

HOLD
 TP: Rs 400 | ▲ 13%

GREENPLY INDUSTRIES | Building Materials

31 July 2024

Strong Q1; upbeat outlook in a challenging environment

- **Strong Q1 due to better-than-expected plywood volume and sharp improvement in MDF segment margin on better product mix**
- **Maintained volume growth guidance for plywood and MDF for FY25; MDF margin guidance increased by 100bps to 16-17% for FY25**
- **Downgrade to HOLD as bright future prospects baked into the current valuation; raise TP by 25% to Rs 400**

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Strong quarter: MTLM beats our estimate for Q1FY25 (Revenue: +6.7%; EBITDA: +20.5%) due to higher plywood volume (+8.6% YoY vs 6.4% estimate) and sharp improvement in MDF margin (+250bps QoQ to 16.7% vs 13.0% estimate). Overall, MTLM Revenue/EBITDA grew by 36%/114% YoY in Q1FY25 on a low base. However, on a 5Y CAGR basis, EBITDA grew at a nominal 7% CAGR in Q1FY25.

Key highlights: Despite weak market conditions, MTLM reported (a) healthy plywood volume growth (+8.6% YoY; 5Y CAGR: +5.5%); and (b) improvement in MDF margin (+250bps QoQ to 16.7% vs margin contraction of 434bps QoQ to 11.1% for GREENP) due to improved realisation (+7.1% QoQ) on higher share of value-added products (11% in Q4FY24 to 17% in Q1FY25).

Guidance broadly intact: MTLM maintained its volume growth guidance for plywood (at 8-10%) and MDF (at 60%) for FY25. Plywood margin is expected to be relatively flat (vs improvement of 50-75bps earlier) and MDF margin to be 16-17% (vs 15-16% earlier) for FY25. The furniture fittings division is expected to start generating revenue from Q2FY25; and expected to clock revenue of ~Rs 2.5bn-3.0bn with 25%+ EBITDA margin in FY27. Management plans to spend Rs 700mn on capex in FY25 for a debottleneck project (which would help increase its plywood capacity by 5% and MDF capacity by 25%). The company also plans to set up a greenfield plywood plant at a cost of Rs 1.2bn-1.25bn over the next 18 months.

Downgrade to HOLD; Raise TP by 25% to Rs 400: We remain quite positive on MTLM's long-term prospects as we see strong earnings growth prospect (EPS to grow at a healthy 47.5% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (from 10.6% in FY24 to 19.4% in FY27E). However, we downgrade the stock from BUY to HOLD as we believe its bright prospects are baked well into current valuations (trades at 29.5x on 1Y forward P/E vs. 5Y average of 22.7x). We increase our TP to Rs 400 (Rs 320 earlier) as we raise our EPS estimates (+5.6%/+11.6% for FY25E/FY26E) based on a strong Q1FY25 result and roll forward our valuation from Mar'26 to Sep'26. Our target P/E remains unchanged at 25x.

Key changes

Target	Rating
▲	▼

Ticker/Price	MTLM IN/Rs 356
Market cap	US\$ 525.3mn
Free float	48%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 374/Rs 149
Promoter/FPI/DII	52%/5%/30%

