

BUY

TP: Rs 235 | ▲ 29%

GREENPLY INDUSTRIES

Construction Materials

08 August 2022

New capacities to form next leg of growth

- Consolidated Q1 revenue grew 74% YoY backed by a 79% increase in plywood volumes and 3% rise in price realisation for India operations
- Consolidated operating margin improved 375bps YoY to 8.8% (9.7% excluding non-cash ESOP cost of Rs 39mn)
- In view of rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, yielding a revised TP of Rs 235 (vs. Rs 260); retain BUY

Ruchitaa Maheshwari
research@bobcaps.in

Healthy revenue growth: Greenply (GIL) reported consolidated Q1FY23 revenue growth of 74% YoY (+1% QoQ) to Rs 4.5bn. India business grew 85% YoY as plywood volumes increased 79% and price realisation improved 3% to Rs 242/sqm. Gabon subsidiary revenue increased 24% YoY.

Operating margin expands: Higher chemical, timber and other RM costs, along with a change in product mix, led to a 465bps YoY drop in gross margin to 39%. A decline in employee/other costs by 475bps/370bps saw operating margin rise 375bps YoY to 8.8%. EBITDA margin, adjusted for non-cash ESOP cost of Rs 39mn, stood at 9.7%. EBITDA was at Rs 401mn (adj. Rs 440mn). India business posted a 410bps YoY rise in EBITDA margin to 8.4% (adj. 9.4%), whereas gross margin fell 685bps YoY.

Price hikes to mitigate RM cost: Management took a ~2% price hike in June to mitigate the rising inflation, the benefits of which will flow in from Q2. GIL is looking at further hikes in the value segment but not in premium products during September-October. Management expects RM cost to soften from Q3 onwards.

MDF expansion: GIL is setting up an MDF plant in Gujarat with a capacity of 800cbm per day for Rs 5.55bn by Q4FY23. The company is facing bottlenecks and congestion at ports which may delay the installation of machines. Management expects 40-50% plant utilisation in FY24, with revenue potential of Rs 6bn-6.5bn at peak utilisation in FY27. Margins would be ~25% in normalised operational state.

Expect flat volumes: Management has guided for 10-11% volume growth in FY23, implying flattish growth over 9MFY23 due to supply-side challenges from the trading partner. Q2 could see subdued volumes and margins from higher timber prices.

TP cut; retain BUY: The stock is trading at 15.5x FY24E P/E vs. its 5Y median of 22.1x. In view of rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, which yields a revised TP of Rs 235 (vs. Rs 260). We like GIL's long-term structural growth story given the anticipated revival in plywood demand, its entry into the high-margin MDF business, strong brand and pan-India distribution network. BUY.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | MTLM IN/Rs 183 |
| Market cap | US\$ 282.5mn |
| Free float | 48% |
| 3M ADV | US\$ 0.4mn |
| 52wk high/low | Rs 255/Rs 161 |
| Promoter/FPI/DII | 52%/3%/44% |

