

**BUY**

TP: Rs 150 | ▲ 79%

**GREENPLY INDUSTRIES**

Construction Materials

05 November 2020

## Results in line; balance sheet improves significantly

**Greenply Industries' (GIL) consolidated Q2FY21 revenue slipped 22% YoY, but still bettered estimates. India operations declined 31% YoY (volumes down 27%), whereas Gabon subsidiary revenue surged 64% on better demand from Europe and higher trading revenue. Operating margins contracted 85bps YoY, causing EBITDA/PBT to drop ~28% each. Management expects a flattish H2 with margin improvement. Net debt has halved to Rs 1.3bn. We raise FY21-FY23 EPS 7-12% to bake in lower interest cost and roll to a new Dec'21 TP of Rs 150 (from Rs 135).**

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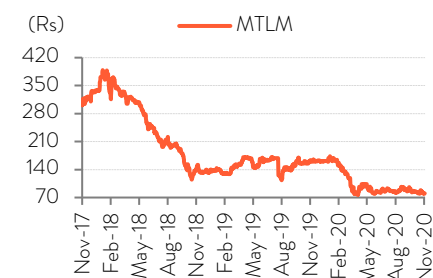
**Gabon revenues robust, India tepid:** GIL's consolidated Q2 revenue declined 22% YoY to Rs 2.95bn as India revenues dropped 31% to Rs 2.4bn due to tepid demand. The Gabon subsidiary (face veneer operations) posted a 64% YoY increase to Rs 571mn due to better traction in Europe and higher trading sales (+120% YoY to Rs 108mn). GIL expects H2FY21 to be flat YoY with India operations reviving due to opening up of all major cities.

Ticker/Price	MTLM IN/Rs 84
Market cap	US\$ 139.0mn
Shares o/s	123mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 179/Rs 73
Promoter/FPI/DII	52%/7%/41%

Source: NSE

**Margins contract:** Consolidated operating margins contracted 85bps YoY to 10.9%, resulting in EBITDA/PBT declines of ~28% YoY each. India plywood margins declined by 110bps YoY to 9.9% due to negative operating leverage, whereas Gabon margins decreased 435bps to 15.4% due higher sales in the low-margin trading business. Management has guided for double-digit margins in FY21.

## STOCK PERFORMANCE



Source: NSE

**Maintain BUY:** GIL's consolidated net debt has come down by Rs 1.27bn to Rs 1.3bn in H1FY21, mainly aided by reduction in debtors. The company is planning to cut debt further in H2. Alongside this significant improvement in balance sheet, management is guiding for improved profitability in H2. We maintain BUY and roll over to a revised Dec'21 TP of Rs 150 (earlier Rs 135), set at an unchanged 18x forward P/E.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,122	14,204	11,693	13,816	15,278
EBITDA (Rs mn)	1,507	1,562	1,156	1,524	1,727
Adj. net profit (Rs mn)	852	841	577	891	1,083
Adj. EPS (Rs)	6.9	6.9	4.7	7.3	8.8
Adj. EPS growth (%)	236.1	(1.3)	(31.4)	54.4	21.5
Adj. ROAE (%)	14.0	23.6	14.3	19.1	19.9
Adj. P/E (x)	12.1	12.2	17.8	11.6	9.5
EV/EBITDA (x)	10.1	9.5	11.0	8.0	6.7

