

**BUY**

TP: Rs 205 | ▲ 49%

**GREENPLY INDUSTRIES**

Construction Materials

20 February 2020

## Demand slows but margins resilient

We recently hosted a roadshow with the management of Greenply Industries (GIL). Following are the key takeaways:

- GIL saw a slowdown in plywood demand during Q3FY20 due to the weak macro climate. Tight liquidity coupled with working capital discipline further dampened sales. Working capital control led the company to forego Rs 150mn-200mn in Q3 revenue.
- During 9MFY20 in India, premium plywood revenue was flat, the Ecotec brand grew at ~4% and decorative veneer at 36% YoY.
- Management is targeting 4-4.5% growth in the India plywood business in FY20. Decorative veneer is expected to clock revenue of Rs 1.15bn-1.2bn vs. Rs 900mn in FY19 due to ramp-up of the Rajkot facility. Peak turnover at this unit is pegged at Rs 1.7bn-1.8bn which GIL hopes to achieve by FY23.
- With no significant pricing pressure on raw material, management believes operating margins in the India business can be maintained at ~11%.
- GIL's biggest market is South India (~35% of revenue) followed by the North (23%) and West (22%), with 20% coming from East India.
- Gabon revenues declined in Q3FY20 due to lower demand in India. To mitigate the slowdown, GIL is raising its focus on Europe and Southeast Asia. Revenues from Europe accounted for 13% of Gabon's turnover in Q3 (vs. 1% YoY) whereas Southeast Asia contributed 27% (vs. 4% YoY).
- Gurjan face veneer prices have declined in recent months, in turn putting pressure on prices of Okume veneer in Indian markets.
- GIL expects Gabon operations to deliver FY20 revenues of Rs 1.45bn-1.5bn (+17% YoY) accompanied by 17.5-18% EBITDA margins.
- GIL plans to lower the standalone working capital cycle by 4-5 days to 84-85 days by end-FY20.
- FY20 capex plans for Gabon operations total Rs 220mn and for India operations Rs 160mn. Going ahead, capex in India would be limited to maintenance outlay of ~Rs 160mn.

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|                  |                |
|------------------|----------------|
| Ticker/Price     | MTLM IN/Rs 137 |
| Market cap       | US\$ 235.2mn   |
| Shares o/s       | 123mn          |
| 3M ADV           | US\$ 0.1mn     |
| 52wk high/low    | Rs 195/Rs 112  |
| Promoter/FPI/DII | 52%/11%/37%    |

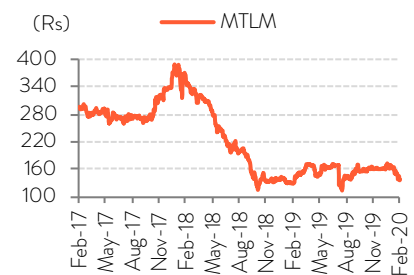
Source: NSE

## KEY FINANCIALS

| Y/E 31 Mar              | FY20E  | FY21E  | FY22E  |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn)   | 14,764 | 16,417 | 18,080 |
| EBITDA (Rs mn)          | 1,747  | 1,987  | 2,208  |
| Adj. net profit (Rs mn) | 996    | 1,216  | 1,397  |
| Adj. EPS (Rs)           | 8.1    | 9.9    | 11.4   |
| Adj. EPS growth (%)     | 16.9   | 22.2   | 14.8   |
| Adj. ROAE (%)           | 26.7   | 26.6   | 25.1   |
| Adj. P/E (x)            | 16.9   | 13.8   | 12.0   |
| EV/EBITDA (x)           | 12.2   | 9.6    | 8.6    |

Source: Company, BOBCAPS Research

## STOCK PERFORMANCE



Source: NSE

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

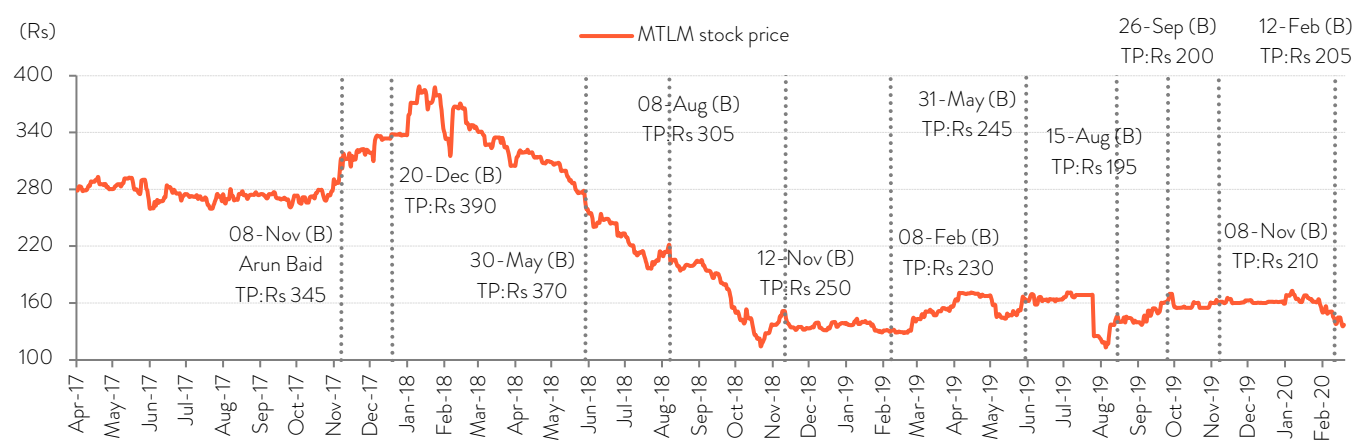
**ADD** – Expected return from >+5% to +15%

**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)



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

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