

**BUY**

TP: Rs 195 | ▲ 34%

**GREENPLY INDUSTRIES**

Construction Materials

15 August 2019

## Margin expansion continues

**Greenply Industries (GIL) reported consolidated Q1FY20 revenue growth of 13%, with India plywood operations growing at 6.2% YoY. Consolidated operating margins expanded 510bps as both India and Gabon operations performed well, driving EBITDA/PAT growth of 100%/82% YoY. Management has guided for 8-10% revenue growth in India and ~Rs 2.15bn in revenues from Gabon. Post MDF demerger, our TP moves to Rs 195 as the value of GIL's plywood business, set at an unchanged 18x P/E (vs. Rs 245 for merged entity).**

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**Strong revenue growth:** GIL reported consolidated revenue growth of 13% YoY to Rs 3.5bn. India plywood revenues grew 6.2% YoY to Rs 3.1bn (plywood volume growth at 4.1%) and Gabon face veneer operations rose 110% YoY to Rs 440mn. Gabon saw a growth surge due to better utilisation of the capacities commissioned in FY19. Consolidated working capital days declined by ~7 days to 60 days.

**Operating margins swell 510bps:** GIL's consolidated operating margins expanded 510bps YoY to 11.8% aided by higher profitability in both India and Gabon operations. India margins rose 310bps YoY to 10.7% (as Q1FY19 had a wallpaper inventory write-down of ~Rs 70mn). Gabon face veneer operations which largely started in H2FY18 have stabilised and thus witnessed margin expansion to 17.9% (vs. an EBITDA loss of Rs 20mn in Q1FY19). Strong operating margins propelled EBITDA/PAT growth to 100%/82% YoY.

**FY20 guidance healthy:** GIL's management has guided for 8-10% growth with ~11% operating margins in Indian plywood operations and ~Rs 2.15bn revenues with ~18% margins from Gabon face veneer operations. Management expects ROCE to improve as the company will focus on outsourcing of plywood manufacture in Indian operations. Also, higher utilisation at the Gabon subsidiary should aid better profitability and return ratios ahead.

**Maintain BUY:** We like GIL for its market leadership in organised plywood, strong brand as well as wide distribution, and expect a 13%/26% revenue/PAT CAGR over FY19-FY21, aided by expansion in Gabon. Post MDF demerger, our TP moves to Rs 195 as the value of GIL's plywood business, set at an unchanged 18x forward P/E. Note that we have not included financials in this report as we await the company's revised FY19 balance sheet post-demerger in July.

Ticker/Price	MTLM IN/Rs 146
Market cap	US\$ 250.5mn
Shares o/s	123mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 207/Rs 110
Promoter/FPI/DII	51%/11%/38%

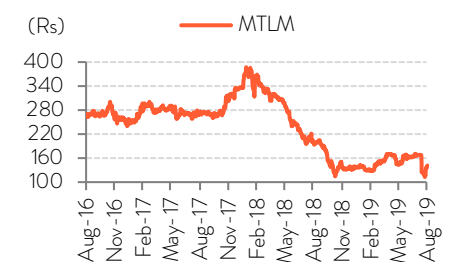
Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	797	1,002	1,273
Adj. EPS (Rs)	6.1	8.2	10.4
Adj. EPS growth (%)	NA	34.1	27.0
Adj. ROAE (%)	23.8	24.4	25.0
Adj. P/E (x)	23.9	17.8	14.0
EV/EBITDA (x)	14.0	11.1	9.3

Source: Company, BOBCAPS Research

## STOCK PERFORMANCE



Source: NSE



**FIG 1 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Net Revenue</b>	<b>3,054</b>	<b>2,876</b>	<b>6.2</b>	<b>3,439</b>	<b>(11.2)</b>
COGS	1,805	1,797	0.4	2,150	(16.1)
% of sales	59.1	62.5	(340bps)	62.5	(343bps)
Employee expenses	355	339	5.0	350	1.7
% of sales	11.6	11.8	(14bps)	10.2	147bps
Operating Expenses	567	523	8.6	601	(5.6)
% of sales	18.6	18.2	41bps	17.5	110bps
<b>EBITDA</b>	<b>327</b>	<b>218</b>	<b>50.2</b>	<b>338</b>	<b>(3.4)</b>
EBITDA Margin (%)	10.7	7.6	313bps	9.8	86bps
Depreciation/Amortisation	53	46	14.9	46	15.5
<b>EBIT</b>	<b>274</b>	<b>171</b>	<b>59.7</b>	<b>292</b>	<b>(6.3)</b>
EBIT Margin (%)	9.0	6.0	300bps	8.5	46bps
Net Interest Expenses	42	35	18.3	44	(6.2)
Other Income	10	15	(33.5)	14	(24.1)
<b>PBT</b>	<b>243</b>	<b>152</b>	<b>59.8</b>	<b>262</b>	<b>(7.3)</b>
Tax Expenses	85	54	56.6	78	9.3
<b>Net Income before extraordinary items</b>	<b>157</b>	<b>97</b>	<b>61.5</b>	<b>184</b>	<b>(14.3)</b>
<b>Reported Net Income</b>	<b>157</b>	<b>97</b>	<b>61.5</b>	<b>184</b>	<b>(14.3)</b>