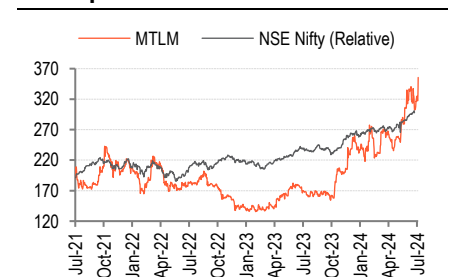
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	21,799	25,033	28,336
EBITDA (Rs mn)	1,868	2,634	3,500
Adj. net profit (Rs mn)	752	1,278	1,918
Adj. EPS (Rs)	6.1	10.3	15.5
Consensus EPS (Rs)	6.1	10.7	15.0
Adj. ROAE (%)	11.1	16.6	20.8
Adj. P/E (x)	58.5	34.4	22.9
EV/EBITDA (x)	21.4	14.5	11.2
Adj. EPS growth (%)	(23.7)	69.9	50.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	5,839	4,304	35.7	5,998	(2.7)
Raw-Material expense	3,461	2,525	37.0	3,686	(6.1)
Gross Profit	2,378	1,778	33.7	2,312	2.8
Employee expense	734	651	12.7	681	7.7
Other expense	1,065	856	24.5	1,054	1.0
EBITDA	579	271	113.5	577	0.4
D&A	150	111	34.7	145	3.0
EBIT	429	160	168.2	431	(0.4)
Interest cost	104	78	33.5	90	15.6
Non-operating expense/(income)	(12)	(14)	(15.3)	(78)	(84.6)
PBT	337	96	250.3	419	(19.5)
Tax	5	38	(86.2)	94	(94.4)
Reported PAT	332	58	468.2	325	2.1
Adjusted PAT	159	58	172.3	284	(43.9)
As % of net revenues			(bps)		(bps)
Gross margin	40.7	41.3	(59)	38.6	218
Employee cost	12.6	15.1	(256)	11.4	121
Other cost	18.2	19.9	(164)	17.6	66
EBITDA margin	9.9	6.3	362	9.6	31
Tax rate	1.6	39.3	(3776)	22.4	(2,081)
APAT margin	2.7	1.4	137	4.7	(200)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

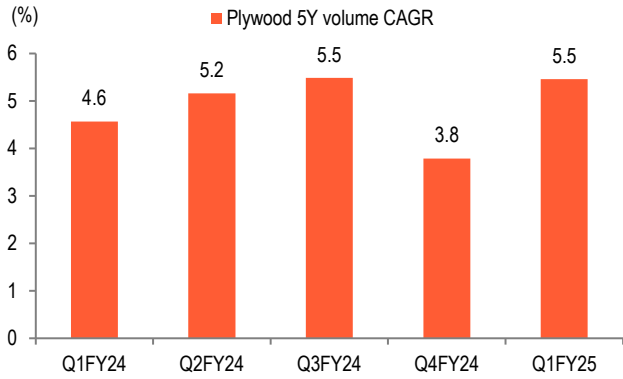
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue (Rs mn)					
Plywood	4,519	4,712	(4.1)	5,075	(11.0)
MDF	1,321	183	622.9	1,322	(0.0)
Volumes					
Plywood (mn sqm)	17.7	16.3	8.6	18.8	(5.9)
MDF (CBM)	42,724	6,062	604.8	45,764	(6.6)
Realisation					
Plywood (Rs/sqm)	245	249	(1.6)	244	0.4
MDF (Rs/CBM)	30,926	30,152	2.6	28,881	7.1
EBITDA (Rs mn)					
Plywood	360	360	-	400	(10.0)
MDF	220	(75)	(393.3)	187	17.6
EBITDA margin (%)					
Plywood	8.0	7.6	33	7.9	9
MDF	16.7	(41.0)	5768	14.1	250