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

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**FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Net Revenue</b>	<b>2,955</b>	<b>3,803</b>	<b>(22.3)</b>	<b>1,327</b>	<b>122.7</b>	<b>4,282</b>	<b>7,297</b>	<b>(41.3)</b>
COGS	1,779	2,193	(18.8)	708	151.5	2,487	4,216	(41.0)
% of sales	60.2	57.7	256bps	53.3	689bps	58.1	57.8	30bps
Employee expenses	351	453	(22.7)	318	10.3	668	838	(20.2)
% of sales	11.9	11.9	(6bps)	23.9	(1,209bps)	15.6	11.5	413bps
Operating Expenses	502	708	(29.2)	330	52.0	832	1,384	(39.9)
% of sales	17.0	18.6	(165bps)	24.9	(789bps)	19.4	19.0	46bps
<b>EBITDA</b>	<b>323</b>	<b>449</b>	<b>(27.9)</b>	<b>(28)</b>	<b>(1,240.6)</b>	<b>295</b>	<b>860</b>	<b>(65.7)</b>
EBITDA Margin	10.9	11.8	(86bps)	(2.1)	1,308bps	6.9	11.8	(490bps)
Depreciation/Amortisation	57	64	(12.1)	51	10.8	108	127	(15.4)
<b>EBIT</b>	<b>267</b>	<b>384</b>	<b>(30.6)</b>	<b>(79)</b>	<b>(435.6)</b>	<b>187</b>	<b>733</b>	<b>(74.4)</b>
EBIT Margin	9.0	10.1	(108bps)	(6.0)	1,502bps	4.4	10.0	(567bps)
Net Interest Expenses	38	54	(29.9)	55	(30.7)	93	104	(11.3)
Other Income	11	1	753.1	2	594.5	13	5	136.9
<b>PBT</b>	<b>240</b>	<b>332</b>	<b>(27.6)</b>	<b>(133)</b>	<b>(281.2)</b>	<b>108</b>	<b>634</b>	<b>(83.0)</b>
Tax Expenses	45	64	(30.5)	(32)	(239.6)	13	149	(91.5)
Net Income before extraordinary items	196	267	(26.9)	(101)	(294.4)	95	484	(80.4)
Share of profit/(loss) from JV	(10)	(3)	217.6	(12)	(17.5)	(22)	(10)	119.6
<b>Reported Net Income</b>	<b>185.5</b>	<b>264.2</b>	<b>(29.8)</b>	<b>(112.7)</b>	<b>(264.6)</b>	<b>72.8</b>	<b>474.3</b>	<b>(84.6)</b>

Source: Company, BOBCAPS Research

**FIG 2 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Net Revenue</b>	<b>2,384</b>	<b>3,455</b>	<b>(31.0)</b>	<b>1,076</b>	<b>121.6</b>	<b>3,460</b>	<b>6,509</b>	<b>(46.9)</b>
COGS	1,433	2,076	(31.0)	630	127.4	2,063	3,881	(46.8)
% of sales	60.1	60.1	3bps	58.6	156bps	59.6	59.6	2bps
Employee expenses	304	412	(26.2)	276	10.4	580	768	(24.4)
% of sales	12.8	11.9	84bps	25.6	(1,285bps)	16.8	11.8	497bps
Operating Expenses	411	586	(30.0)	229	79.6	639	1,154	(44.6)
% of sales	17.2	17.0	25bps	21.2	(402bps)	18.5	17.7	75bps
<b>EBITDA</b>	<b>236</b>	<b>380</b>	<b>(38.0)</b>	<b>(58)</b>	<b>(503.4)</b>	<b>177</b>	<b>707</b>	<b>(74.9)</b>
EBITDA Margin	9.9	11.0	(112bps)	(5.4)	1,532bps	5.1	10.9	(574bps)
Depreciation/Amortisation	40	54	(25.6)	36	11.7	76	107	(28.8)
<b>EBIT</b>	<b>196</b>	<b>326</b>	<b>(40.1)</b>	<b>(94)</b>	<b>(307.1)</b>	<b>101</b>	<b>600</b>	<b>(83.2)</b>
EBIT Margin	8.2	9.4	(124bps)	(8.8)	1,698bps	2.9	9.2	(630bps)
Net Interest Expenses	23	43	(46.1)	41	(42.3)	64	85	(24.6)
Other Income	15	10	45.1	8	78.2	24	21	13.8
<b>PBT</b>	<b>187</b>	<b>293</b>	<b>(36.2)</b>	<b>(127)</b>	<b>(247.9)</b>	<b>61</b>	<b>536</b>	<b>(88.7)</b>
Tax Expenses	45	64	(30.5)	(32)	(239.6)	13	149	(91.5)
<b>Reported Net Income</b>	<b>143</b>	<b>229</b>	<b>(37.8)</b>	<b>(95)</b>	<b>(250.7)</b>	<b>48</b>	<b>386</b>	<b>(87.6)</b>

