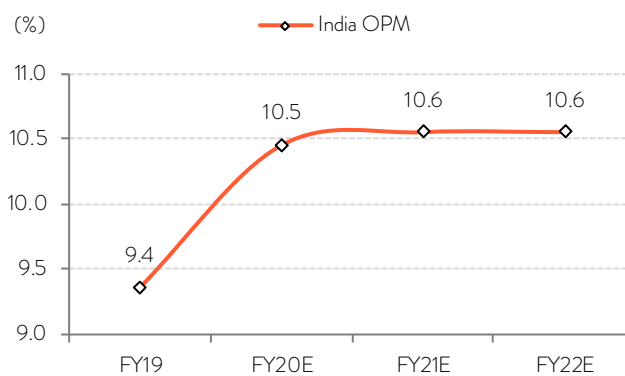


FIG 1 – INDIA PLYWOOD REVENUES



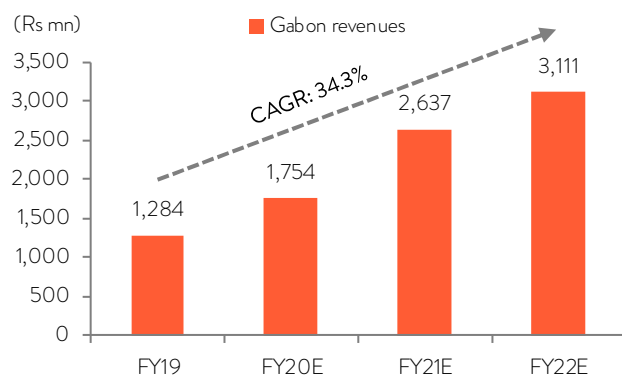
Source: Company, BOBCAPS Research

FIG 2 – INDIA OPERATING MARGINS



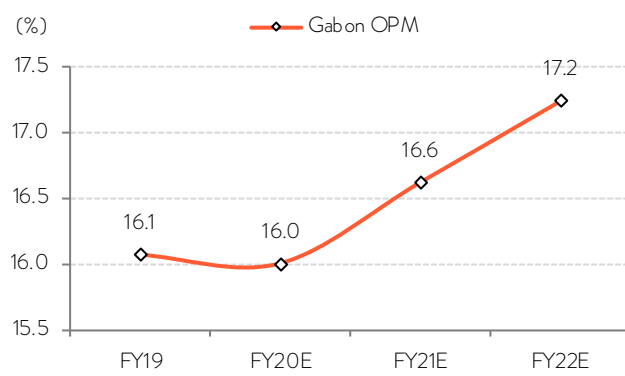
Source: Company, BOBCAPS Research

FIG 3 – GABON REVENUES



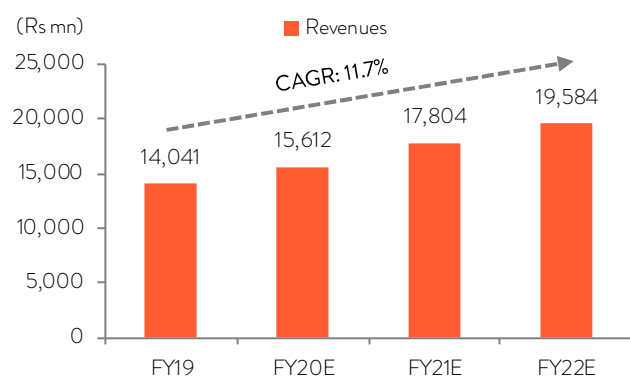
Source: Company, BOBCAPS Research

FIG 4 – GABON OPERATING MARGINS



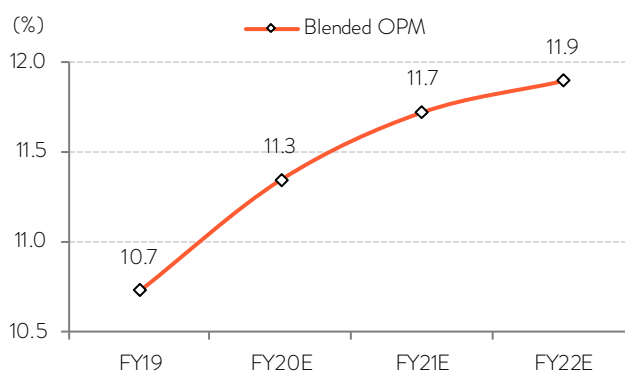
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 6 – BLENDED OPERATING MARGINS