Source: Company, BOBCAPS Research

Earnings call highlights

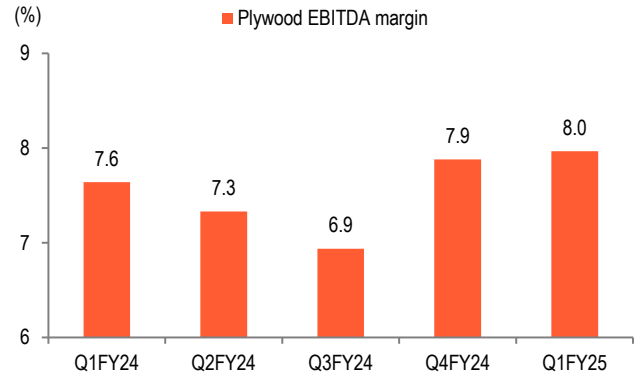
- **Plywood performance:** Segment volume grew by 8.6% YoY (5Y CAGR: +5.5%) in Q1FY25. However, plywood segment EBITDA was flat on a YoY basis in Q1FY25 due to gross margin contraction (-173bps) on account of weak realisation (-1.6% YoY). Realisation improved marginally by 0.4% on QoQ basis in Q1FY25.
- **Plywood outlook:** The company maintained its plywood volume growth guidance of 8-10% YoY for FY25. It expects segment EBITDA margin to be relatively flat on a YoY basis (vs earlier guidance of 50-75bps improvement) in FY25 due to high timber prices. The company hiked prices by ~1.5% in Jul'24 and plans to raise prices further in Q2FY25 to offset the impact of rising timber prices.
- **MDF performance:** Despite challenging market conditions and lower volumes (-6.6% QoQ), MTLM's MDF segment EBITDA grew by 17.6% QoQ in Q1FY25 due to margin expansion (+250bps QoQ to 16.7%) on improved realisation (+7.1% QoQ) which was driven by better mix in plain MDF products (+4.9% QoQ) and higher share of value-added products (from 11% in Q4FY24 to 17% in Q1FY25).
- **MDF outlook:** The company maintained its MDF volume growth guidance of 60% YoY with EBITDA margin of 16-17% (vs earlier guidance of 15-16%) for FY25.
- **Furniture fittings:** The plant was commissioned in Mar'24, but could not commence operations in Q1FY25 due to the delay in getting the rest of its equipment. It estimated total capex cost at Rs 2.5bn (of which Rs 1.5bn was spent in FY24, and Rs 0.5bn will be spent in FY25E and FY26E). This project could generate peak revenue of Rs 7.5bn at full capacity. The company expects to clock revenue of Rs 2.5bn-3.0bn in FY27. Management expects the division to operate at an EBITDA margin of 25%+ once it crosses revenues of Rs 3bn.
- **Capex:** Management plans to spend Rs 700mn on capex in FY25 for the debottleneck project (which would help increase plywood capacity by 5% and MDF capacity by 25%). The company plans to set up a greenfield plywood plant at a cost of Rs 1.2bn-1.25bn over the next 18 months.
- **Net debt declined** from Rs 5.0bn in Mar'24 to Rs 4.3bn in Jun'24. The company expects net debt to peak out at Rs 4.5bn in future.

Fig 3 – MTLM’s plywood volume grew by 8.6% YoY and 5.5% on a 5Y CAGR basis in Q1FY25



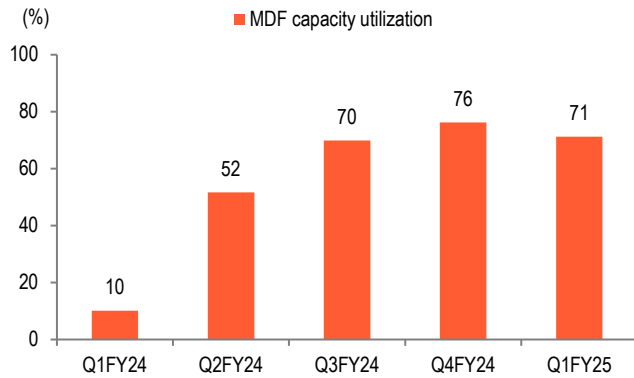
Source: Company, BOBCAPS Research

Fig 4 – Plywood margin improved marginally by 33bps YoY to 8.0% in Q1FY25



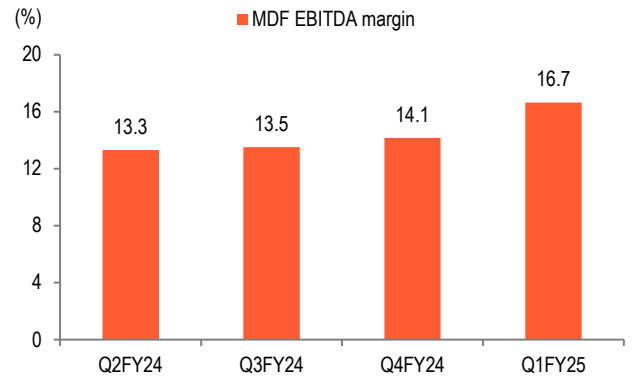
Source: Company, BOBCAPS Research

Fig 5 – Operating rate of new MDF unit was ramped up quickly in a challenging environment