Source: Company, BOBCAPS Research

**FIG 3 – SUBSIDIARIES (PRIMARILY GABON OPERATIONS)**

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenue	571	348	64.3	251	127.5	823	788	4.4
EBITDA	88	68	28.1	30	191.9	118	153	(23.1)
EBITDA margin	15.4	19.7	(433bps)	12.0	339bps	14.3	19.4	(512bps)

Source: Company, BOBCAPS Research

## Earnings call highlights

- Sales were weak in July but demand revived in the India business during August and September.
- In Q2FY21, GIL's average realisations declined by 5.8% YoY to Rs 211/sqm due to lower sales of premium plywood (69% vs. 72% in Q2FY20).
- The company has been widening its distribution reach across rural markets in FY21. As demand for mass- and low-end plywood is higher in these markets, this too has affected realisations. With major cities now opening up, management believes premium plywood sales should pick up, supporting average realisations.
- Management expects India business to be flat YoY in H2FY21 as the pandemic still prevails.
- Margins are guided to increase in H2 due to various cost initiatives.
- GIL is targeting 400bps operating margin expansion by FY23, backed by cost efficiencies. The company believes some of its recent cost rationalisation measures can also be retained over the long term.
- Management expects FY22 to be a normal year and is hopeful of surpassing FY20 revenues in India operations.
- The company has taken steps to improve working capital and plans to continue with these going ahead.
- Good cash collections during H1 resulted in improved cash flows and a reduction in consolidated debt by Rs 1.27bn. Management aims to be net debt-free by end-FY23.
- Gabon operations saw higher sales in Europe and South East Asia and also had higher trading revenues in the quarter, leading to 64% YoY revenue growth.
- Gabon operations are guided to clock higher revenues YoY in FY21.

## Valuation methodology

GIL is the joint market leader in India's organised plywood industry along with Century Plyboards (CPBI). It has also set up operations in Gabon for face veneer. We believe GIL is poised for growth in the wood panel market, enabled by its wide distribution reach, strong brand focus, diverse product portfolio and rising market share for organised players in the wake of GST and e-way bill implementation.

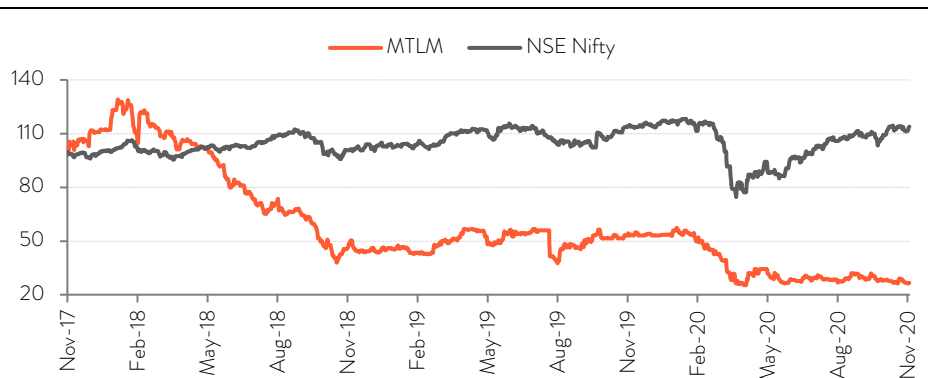
We raise FY21-FY23 EPS estimates by 7-12% mainly due to large debt reduction in Q2FY21. On rollover, we have a revised Dec'21 target price of Rs 150 (vs. Rs 135), set at an unchanged 18x one-year forward P/E. Maintain BUY given attractive valuations (at 11.6x FY22E P/E), strong return ratios and an improving balance sheet.

