

BUY

TP: Rs 200 | ▲ 22%

GREENPLY INDUSTRIES

Construction Materials

27 September 2019

India business steady; Gabon to lend growth impetus

In our recent meeting, Greenply Industries' (GIL) management outlined the following targets for FY20: (1) India plywood business to grow 8-10% despite a challenging market, (2) India operating margins to expand 100-150bps to 10.5-11%, and (3) Gabon operations to ramp up substantially to ~Rs 2bn in revenues (+60% YoY) with ~18% (+200bps) operating margins. We maintain BUY with an unchanged Jun'20 TP of Rs 200, set at 18x one-year forward P/E.

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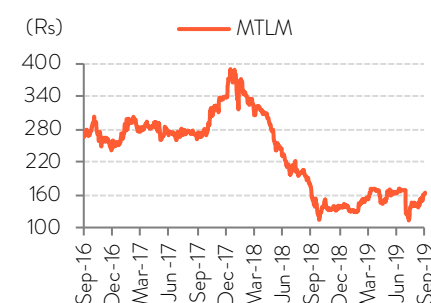
Indian operations targeted to grow 8-10% in FY20: GIL's management believes its India plywood business will grow at 8-10% during FY20 driven by decorative veneer, demand from mid-segment plywood brands (Ecotec) and also mass-market brands (Jansathi, Bharosa). The premium segment is expected to grow, but at a slower pace than overall segment growth. Management has guided for operating margins of ~11% vs. ~9.5% in FY19 as the drag from losses in the discontinued wallpaper business will recede in FY20.

Ticker/Price	MTLM IN/Rs 164
Market cap	US\$ 282.7mn
Shares o/s	123mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 178/Rs 110
Promoter/FPI/DII	51%/11%/38%

Source: NSE

Gabon operations continue to ramp up: GIL's face veneer facility in Gabon which started operations in Jul'17 has seen steady ramp-up, and management expects this facility to clock revenues of Rs 2bn (+60% YoY) alongside operating margins of ~18% (+200bps YoY) in FY20. The company is now focusing on higher margin European markets for exports from Gabon.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: GIL boasts of a wide distribution network, strong brand name and superior return ratios. We expect the company to witness an earnings CAGR of 21.6% over FY19-FY22 aided by expansion in Gabon operations. Maintain BUY with an unchanged Jun'20 TP of Rs 200.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	15,765	17,958	19,742
EBITDA (Rs mn)	715	1,507	1,784	2,092	2,337
Adj. net profit (Rs mn)	253	852	1,023	1,329	1,531
Adj. EPS (Rs)	2.1	6.9	8.3	10.8	12.5
Adj. EPS growth (%)	NA	236.1	20.1	30.0	15.1
Adj. ROAE (%)	3.1	14.0	27.4	28.7	26.8
Adj. P/E (x)	79.1	23.5	19.6	15.1	13.1
EV/EBITDA (x)	32.5	17.9	12.6	10.6	9.3

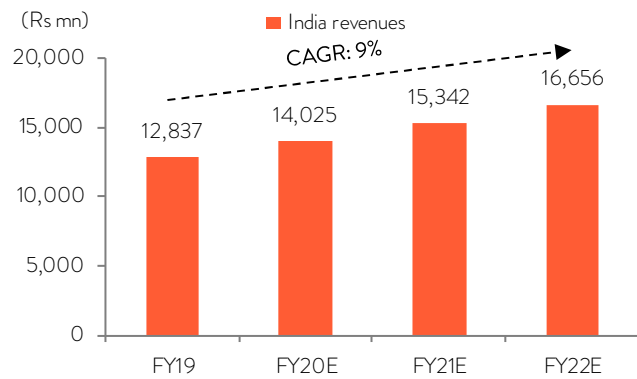
Source: Company, BOBCAPS Research

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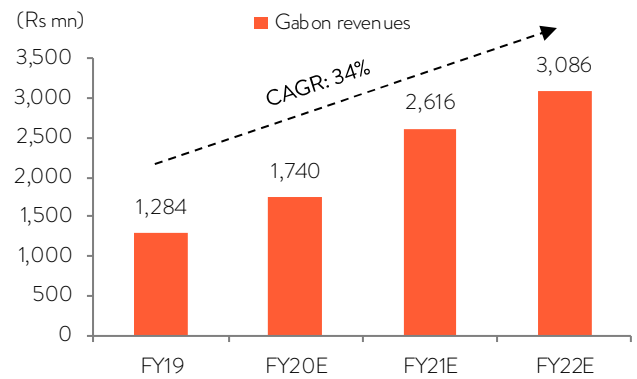