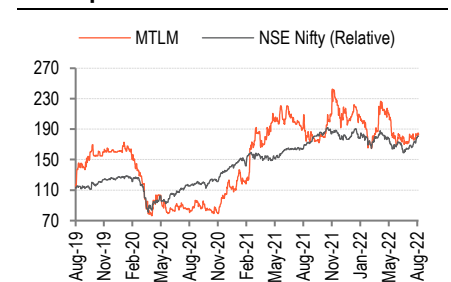
Source: NSE | Price as of 5 Aug 2022

Key financials

| Y/E 31 Mar | FY22A | FY23E | FY24E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 15,628 | 17,173 | 21,436 |
| EBITDA (Rs mn) | 1,503 | 1,795 | 2,959 |
| Adj. net profit (Rs mn) | 947 | 817 | 1,447 |
| Adj. EPS (Rs) | 7.7 | 6.7 | 11.8 |
| Consensus EPS (Rs) | 7.7 | 10.5 | 12.3 |
| Adj. ROAE (%) | 19.4 | 14.2 | 21.3 |
| Adj. P/E (x) | 23.6 | 27.4 | 15.5 |
| EV/EBITDA (x) | 16.0 | 13.3 | 8.9 |
| Adj. EPS growth (%) | 55.5 | (13.7) | 77.1 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Guidance:** Management has guided for 15% revenue growth in FY23, of which 10-11% will come from volume growth and 3-4% from price hikes.
- **Demand outlook:** Management expects a sustained recovery in the real estate sector despite input cost inflation and interest rate hikes, as well as a material shift in demand for its products from the unorganised to organised segment. Further, GIL expects growth to come from tier-2/3 cities where ownership of a large furnished home remains aspirational in nature.
- **Downtrading:** Trading partners have missed out on volumes in Q1 due to cash flow issues. Also, price hikes in the last 12-14 months have led to downtrading.
- **Gabon:** Gabon operations achieved a 244% YoY and 72% QoQ increase in revenue mainly on account of improvement in supply chain and logistics. Operating margin stood at 11.7% in Q1FY23 vs. 8.4% in Q1FY22 and 13.1% in Q4FY22. Demand looks healthy in European and South Asian markets, and the company expects traction to improve going forward. Management has guided for ~Rs 2.3bn of revenue from Gabon in FY23.
- **MDF:** Per management, the MDF industry in India has the potential to post minimum 20% growth p.a. with at least 25% EBITDA margin. Further, management expects industry MDF exports to increase in the next 2-3 years.
- **Outsourcing partners:** GIL has two manufacturing partners at present, mainly for plywood and allied products. Production from its first partner commenced in FY21 and the plant is running at 100% capacity. Partial production from its second partner's plant commenced in Q3FY22. GIL has signed up with another player for manufacturing allied products. The plant located at Hapur, Uttar Pradesh, has a unit capacity of 7.5msm/annum and is likely to become operational by Q4FY23.
- **Plywood capex:** GIL's plywood manufacturing unit at Lucknow, Uttar Pradesh, has a capacity of 13.5mn sqm p.a. and commercial production began in Q1FY23. The company aims to generate revenue of Rs 1.2bn-1.25bn in FY23 and Rs 2.5bn in FY24. This facility will cater to premium products that carry high realisations.
- **Debt:** Gross debt is currently ~Rs 3.8bn and net debt Rs 3.5bn. Net D/E stands at 0.62x.
- **ESOPs:** GIL intends to offer ESOPs of Rs 150mn in FY23 (Rs 39mn in Q1FY23) and Rs 30mn in FY24.

Fig 1 – Consolidated quarterly performance

| (Rs mn) | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|-------------|
| Net Revenue | 4,535 | 2,608 | 73.9 | 4,486 | 1.1 | 15,628 | 11,653 | 34.1 |
| COGS | 2,780 | 1,478 | 88.2 | 2,693 | 3.2 | 9,353 | 6,841 | 36.7 |
| % of sales | 61.3 | 56.7 | 464bps | 60.0 | 125bps | 59.8 | 58.7 | 115bps |
| Employee expenses | 561 | 446 | 25.8 | 504 | 11.5 | 1,933 | 1,495 | 29.3 |
| % of sales | 12.4 | 17.1 | (474bps) | 11.2 | 115bps | 12.4 | 12.8 | (46bps) |
| Other Expenses | 793 | 552 | 43.7 | 843 | (6.0) | 2,839 | 2,151 | 32.0 |
| % of sales | 17.5 | 21.2 | (368bps) | 18.8 | (132bps) | 18.2 | 18.5 | (29bps) |
| EBITDA | 401 | 132 | 203.5 | 445 | (10.0) | 1,503 | 1,167 | 28.7 |
| EBITDA Margin (%) | 8.8 | 5.1 | 377bps | 9.9 | (109bps) | 9.6 | 10.0 | (40bps) |
| Depreciation/Amortisation | 76 | 61 | 24.3 | 67 | 13.3 | 258 | 231 | 12.0 |
| EBIT | 325 | 71 | 358.9 | 378 | (14.1) | 1,244 | 936 | 32.9 |
| EBIT Margin (%) | 7.2 | 2.7 | 445bps | 8.4 | (127bps) | 8.0 | 8.0 | (7bps) |
| Net Interest Expenses | 51 | 34 | 51.7 | 25 | 105.6 | 119 | 166 | (28.3) |
| Other Income | 16 | 21 | (25.3) | 31 | (49.9) | 99 | 68 | 46.3 |
| PBT | 289 | 58 | 399.1 | 384 | (24.7) | 1,224 | 837 | 46.1 |
| Tax Expenses | 76 | 16 | 387.2 | 95 | (20.0) | 303 | 205 | 47.8 |
| Net Income before extraordinary items | 213 | 42 | 403.5 | 289 | (26.3) | 921 | 633 | 45.6 |
| Share of profit/(loss) from JV | (6) | (2) | 178.7 | 1 | (988.6) | 26 | (24) | (210.0) |
| Reported Net Income | 207 | 40 | 415.0 | 290 | (28.4) | 947 | 609 | 55.5 |

Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

| (Rs mn) | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|----------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|-------------|
| Net Revenue | 3,946 | 2,133 | 85.0 | 4,143 | (4.7) | 13,769 | 10,154 | 35.6 |
| COGS | 2,515 | 1,213 | 107.3 | 2,573 | (2.3) | 8,436 | 6,064 | 39.1 |
| % of sales | 63.7 | 56.9 | 685bps | 62.1 | 163bps | 61.3 | 59.7 | 155bps |
| Employee expenses | 486 | 395 | 23.2 | 452 | 7.5 | 1,726 | 1,312 | 31.5 |
| % of sales | 12.3 | 18.5 | (619bps) | 10.9 | 141bps | 12.5 | 12.9 | (39bps) |
| Other Expenses | 613 | 433 | 41.6 | 717 | (14.5) | 2,303 | 1,809 | 27.3 |
| % of sales | 15.5 | 20.3 | (476bps) | 17.3 | (178bps) | 16.7 | 17.8 | (109bps) |
| EBITDA | 332 | 92 | 260.4 | 400 | (17.1) | 1,304 | 969 | 34.6 |
| EBITDA Margin (%) | 8.4 | 4.3 | 409bps | 9.7 | (126bps) | 9.5 | 9.5 | (7bps) |
| Depreciation/Amortisation | 50 | 44 | 14.5 | 49 | 2.7 | 186 | 165 | 12.5 |
| EBIT | 282 | 48 | 484.2 | 351 | (19.9) | 1,118 | 804 | 39.1 |
| EBIT Margin (%) | 7.1 | 2.3 | 488bps | 8.5 | (135bps) | 8.1 | 7.9 | 20bps |
| Net Interest Expenses | 13 | 17 | (24.1) | 14 | (5.4) | 58 | 110 | (47.7) |
| Other Income | 26 | 27 | (4.6) | 43 | (40.9) | 132 | 91 | 44.8 |
| PBT | 294 | 58 | 406.0 | 381 | (22.8) | 1,192 | 784 | 52.0 |
| Tax Expenses | 76 | 16 | 380.4 | 96 | (21.2) | 304 | 205 | 48.3 |
| Reported Net Income | 219 | 42 | 415.5 | 285 | (23.3) | 888 | 579 | 53.3 |

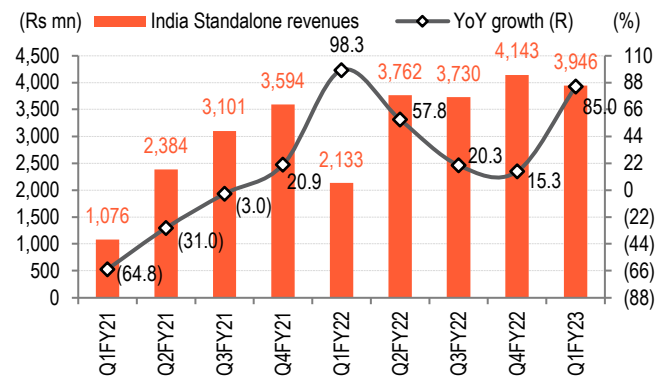
Source: Company, BOBCAPS Research

Fig 3 – Subsidiary results (primarily Gabon)

| (Rs mn) | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|-------------------|--------|--------|---------|--------|----------|-------|-------|----------|
| Revenue | 589 | 474 | 24.3 | 343 | 72.0 | 1,859 | 1,500 | 24.0 |
| EBITDA | 69 | 40 | 72.8 | 45 | 54.2 | 199 | 198 | 0.3 |
| EBITDA Margin (%) | 11.7 | 8.4 | 330bps | 13.1 | (135bps) | 10.7 | 13.2 | (252bps) |