Source: Company, BOBCAPS Research

Other analyst meet takeaways

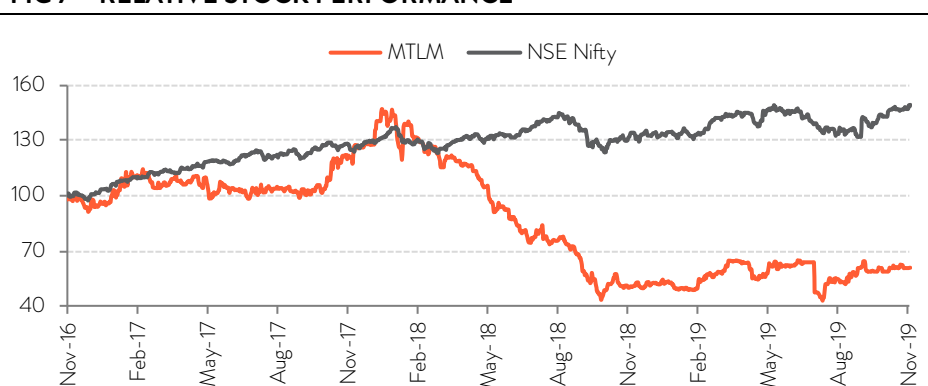
- India's plywood market is estimated at ~Rs 190bn, of which the organised segment is worth Rs 45bn. GIL has ~26% organised market share.
- The company has a presence in over 300 cities across 25 states, serviced by 1,870 dealers and 6,000 retailers. GIL plans to steadily augment its distribution network in India.
- GIL derives ~35% of revenues from South India, 23% from North India, 22% from West India and 20% from East India.
- A&P spend will be maintained at ~4% of revenue going ahead as well.
- Plywood capacity utilisation stood at 139% in FY19; optimum utilisation here can rise to 155% through outsourcing of MATT.
- GIL is looking to meet incremental demand from the mid- and low-segment plywood markets through 100% outsourcing.
- Of the total volumes in FY19, outsourced products formed ~36%; this proportion is guided to increase going ahead.
- GIL has formed two JVs for plywood outsourcing where it has equity stakes of ~30% each. One of these ventures is expected to start commercial production by Dec'19 whereas the other will commence in Q1FY21. As per management, each of these JVs can deliver annual revenues of Rs 1.1bn-1.2bn on peak utilisation, which the company hopes to achieve by FY23.
- Management expects margins on products procured from JVs to be similar to current levels.
- Gabon capacity expansion from 36,000cbm to 96,000cbm was commissioned in Nov'19. The company is targeting exports of face veneer to Europe from the new capacity – this will fetch better margins and thus improve profitability from Gabon.
- Management estimates peak capacity utilisation at Gabon can yield revenues of Rs 3.5bn-3.7bn with operating margins of 19-19.5%.
- Face veneer prices in India remain under pressure, as was seen in Q2FY20. The company is hopeful of 17-18% operating margins from Gabon operations despite this pricing pressure.
- GIL plans to reduce consolidated debt from ~Rs 2.5bn in FY19 to Rs 2.25bn in FY20.
- The promoters have raised their stake by ~0.7% in Q2FY20 post the Greenpanel Industries demerger and plan to increase it further going ahead.

Valuation methodology

GIL is the joint market leader in India's organised plywood industry along with Century Plyboards (CPBI). The company has also set up operations in Gabon for face veneer. We believe GIL is poised for significant growth in the wood panel market, facilitated by its wide distribution reach, strong brand focus, diverse product portfolio and rising market share for organised players in the wake of GST and e-way bill implementation.

We keep our estimates unchanged and maintain BUY with an unchanged Sep'20 target price of Rs 210, set at an unchanged 18x one-year forward P/E multiple. Maintain BUY.

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on sourcing of wood or face veneer will affect margins.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.
- **Sharp fall in face veneer prices:** Any abnormal price fall in face veneer prices can adversely affect the profitability of the company's Gabon operations.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	9,123	14,122	15,612	17,804	19,584
EBITDA	715	1,507	1,772	2,088	2,330
Depreciation	(180)	(224)	(259)	(271)	(288)
EBIT	535	1,282	1,513	1,816	2,043
Net interest income/(expenses)	(77)	(186)	(205)	(188)	(177)
Other income/(expenses)	(67)	71	57	60	63
Exceptional items	(46)	(55)	0	0	0
EBT	391	1,167	1,366	1,688	1,929
Income taxes	(137)	(315)	(341)	(364)	(403)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	208	797	1,025	1,325	1,526
Adjustments	46	55	0	0	0
Adjusted net profit	253	852	1,025	1,325	1,526

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,190	2,320	2,535	2,793	3,041
Other current liabilities	2,495	634	684	780	858
Provisions	252	64	78	89	98
Debt funds	7,122	2,500	2,280	2,010	1,560
Other liabilities	265	(41)	(41)	(41)	(41)
Equity capital	123	123	123	123	123
Reserves & surplus	8,652	3,230	4,006	5,010	6,167
Shareholders' fund	8,775	3,352	4,129	5,133	6,289
Total liabilities and equities	21,098	8,829	9,665	10,765	11,806
Cash and cash eq.	337	206	219	383	650
Accounts receivables	2,856	3,050	3,449	3,947	4,355
Inventories	2,312	1,694	1,922	2,242	2,483
Other current assets	1,900	964	1,069	1,219	1,341
Investments	185	222	222	222	222
Net fixed assets	5,706	2,420	2,684	2,653	2,655
CWIP	7,704	173	0	0	0
Intangible assets	99	99	99	99	99
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	21,098	8,829	9,665	10,765	11,806