FIG 1 – INDIA REVENUES TO GROW STEADILY



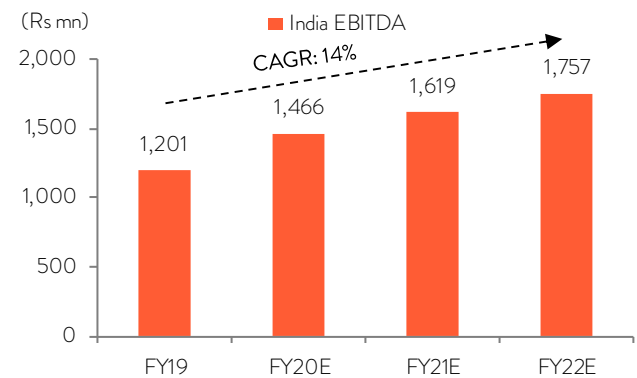
Source: Company, BOBCAPS Research

FIG 2 – GABON REVENUES TO RISE BRISKLY



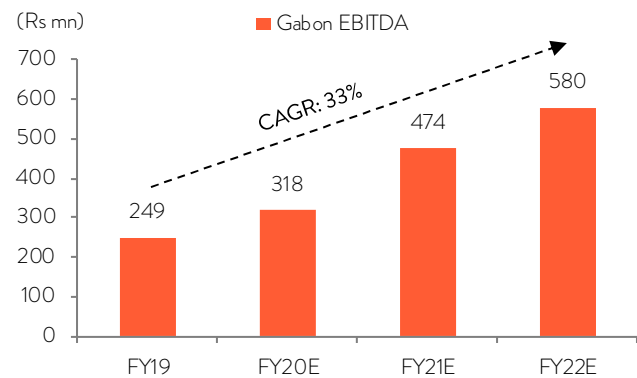
Source: Company, BOBCAPS Research

FIG 3 – INDIA EBITDA TO REMAIN STRONG



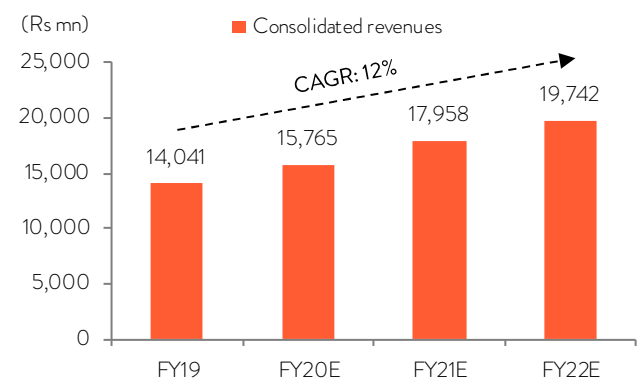
Source: Company, BOBCAPS Research

FIG 4 – GABON EBITDA TO GROW RAPIDLY



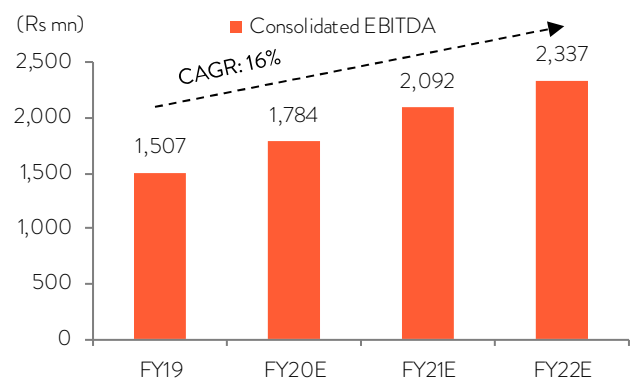
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA



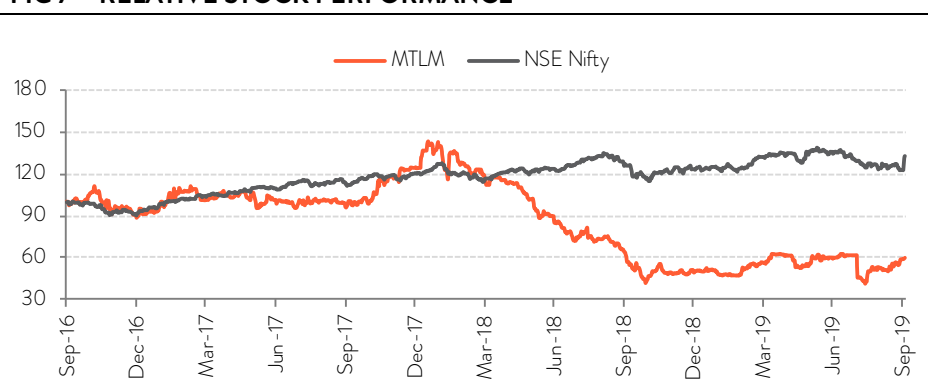
Source: Company, BOBCAPS Research

Valuation methodology

GIL is the joint largest organised plywood player in the country with ~26% organised market share. The company has a pan-India presence through its wide dealer-retail network comprising 1,870 dealers and 6,000 retailers spread across 300 cities and towns (as of FY19). Backward integration via a face veneer facility in Gabon, Africa, ensures consistent supply of raw material.

We expect GIL to witness a revenue/PAT CAGR of 12%/21.6% over FY19-FY22E aided by expansion in Gabon. We like the company for its strong brand, wide distribution reach and superior return ratios. Maintain BUY with an unchanged Jun'20 target price of Rs 200, set at 18x one-year forward P/E.

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood manufacturing. Any regulatory restrictions on sourcing of wood or face veneer will affect growth and 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	9,123	14,122	15,765	17,958	19,742
EBITDA	715	1,507	1,784	2,092	2,337
Depreciation	(180)	(224)	(259)	(271)	(288)
EBIT	535	1,282	1,525	1,821	2,049
Net interest income/(expenses)	(77)	(186)	(200)	(181)	(172)
Other income/(expenses)	(67)	71	57	60	63
Exceptional items	(46)	(55)	0	0	0
EBT	391	1,167	1,382	1,700	1,940
Income taxes	(137)	(315)	(359)	(371)	(410)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	208	797	1,023	1,329	1,531
Adjustments	46	55	0	0	0
Adjusted net profit	253	852	1,023	1,329	1,531

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A*	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,190	2,320	2,564	2,824	3,073
Other current liabilities	2,495	634	691	787	865
Provisions	252	64	79	90	99
Debt funds	7,122	2,500	2,180	1,960	1,560
Other liabilities	265	(41)	(41)	(41)	(41)
Equity capital	123	123	123	123	123
Reserves & surplus	8,652	3,230	4,005	5,013	6,173
Shareholders' fund	8,775	3,352	4,128	5,135	6,295
Total liabilities and equities	21,098	8,829	9,601	10,755	11,852
Cash and cash eq.	337	206	197	415	737
Accounts receivables	2,856	3,050	3,481	3,978	4,388
Inventories	2,312	1,694	1,938	2,258	2,499
Other current assets	1,900	964	1,080	1,230	1,352
Investments	185	222	222	222	222
Net fixed assets	5,706	2,420	2,584	2,553	2,555
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	9,601	10,755	11,852

Source: Company, BOBCAPS Research | *Pre-demerger

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	1,282	1,601	1,818
Interest expenses	200	181	172
Non-cash adjustments	0	0	0
Changes in working capital	(473)	(601)	(437)
Other operating cash flows	0	0	0
Cash flow from operations	1,009	1,181	1,553
Capital expenditures	(250)	(240)	(290)
Change in investments	0	0	0
Other investing cash flows	0	0	0
Cash flow from investing	(250)	(240)	(290)
Equities issued/Others	0	0	0
Debt raised/repaid	(320)	(220)	(400)
Interest expenses	(200)	(181)	(172)
Dividends paid	(248)	(322)	(370)
Other financing cash flows	0	0	0
Cash flow from financing	(768)	(723)	(942)
Changes in cash and cash eq.	(9)	219	321
Closing cash and cash eq.	197	415	737