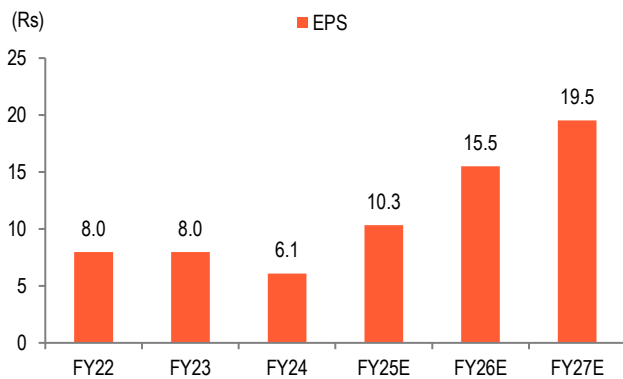
Source: Company, BOBCAPS Research

Fig 6 – MDF’s EBITDA margin improved 250bps QoQ to 16.7% in Q1FY25 on improved product mix



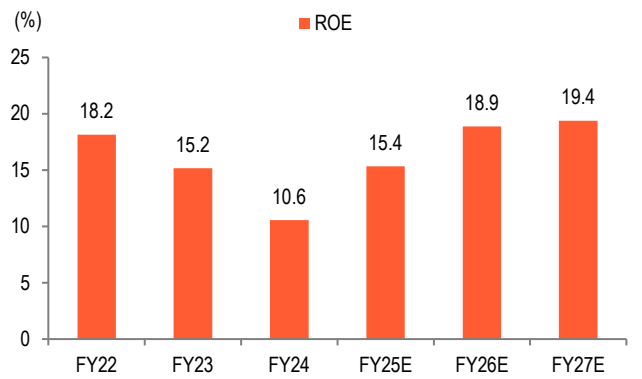
Source: Company, BOBCAPS Research

Fig 7 – MTLM’s EPS is projected to grow at a strong 47.5% CAGR over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 8 – ROE is also expected to improve from 10.6% in FY24 to 19.4% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We remain quite positive on MTLM’s long-term prospects as we see strong earnings growth prospect (EPS to grow at a healthy 47.5% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (from 10.6% in FY24 to 19.4% in FY27E). However, we downgrade the stock from BUY to HOLD as we believe its bright prospects are baked well into current valuations (trades at 29.5x on 1Y forward P/E vs. 5Y average of 22.7x).

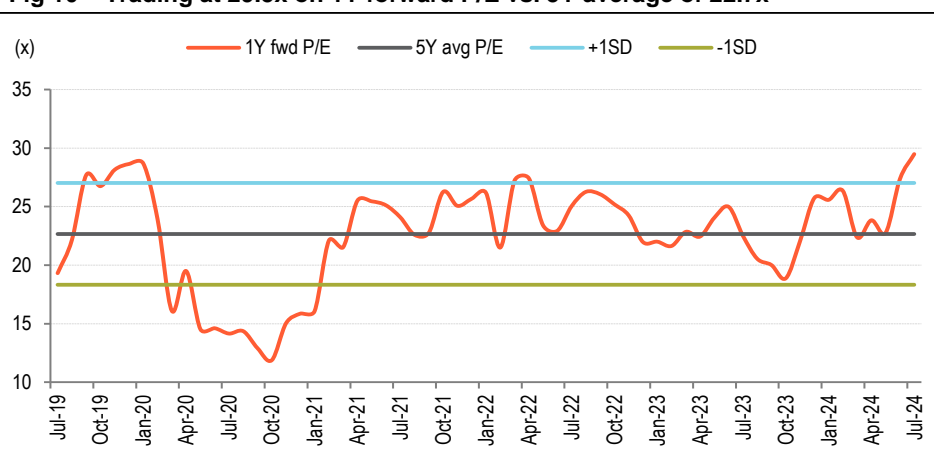
We increase our TP to Rs 400 (Rs 320 earlier) as we raise our EPS estimates (+5.6%/+11.6% for FY25E/FY26E) based on a strong Q1FY25 result and roll forward our valuation from Mar’26 to Sep’26. Our target P/E remains unchanged at 25x. We introduce our FY27 forecasts.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	25.0	28.3	24.5	27.4	2.3	3.3
EBITDA	2.6	3.5	2.5	3.1	4.2	14.6
EBITDA Margin	10.5	12.4	10.3	11.1	19bps	122bps
EPS (Rs)	10.3	15.5	9.8	13.9	5.6	11.6