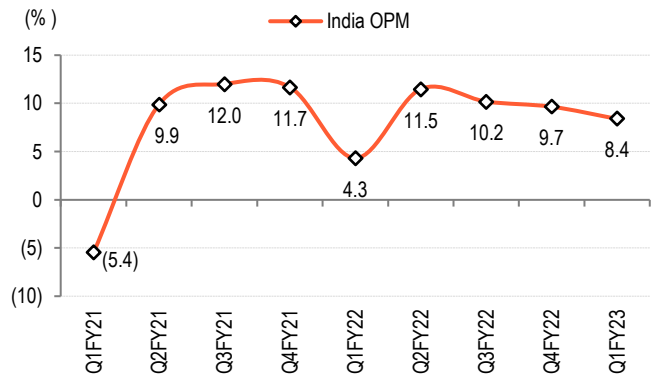
Source: Company, BOBCAPS Research

Fig 4 – India standalone revenue



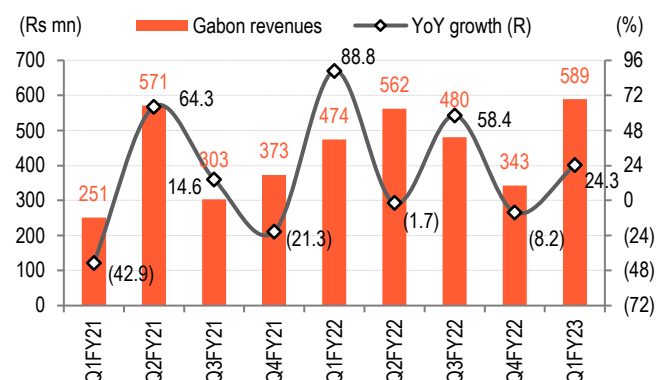
Source: Company, BOBCAPS Research

Fig 5 – India standalone operating margin



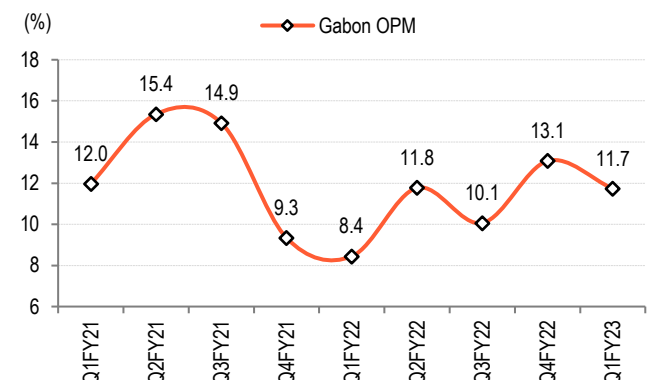
Source: Company, BOBCAPS Research

Fig 6 – Gabon revenue



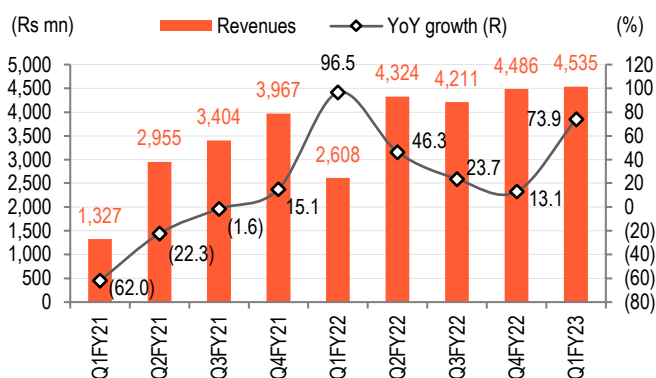
Source: Company, BOBCAPS Research

Fig 7 – Gabon operating margin



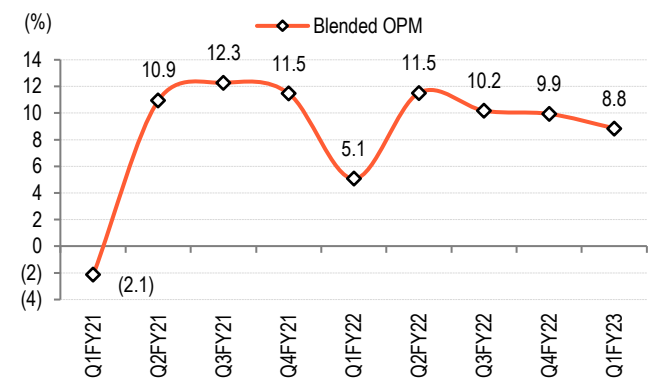
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue



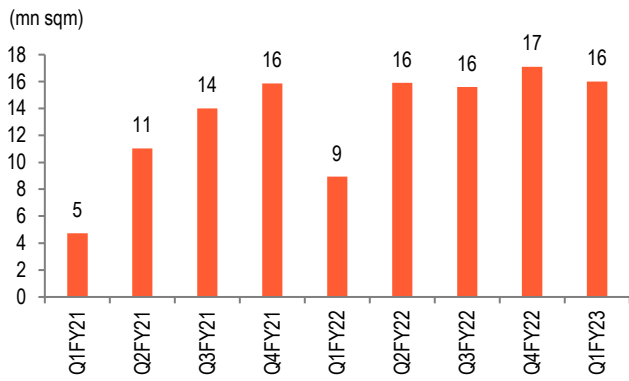
Source: Company, BOBCAPS Research

Fig 9 – Consolidated operating margin



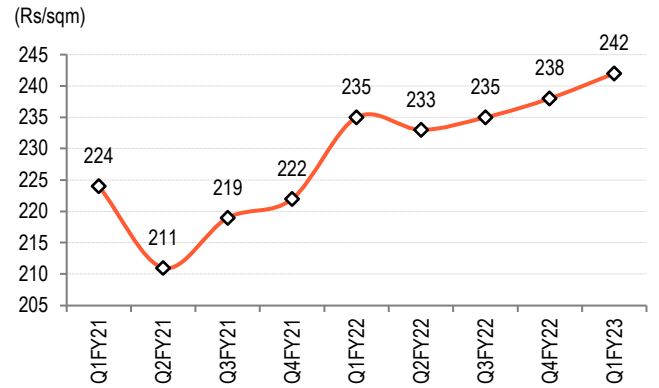
Source: Company, BOBCAPS Research

Fig 10 – India plywood volumes



Source: Company, BOBCAPS Research

Fig 11 – Plywood average price realisation



Source: Company, BOBCAPS Research

Valuation methodology

GIL is well geared for a rebound in plywood volumes aided by (a) considerable balance sheet strengthening post Covid driven by the company's stricter control on receivables (which is likely to continue in the near term), and (b) strong recovery in the secondary real estate market, resulting in higher occupation rates of premises which will propel demand for plywood. The company's strong presence in the plywood industry will also facilitate a smooth entry into MDF.

The stock is trading at 15.5x FY24E P/E compared to its five-year median of 22.1x. In view of the rising interest rates, we cut our FY24E P/E multiple from 22x to 20x, which yields a revised TP of Rs 235 (vs. Rs 260). We like GIL's long-term structural growth story given the anticipated revival in plywood demand, its entry into the high-margin MDF business, strong brand and pan-India distribution network. Retain BUY.

Key risks

Key downside risks to our estimates are:

- **Regulatory concerns on RM sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on sourcing of wood or face veneer will hit 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.
- **Rate hikes:** A high interest rate environment may slow down real estate demand.

Sector recommendation snapshot

| Company | Ticker | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|-----------------------|-----------|----------------------|------------|-------------|--------|
| Century Plyboards | CPBI IN | 1.8 | 634 | 735 | BUY |
| Cera Sanitaryware | CRS IN | 0.8 | 4,725 | 5,225 | HOLD |
| Greenpanel Industries | GREENP IN | 0.7 | 443 | 595 | BUY |
| Greenply Industries | MTLM IN | 0.3 | 183 | 235 | BUY |
| Kajaria Ceramics | KJC IN | 2.3 | 1,123 | 1,460 | BUY |
| Pidilite Industries | PIDI IN | 16.9 | 2,641 | 1,870 | SELL |
| Somany Ceramics | SOMC IN | 0.3 | 634 | 835 | BUY |