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	1.7	6.5	8.3	10.8	12.5
Adjusted EPS	2.1	6.9	8.3	10.8	12.5
Dividend per share	0.6	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	1.9	1.4	1.2	1.1
EV/EBITDA	NA	17.9	12.6	10.6	9.3
Adjusted P/E	79.1	23.5	19.6	15.1	13.1
P/BV	NA	6.0	4.9	3.9	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	73.5	76.6	74.0	78.2	78.9
Interest burden (PBT/EBIT)	64.4	86.7	90.6	93.4	94.7
EBIT margin (EBIT/Revenue)	5.9	9.1	9.7	10.1	10.4
Asset turnover (Revenue/Avg TA)	49.5	94.4	171.1	176.4	174.6
Leverage (Avg TA/Avg Equity)	2.2	2.5	2.5	2.2	2.0
Adjusted ROAE	3.1	14.0	27.4	28.7	26.8

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	11.6	13.9	9.9
EBITDA	NA	110.7	18.4	17.3	11.7
Adjusted EPS	NA	236.1	20.1	30.0	15.1
Profitability & Return ratios (%)					
EBITDA margin	7.8	10.7	11.3	11.7	11.8
EBIT margin	5.9	9.1	9.7	10.1	10.4
Adjusted profit margin	2.8	6.0	6.5	7.4	7.8
Adjusted ROAE	3.1	14.0	27.4	28.7	26.8
ROCE	2.3	8.4	18.6	21.2	21.6
Working capital days (days)					
Receivables	118	76	76	76	77
Inventory	126	86	70	71	73
Payables	113	65	64	62	62
Ratios (x)					
Gross asset turnover	1.1	2.3	4.3	4.5	4.6
Current ratio	1.0	1.3	1.4	1.6	1.7
Net interest coverage ratio	6.9	6.9	7.6	10.1	11.9
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%

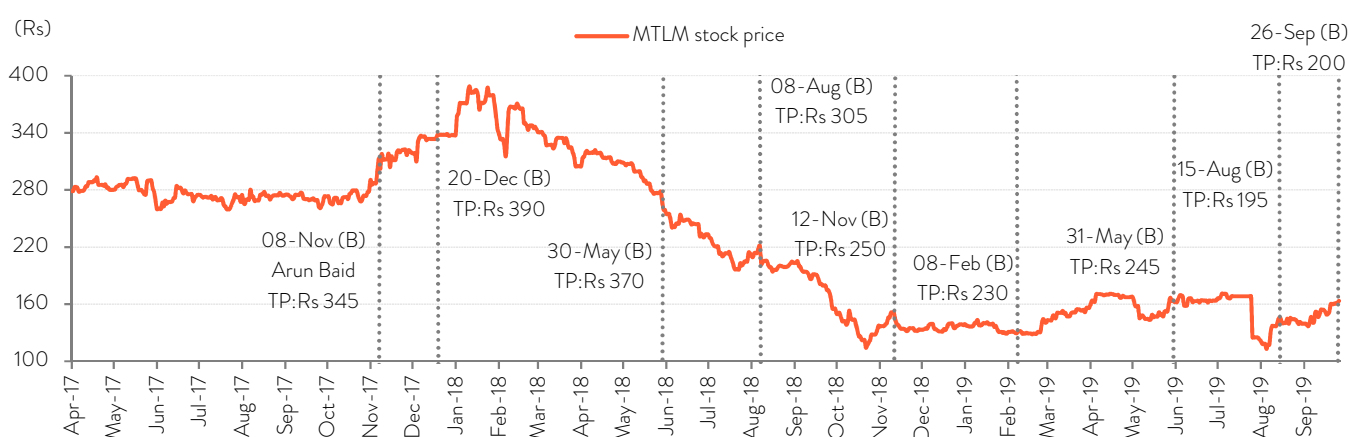
ADD – Expected return from >+5% to +15%

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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