Source: BOBCAPS Research

Fig 10 – Trading at 29.5x on 1Y forward P/E vs. 5Y average of 22.7x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix						
Plywood	100.0	100.0	84.5	76.9	74.0	74.1
MDF	0.0	0.0	15.5	23.1	26.0	25.9
Sales volume growth						
Plywood	26.0	15.1	8.8	7.6	8.9	8.7
MDF	NA	NA	NA	49.7	26.5	7.0
EBITDA margin						
Plywood	10.0	9.6	7.7	8.7	9.6	9.7
MDF	NA	NA	11.0	16.7	20.2	23.1

Source: Company, BOBCAPS Research

Key risks

- Sharp recovery in plywood demand and MDF prices are the key upside risks.
- Muted plywood demand, weak domestic MDF prices and elevated timber prices are the key downside risks to our call.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	639	650	HOLD
Astral	ASTRA IN	7.0	2,189	2,200	HOLD
Century Plyboards	CPBI IN	1.9	708	700	HOLD
Cera Sanitaryware	CRS IN	1.4	8,933	7,700	HOLD
Finolex Industries	FNXP IN	2.4	318	325	HOLD
Greenlam Industries	GRLM IN	0.9	576	560	HOLD
Greenpanel Industries	GREENP IN	0.5	361	365	HOLD
Greenply Industries	MTLM IN	0.5	356	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.4	448	600	BUY
Kajaria Ceramics	KJC IN	2.8	1,482	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	674	750	HOLD
Somany Ceramics	SOMC IN	0.4	776	900	BUY
Supreme Industries	SI IN	8.1	5,354	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jul 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	16,631	21,799	25,033	28,336	30,840
EBITDA	1,541	1,868	2,634	3,500	4,058
Depreciation	260	545	656	704	752
EBIT	1,282	1,323	1,979	2,796	3,307
Net interest inc./(exp.)	(91)	(433)	(363)	(319)	(272)
Other inc./(exp.)	172	139	138	160	160
Exceptional items	0	0	0	0	0
EBT	1,363	1,028	1,754	2,638	3,194
Income taxes	192	298	318	645	812
Extraordinary items	(96)	(135)	0	0	0
Min. int./Inc. from assoc.	(208)	(13)	(158)	(74)	32
Reported net profit	1,060	852	1,278	1,918	2,414
Adjustments	(81)	(100)	0	0	0
Adjusted net profit	979	752	1,278	1,918	2,414

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,427	3,329	3,823	4,327	4,710
Other current liabilities	934	700	700	700	700
Provisions	73	23	26	29	32
Debt funds	6,620	5,246	4,686	4,046	3,406
Other liabilities	318	246	246	246	246
Equity capital	123	124	124	124	124
Reserves & surplus	6,315	6,970	8,185	10,007	12,300
Shareholders' fund	6,438	7,096	8,310	10,132	12,426
Total liab. and equities	16,810	16,639	17,791	19,481	21,519
Cash and cash eq.	314	224	500	1,176	2,463
Accounts receivables	2,287	2,490	2,860	3,237	3,523
Inventories	2,784	3,478	3,532	3,962	4,297
Other current assets	1,143	724	832	942	1,025
Investments	64	435	635	635	635
Net fixed assets	4,014	8,096	8,240	8,336	8,384
CWIP	5,130	124	124	124	124
Intangible assets	578	555	555	555	555
Deferred tax assets, net	55	131	131	131	131
Other assets	442	384	384	384	384
Total assets	16,810	16,639	17,791	19,481	21,519

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	571	1,454	2,125	2,371	2,959
Capital expenditures	(5,507)	402	(800)	(800)	(800)
Change in investments	194	(371)	(200)	0	0
Other investing cash flows	269	274	138	160	160
Cash flow from investing	(5,044)	305	(862)	(640)	(640)
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	3,702	(1,374)	(560)	(640)	(640)
Interest expenses	(91)	(433)	(363)	(319)	(272)
Dividends paid	0	(28)	(64)	(96)	(121)
Other financing cash flows	142	(14)	0	0	0
Cash flow from financing	3,753	(1,849)	(987)	(1,055)	(1,033)
Chg in cash & cash eq.	(721)	(90)	276	676	1,286
Closing cash & cash eq.	314	224	500	1,176	2,463