**FIG 4 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	11,693	13,816	15,278	11,693	13,816	15,278	0.0	0.0	0.0
EBITDA	1,156	1,524	1,727	1,156	1,524	1,727	0.0	0.0	0.0
PAT	577	891	1,083	517	827	1,009	11.7	7.8	7.2

Source: BOBCAPS Research

**FIG 5 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- **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.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>14,122</b>	<b>14,204</b>	<b>11,693</b>	<b>13,816</b>	<b>15,278</b>
EBITDA	1,507	1,562	1,156	1,524	1,727
Depreciation	(224)	(257)	(241)	(283)	(297)
EBIT	1,282	1,304	915	1,241	1,430
Net interest income/(expenses)	(186)	(208)	(156)	(103)	(62)
Other income/(expenses)	71	6	17	27	38
Exceptional items	(55)	(495)	0	0	0
EBT	1,167	1,102	776	1,165	1,405
Income taxes	(315)	(134)	(199)	(274)	(323)
<b>Reported net profit</b>	<b>797</b>	<b>473</b>	<b>577</b>	<b>891</b>	<b>1,083</b>
Adjustments	55	368	0	0	0
<b>Adjusted net profit</b>	<b>852</b>	<b>841</b>	<b>577</b>	<b>891</b>	<b>1,083</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	2,320	2,317	2,066	2,214	2,436
Other current liabilities	634	504	416	454	502
Provisions	64	348	58	69	76
Debt funds	2,500	2,674	1,420	1,200	450
Equity capital	123	123	123	123	123
Reserves & surplus	3,230	3,657	4,170	4,900	5,720
Shareholders' fund	3,352	3,779	4,293	5,022	5,843
<b>Total liabilities and equities</b>	<b>8,870</b>	<b>9,622</b>	<b>8,254</b>	<b>8,959</b>	<b>9,308</b>
Cash and cash eq.	206	103	18	129	59
Accounts receivables	3,050	3,565	2,532	2,960	3,210
Inventories	1,694	1,771	1,557	1,725	1,879
Other current assets	964	646	641	681	753
Investments	222	238	238	238	238
Net fixed assets	2,444	3,076	3,096	3,053	2,996
CWIP	173	52	0	0	0
Intangible assets	75	67	67	67	67
<b>Total assets</b>	<b>8,870</b>	<b>9,622</b>	<b>8,254</b>	<b>8,959</b>	<b>9,308</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	730	819	1,174	1,380
Interest expenses	208	156	103	62
Non-cash adjustments	0	0	0	0
Changes in working capital	(236)	624	(441)	(198)
Other operating cash flows	0	0	0	0
<b>Cash flow from operations</b>	<b>701</b>	<b>1,598</b>	<b>836</b>	<b>1,244</b>
Capital expenditures	(559)	(210)	(240)	(240)
Change in investments	(16)	0	0	0
Other investing cash flows	(64)	0	0	0
<b>Cash flow from investing</b>	<b>(639)</b>	<b>(210)</b>	<b>(240)</b>	<b>(240)</b>
Equities issued/Others	0	0	0	0
Debt raised/repaid	174	(1,254)	(220)	(750)
Interest expenses	(208)	(156)	(103)	(62)
Dividends paid	(59)	(63)	(162)	(262)
Other financing cash flows	(72)	0	0	0
<b>Cash flow from financing</b>	<b>(166)</b>	<b>(1,473)</b>	<b>(485)</b>	<b>(1,074)</b>
<b>Changes in cash and cash eq.</b>	<b>(103)</b>	<b>(85)</b>	<b>111</b>	<b>(70)</b>
<b>Closing cash and cash eq.</b>	<b>103</b>	<b>18</b>	<b>129</b>	<b>59</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.5	3.9	4.7	7.3	8.8
Adjusted EPS	6.9	6.9	4.7	7.3	8.8
Dividend per share	0.4	0.4	0.5	1.1	1.8
Book value per share	27.3	30.8	35.0	41.0	47.6