Source: BOBCAPS Research, NSE | Price as of 5 Aug 2022

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY20A | FY21A | FY22A | FY23E | FY24E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 14,204 | 11,653 | 15,628 | 17,173 | 21,436 |
| EBITDA | 1,562 | 1,167 | 1,503 | 1,795 | 2,959 |
| Depreciation | (257) | (231) | (258) | (377) | (634) |
| EBIT | 1,304 | 936 | 1,244 | 1,418 | 2,325 |
| Net interest inc./(exp.) | (208) | (166) | (119) | (434) | (494) |
| Other inc./(exp.) | 6 | 44 | 125 | 77 | 14 |
| Exceptional items | (495) | 0 | 0 | 0 | 0 |
| EBT | 1,102 | 814 | 1,250 | 1,060 | 1,844 |
| Income taxes | (134) | (205) | (303) | (243) | (397) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 473 | 609 | 947 | 817 | 1,447 |
| Adjustments | 368 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 841 | 609 | 947 | 817 | 1,447 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY20A | FY21A | FY22A | FY23E | FY24E |
|---------------------------------|--------------|--------------|---------------|---------------|---------------|
| Accounts payables | 2,317 | 2,043 | 2,164 | 2,867 | 3,642 |
| Other current liabilities | 389 | 500 | 792 | 650 | 841 |
| Provisions | 348 | 212 | 225 | 309 | 386 |
| Debt funds | 2,674 | 1,917 | 2,919 | 7,400 | 5,400 |
| Other liabilities | 115 | 112 | 107 | 103 | 99 |
| Equity capital | 123 | 123 | 123 | 123 | 123 |
| Reserves & surplus | 3,657 | 4,244 | 5,259 | 5,998 | 7,364 |
| Shareholders' fund | 3,779 | 4,367 | 5,382 | 6,121 | 7,487 |
| Total liab. and equities | 9,622 | 9,151 | 11,588 | 17,450 | 17,854 |
| Cash and cash eq. | 103 | 1,280 | 726 | 1,335 | 522 |
| Accounts receivables | 3,565 | 1,939 | 1,864 | 2,721 | 3,369 |
| Inventories | 1,771 | 1,792 | 2,256 | 2,419 | 2,961 |
| Other current assets | 646 | 704 | 1,789 | 894 | 1,116 |
| Investments | 238 | 225 | 258 | 258 | 258 |
| Net fixed assets | 3,076 | 3,070 | 3,510 | 9,169 | 9,540 |
| CWIP | 52 | 62 | 1,096 | 566 | 0 |
| Intangible assets | 67 | 15 | 15 | 15 | 15 |
| Deferred tax assets, net | 105 | 64 | 73 | 73 | 73 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| Total assets | 9,622 | 9,151 | 11,588 | 17,449 | 17,854 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY20A | FY21A | FY22A | FY23E | FY24E |
|------------------------------------|--------------|--------------|----------------|----------------|----------------|
| Cash flow from operations | 701 | 2,251 | 271 | 2,146 | 2,202 |
| Capital expenditures | (559) | (177) | (1,733) | (5,506) | (440) |
| Change in investments | (16) | 13 | (33) | 0 | 0 |
| Other investing cash flows | (64) | 41 | (9) | 0 | 0 |
| Cash flow from investing | (639) | (123) | (1,775) | (5,506) | (440) |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 174 | (757) | 1,002 | 4,481 | (2,000) |
| Interest expenses | (208) | (166) | (119) | (434) | (494) |
| Dividends paid | (59) | (49) | 58 | (78) | (81) |
| Other financing cash flows | (72) | 21 | 0 | 0 | 0 |
| Cash flow from financing | (166) | (951) | 941 | 3,970 | (2,575) |
| Chg in cash & cash eq. | (103) | 1,177 | (563) | 610 | (813) |
| Closing cash & cash eq. | 103 | 1,280 | 717 | 1,335 | 522 |

Per Share

| Y/E 31 Mar (Rs) | FY20A | FY21A | FY22A | FY23E | FY24E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 3.9 | 5.0 | 7.7 | 6.7 | 11.8 |
| Adjusted EPS | 6.9 | 5.0 | 7.7 | 6.7 | 11.8 |
| Dividend per share | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| Book value per share | 30.8 | 35.6 | 43.9 | 49.9 | 61.1 |

Valuations Ratios

| Y/E 31 Mar (x) | FY20A | FY21A | FY22A | FY23E | FY24E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 1.9 | 2.1 | 1.5 | 1.4 | 1.2 |
| EV/EBITDA | 17.2 | 21.3 | 16.0 | 13.3 | 8.9 |
| Adjusted P/E | 26.6 | 36.8 | 23.6 | 27.4 | 15.5 |
| P/BV | 5.9 | 5.1 | 4.2 | 3.7 | 3.0 |