Source: Company, BOBCAPS Research

**FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Net Revenue</b>	<b>3,494</b>	<b>3,089</b>	<b>13.1</b>	<b>3,917</b>	<b>(10.8)</b>
COGS	2,023	1,901	6.4	2,351	(13.9)
% of sales	66.2	66.1	15bps	68.3	(210bps)
Employee expenses	384	366	5.1	374	2.7
% of sales	12.6	12.7	(13bps)	10.9	170bps
Operating Expenses	675	617	9.5	711	(5.0)
% of sales	22.1	21.4	66bps	20.7	145bps
<b>EBITDA</b>	<b>411</b>	<b>206</b>	<b>99.9</b>	<b>482</b>	<b>(14.6)</b>
EBITDA Margin (%)	11.8	6.7	511bps	12.3	(53bps)
Depreciation/Amortisation	63	54	16.2	56	13.2
<b>EBIT</b>	<b>349</b>	<b>152</b>	<b>129.8</b>	<b>426</b>	<b>(18.3)</b>
EBIT Margin (%)	10.0	4.9	506bps	10.9	(91bps)
Net Interest Expenses	50	38	33.4	59	(15.0)
Other Income	4	8	(49.3)	6	(32.1)
<b>PBT</b>	<b>302</b>	<b>122</b>	<b>147.6</b>	<b>373</b>	<b>(19.0)</b>
Tax Expenses	85	54	56.6	78	9.3
<b>Net Income before extraordinary items</b>	<b>217</b>	<b>68</b>	<b>220.9</b>	<b>295</b>	<b>(26.5)</b>
Share of profit/(loss) from JV	(7)	48	(114.4)	2	-
<b>Reported Net Income</b>	<b>210.1</b>	<b>115.6</b>	<b>81.7</b>	<b>297.3</b>	<b>(29.3)</b>
<b>Adjusted PAT</b>	<b>210.1</b>	<b>115.6</b>	<b>81.7</b>	<b>297.3</b>	<b>(29.3)</b>

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

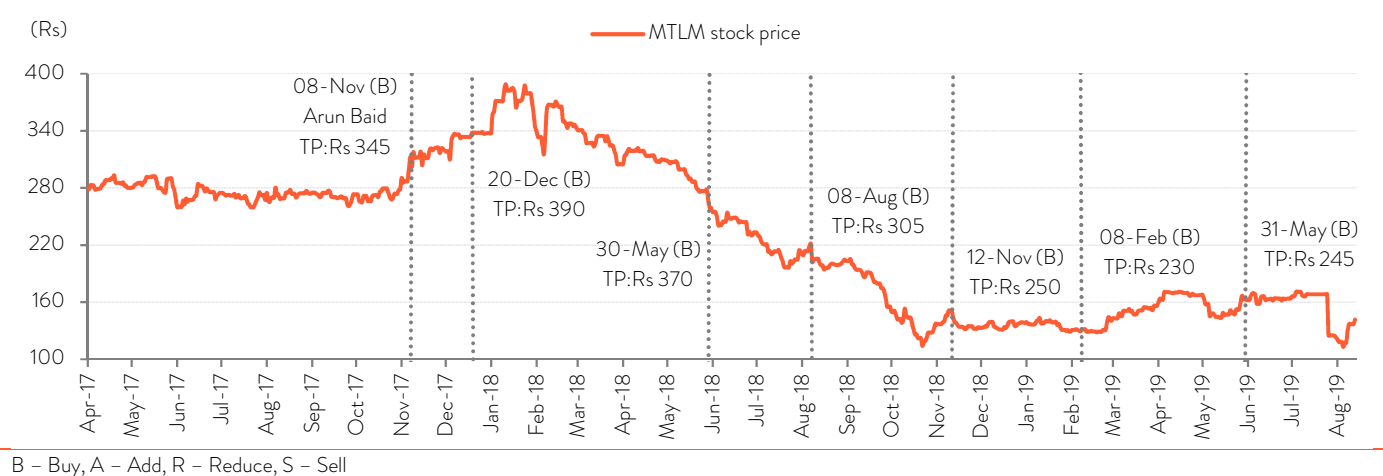
**ADD** – Expected return from >+5% to +15%

**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)



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