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.1	1.0	1.1	0.9	0.8
EV/EBITDA	10.1	9.5	11.0	8.0	6.7
Adjusted P/E	12.1	12.2	17.8	11.6	9.5
P/BV	3.1	2.7	2.4	2.0	1.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	76.6	138.5	74.4	76.5	77.0
Interest burden (PBT/EBIT)	86.7	46.5	84.9	93.9	98.3
EBIT margin (EBIT/Revenue)	9.1	9.2	7.8	9.0	9.4
Asset turnover (Revenue/Avg TA)	95.1	153.6	130.8	160.5	167.3
Leverage (Avg TA/Avg Equity)	2.4	2.6	2.2	1.8	1.7
Adjusted ROAE	14.0	23.6	14.3	19.1	19.9

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	54.8	0.6	(17.7)	18.2	10.6
EBITDA	110.7	3.6	(26.0)	31.8	13.3
Adjusted EPS	236.1	(1.3)	(31.4)	54.4	21.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.7	11.0	9.9	11.0	11.3
EBIT margin	9.1	9.2	7.8	9.0	9.4
Adjusted profit margin	6.0	5.9	4.9	6.4	7.1
Adjusted ROAE	14.0	23.6	14.3	19.1	19.9
ROCE	8.4	16.5	11.2	15.9	17.6
<b>Working capital days (days)</b>					
Receivables	76	85	95	73	74
Inventory	86	76	89	74	74
Payables	65	67	76	64	63
<b>Ratios (x)</b>					
Gross asset turnover	2.3	3.6	2.6	2.9	3.1
Current ratio	1.3	1.2	1.4	1.6	1.9
Net interest coverage ratio	6.9	6.3	5.9	12.1	23.0
Adjusted debt/equity	0.7	0.7	0.3	0.2	0.1

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

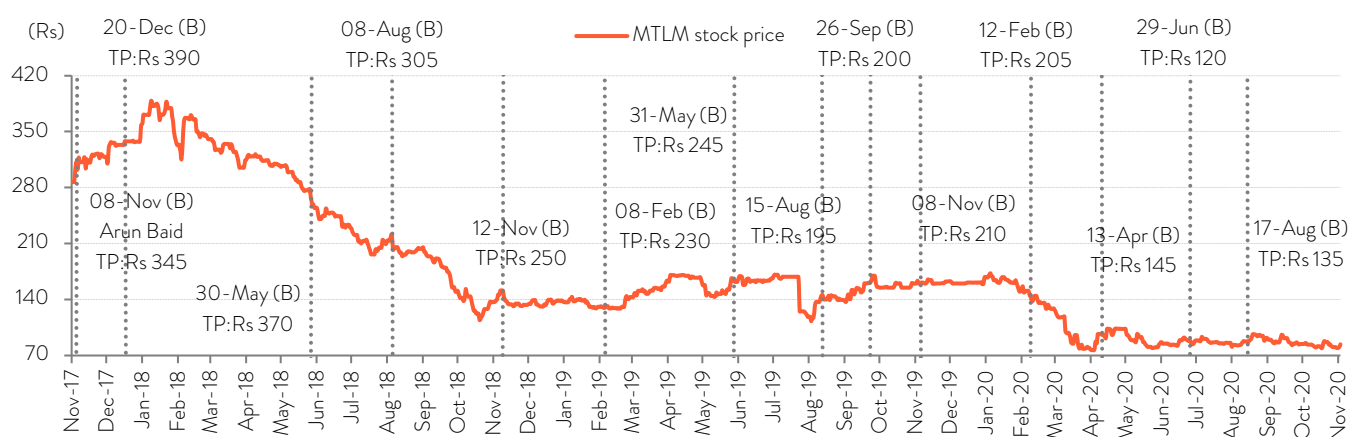
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): GREENPLY INDUSTRIES (MTLM IN)



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

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