DuPont Analysis

| Y/E 31 Mar (%) | FY20A | FY21A | FY22A | FY23E | FY24E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 138.5 | 74.8 | 75.8 | 77.1 | 78.5 |
| Interest burden (PBT/EBIT) | 46.5 | 86.9 | 100.5 | 74.8 | 79.3 |
| EBIT margin (EBIT/Revenue) | 9.2 | 8.0 | 8.0 | 8.3 | 10.8 |
| Asset turnover (Rev./Avg TA) | 153.6 | 124.1 | 150.7 | 118.3 | 121.4 |
| Leverage (Avg TA/Avg Equity) | 2.6 | 2.3 | 2.1 | 2.5 | 2.6 |
| Adjusted ROAE | 23.6 | 15.0 | 19.4 | 14.2 | 21.3 |

Ratio Analysis

| Y/E 31 Mar | FY20A | FY21A | FY22A | FY23E | FY24E |
|--|-------|--------|-------|--------|-------|
| YoY growth (%) | | | | | |
| Revenue | 0.6 | (18.0) | 34.1 | 9.9 | 24.8 |
| EBITDA | 3.6 | (25.3) | 28.7 | 19.5 | 64.9 |
| Adjusted EPS | (1.3) | (27.6) | 55.5 | (13.7) | 77.1 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 11.0 | 10.0 | 9.6 | 10.5 | 13.8 |
| EBIT margin | 9.2 | 8.0 | 8.0 | 8.3 | 10.8 |
| Adjusted profit margin | 5.9 | 5.2 | 6.1 | 4.8 | 6.8 |
| Adjusted ROAE | 23.6 | 15.0 | 19.4 | 14.2 | 21.3 |
| ROCE | 16.5 | 11.0 | 12.9 | 10.0 | 13.8 |
| Working capital days (days) | | | | | |
| Receivables | 85 | 86 | 44 | 49 | 52 |
| Inventory | 76 | 95 | 79 | 85 | 82 |
| Payables | 67 | 76 | 54 | 60 | 64 |
| Ratios (x) | | | | | |
| Gross asset turnover | 3.6 | 2.6 | 3.2 | 2.1 | 1.8 |
| Current ratio | 1.2 | 1.4 | 1.4 | 1.9 | 1.6 |
| Net interest coverage ratio | 6.3 | 5.6 | 10.4 | 3.3 | 4.7 |
| Adjusted debt/equity | 0.7 | 0.1 | 0.4 | 1.0 | 0.7 |

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

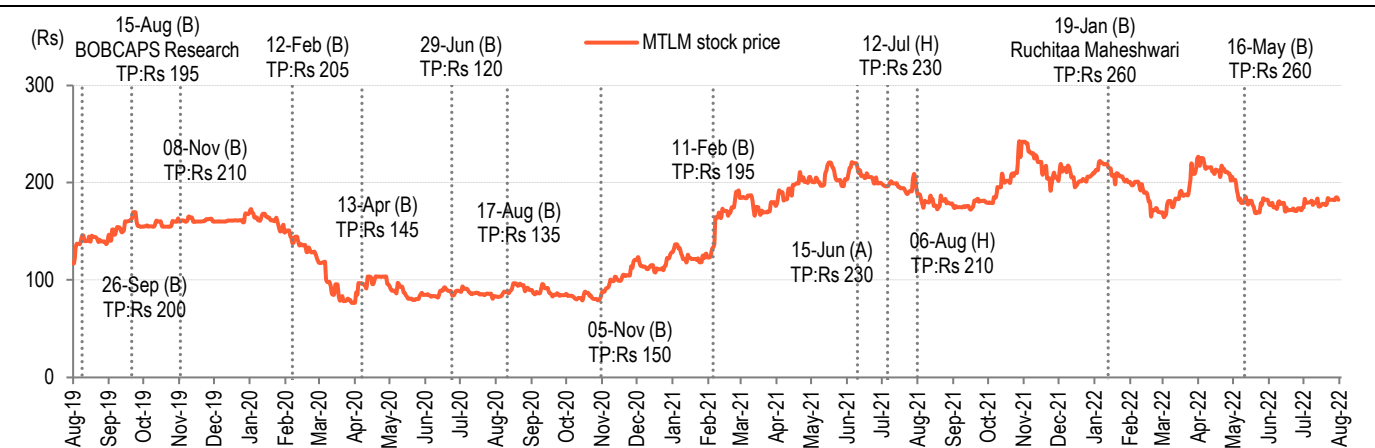
HOLD – Expected return from -6% to +15%

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): GREENPLY INDUSTRIES (MTLM IN)



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

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