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	8.6	6.9	10.3	15.5	19.5
Adjusted EPS	8.0	6.1	10.3	15.5	19.5
Dividend per share	0.0	0.2	0.5	0.8	1.0
Book value per share	52.4	57.4	67.2	81.9	100.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	1.8	1.5	1.4	1.3
EV/EBITDA	27.7	21.4	14.5	11.2	10.0
Adjusted P/E	44.6	58.5	34.4	22.9	18.2
P/BV	6.8	6.2	5.3	4.3	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	71.8	73.2	72.9	72.7	75.6
Interest burden (PBT/EBIT)	106.4	77.7	88.6	94.3	96.6
EBIT margin (EBIT/Revenue)	7.7	6.1	7.9	9.9	10.7
Asset turnover (Rev./Avg TA)	98.9	131.0	140.7	145.5	143.3
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.1	1.9	1.7
Adjusted ROAE	15.2	10.6	15.4	18.9	19.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.4	31.1	14.8	13.2	8.8
EBITDA	0.0	21.2	41.0	32.9	15.9
Adjusted EPS	(0.2)	(23.7)	69.9	50.1	25.9
Profitability & Return ratios (%)					
EBITDA margin	9.3	8.6	10.5	12.4	13.2
EBIT margin	7.7	6.1	7.9	9.9	10.7
Adjusted profit margin	5.9	3.5	5.1	6.8	7.8
Adjusted ROAE	16.6	11.1	16.6	20.8	21.4
ROCE	11.1	11.8	16.3	20.9	21.9
Working capital days (days)					
Receivables	50	42	42	42	42
Inventory	61	58	51	51	51
Payables	53	56	56	56	56
Ratios (x)					
Gross asset turnover	3.1	2.7	2.3	2.4	2.5
Current ratio	1.3	1.3	1.3	1.4	1.6
Net interest coverage ratio	14.1	3.1	5.5	8.8	12.1
Adjusted debt/equity	1.0	0.7	0.5	0.3	0.1

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

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BUY – Expected return >+15%

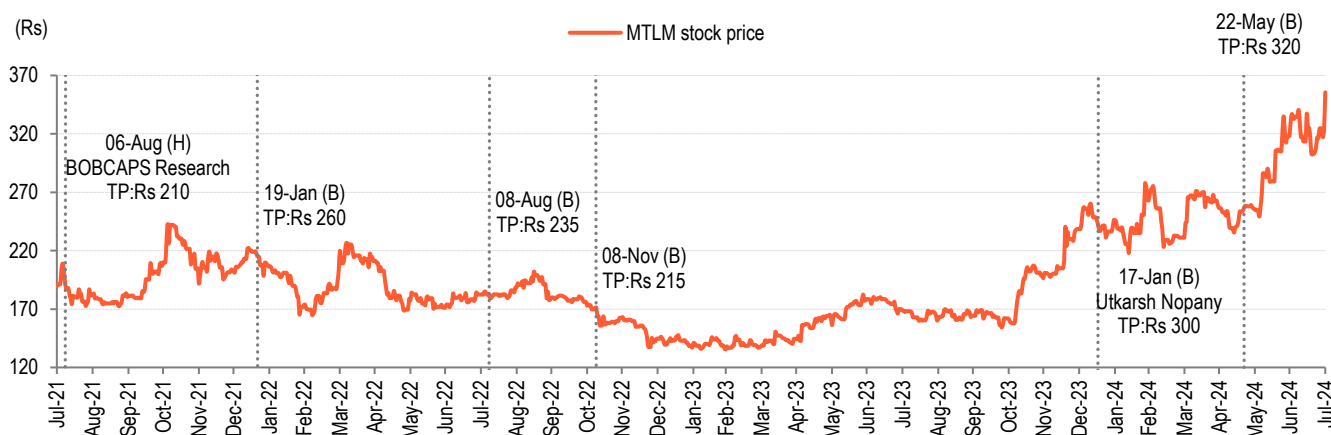
HOLD – Expected return from -6% to +15%

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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