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	1,283	1,596	1,813
Interest expenses	205	188	177
Non-cash adjustments	0	0	0
Changes in working capital	(452)	(602)	(437)
Other operating cash flows	0	0	0
Cash flow from operations	1,036	1,182	1,553
Capital expenditures	(350)	(240)	(290)
Change in investments	0	0	0
Other investing cash flows	0	0	0
Cash flow from investing	(350)	(240)	(290)
Equities issued/Others	0	0	0
Debt raised/repaid	(220)	(270)	(450)
Interest expenses	(205)	(188)	(177)
Dividends paid	(248)	(321)	(369)
Other financing cash flows	0	0	0
Cash flow from financing	(673)	(778)	(996)
Changes in cash and cash eq.	14	163	267
Closing cash and cash eq.	219	383	650

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	1.7	6.5	8.4	10.8	12.4
Adjusted EPS	2.1	6.9	8.4	10.8	12.4
Dividend per share	NA	0.4	1.7	2.2	2.5
Book value per share	NA	27.3	33.7	41.9	51.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	NA	NA	1.6	1.2	1.1
EV/EBITDA	NA	NA	13.7	10.5	9.2
Adjusted P/E	77.7	23.1	19.2	14.9	12.9
P/BV	NA	5.9	4.8	3.8	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	73.5	76.6	75.0	78.5	79.1
Interest burden (PBT/EBIT)	64.4	86.7	90.3	93.0	94.4
EBIT margin (EBIT/Revenue)	5.9	9.1	9.7	10.2	10.4
Asset turnover (Revenue/Avg TA)	49.5	94.4	168.8	174.3	173.5
Leverage (Avg TA/Avg Equity)	2.2	2.5	2.5	2.2	2.0
Adjusted ROAE	3.1	14.0	27.4	28.6	26.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	NA	54.8	10.6	14.0	10.0
EBITDA	NA	110.7	17.6	17.8	11.6
Adjusted EPS	NA	236.1	20.3	29.3	15.2
Profitability & Return ratios (%)					
EBITDA margin	7.8	10.7	11.3	11.7	11.9
EBIT margin	5.9	9.1	9.7	10.2	10.4
Adjusted profit margin	2.8	6.0	6.6	7.4	7.8
Adjusted ROAE	3.1	14.0	27.4	28.6	26.7
ROCE	2.3	8.4	18.5	21.0	21.6
Working capital days (days)					
Receivables	118	76	76	76	77
Inventory	126	86	70	71	74
Payables	113	65	64	62	62
Ratios (x)					
Gross asset turnover	1.1	2.3	4.2	4.3	4.5
Current ratio	1.0	1.3	1.4	1.5	1.7
Net interest coverage ratio	6.9	6.9	7.4	9.7	11.6
Adjusted debt/equity	0.8	0.7	0.5	0.3	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

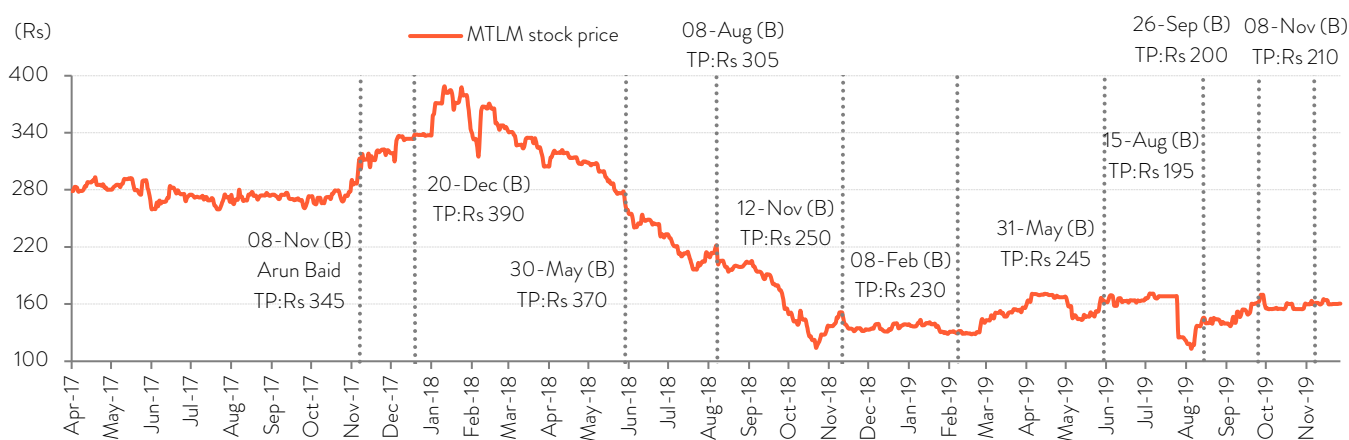
ADD – Expected return from >+5% to +15%

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: GREENPLY INDUSTRIES (MTLM IN)



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

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