

BUY

TP: Rs 215 | ▲ 26%

GREENPLY INDUSTRIES

Construction Materials

08 November 2022

Stable quarter but margins disappoint

- Consolidated Q2 revenue grew 14% YoY on a 7% increase in volumes and 6% higher realisations in India plywood operations
- Operating margin slipped 160bps YoY to 9.9% (10.7% excluding non-cash ESOP cost)
- Weak outlook for Gabon operations leads us to cut FY23/FY24 margins 90bps/210bps and lower our TP to Rs 215 (vs. Rs 235); retain BUY

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Healthy revenue growth: Greenply (GIL) reported consolidated Q2FY23 revenue growth of 14% YoY (+9% QoQ) to Rs 4.9bn. India business grew 15% YoY as plywood volumes increased 7% and price realisation improved 6% to Rs 248/sqm. Gabon subsidiary revenue grew 12% YoY.

Margin subdued: Gross margin improved slightly to ~40% (+30bps YoY) in Q2 as the steady rise in timber cost was partly negated by softer chemical prices, along with a change in product mix. However, higher employee cost (+115bps YoY) saw operating margin fall 160bps YoY to 9.9% (10.7% adjusted for non-cash ESOP cost of Rs 40mn). India business posted a 255bps YoY decline in EBITDA margin to 8.9% (adj. 9.8%).

Volume guidance raised: Management has guided for ~4% volume growth in H2FY23, implying ~17% growth for FY23 (vs. 10-11% guided earlier) to 67mn sqm. Management did not provide EBITDA margin guidance.

Weak Gabon operations to weigh on margins: Management expects a slowdown in Gabon business in H2FY23 (50-60% revenue drop) due to energy cost volatility and soft demand in Europe, leading us to believe that near-term gains in the India plywood business will be nullified. MDF could provide strong support in FY24, but execution is a key monitorable. We cut FY23/FY24 EBITDA margin forecasts by 90bps/210bps to 9.6%/11.7% to incorporate the Gabon outlook and subdued domestic margins.

New capacity: GIL is setting up an MDF plant in Gujarat with a capacity of 800cbm per day for Rs 5.8bn-5.9bn (earlier Rs 5.5bn) by Q4FY23. The company is facing congestion at ports which may delay machine installation. The plant at Hapur, Uttar Pradesh, has annual plywood capacity of 7.5msm and is likely to be operational by Q4.

Retain BUY: The stock is trading at an inexpensive 16x FY24E EPS. We believe that a rerating is dependent on GIL's plywood business outperforming peers after an underwhelming showing in recent quarters. We continue to value the stock at 20x FY24E EPS – in line with its 5Y median of 21x – while lowering our TP to Rs 215 (vs. Rs 235) post estimate changes. BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MTLM IN/Rs 171
Market cap	US\$ 256.4mn
Free float	48%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 255/Rs 161
Promoter/FPI/DII	52%/3%/45%

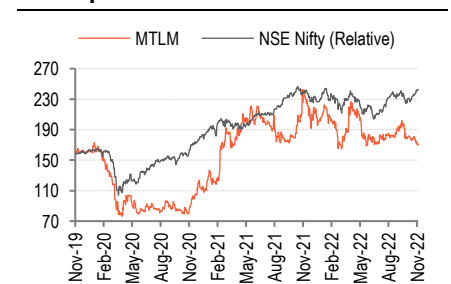
Source: NSE | Price as of 7 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	15,628	17,859	23,211
EBITDA (Rs mn)	1,503	1,719	2,719
Adj. net profit (Rs mn)	947	846	1,313
Adj. EPS (Rs)	7.7	6.9	10.7
Consensus EPS (Rs)	7.7	10.5	12.3
Adj. ROAE (%)	19.4	14.7	19.4
Adj. P/E (x)	22.2	24.8	16.0
EV/EBITDA (x)	15.0	13.0	9.2
Adj. EPS growth (%)	55.5	(10.7)	55.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Margin guidance difficult:** Management hopes to maintain a standalone H2FY23 EBITDA margin of ~9% on the back of softening chemical prices and early signs of decline in timber. A&P spend is guided at 3.5% of sales in H2 (the same as in Q2) – no cuts here. Further, GIL expects a slowdown in Gabon operations in H2, which could weigh on consolidated margins for the company.
- **Demand outlook:** According to GIL, demand sentiments remain positive after Diwali (November onward) supported by stronger real estate activity, especially in semiurban and rural areas. Secondary sales flagged in Oct'22 but primary sales did well. Management expects sustained recovery in the real estate sector, as well as a material shift in demand for its products from the unorganised to formal segment.
- **Cost inflation:** Timber prices increased 10% over Apr-Oct'22. However, chemicals witnessed a decline during the same period, providing much-needed relief and precluding the need for price hikes by GIL in Q2FY23 (phenol down by 14%, melamine by 45-50%, formaldehyde-based resins by 25-30%). Timber prices have currently fallen 3-4%; if this sustains, the company will refrain from any hikes. The company has not taken any price hike in Q2.
- **Realisation:** Realisations are stable at present, but with easing chemical prices and potentially lower timber costs, competitors may drop prices, compelling GIL to follow suit.
- **Product mix:** During Q2, the premium plywood segment grew 2-3% YoY. In terms of value, the premium/value segment contributed 60%/40% during Q2FY23 with a 50%/50% volume mix.
- **Plywood plant:** GIL has started commercial production at Sandila, Lucknow (Uttar Pradesh) in Q2FY23. The plant has a capacity of 13.5msm which is 28% of the company's plywood capacity. Management expects 75% utilisation by Q4FY23 and aims to generate revenue of Rs 1.2bn-1.25bn in FY23 and Rs 2.2bn in FY24. Commencement of the Sandila plant has eliminated the plywood supply crunch faced by the company in Q1FY23 due to dependency on trading partners.
- **Gabon operations:** Gabon revenue grew 12% YoY (+7% QoQ) in Q2FY23, with an operating margin of 16.5% (11.8% in Q2FY22, 11.7% in Q1FY23). Management is cautious on H2FY23 prospects amid energy cost volatility in Europe (60% of Gabon revenue) and challenges arising out of the Russia-Ukraine war. Per management, Q3FY23 will be a loss quarter and H2FY23 could witness a 50-60% drop in sales (which can impact consolidated margins). Many buyers have put contracts on hold and some have cancelled orders, leading to a zero order book at present.
- **Net debt guidance:** Management expects net debt of Rs 6.5bn in FY23 owing to additional debt taken for the MDF plant and to some extent for Gabon and Sandila.
- **Debt:** GIL has sanctioned debt of Rs 4bn, of which GIL has drawn Rs 1.9bn to date. The balance Rs 2.1bn is to be drawn by Mar'23. One-third of the total debt has been secured from international banks.
- **Capex:** FY23 capex is planned at ~Rs 6.3bn (Rs 2.43bn incurred in H1FY23).

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Net Revenue	4,947	4,324	14.4	4,535	9.1	6,932	9,483	(26.9)
COGS	2,990	2,601	15.0	2,780	7.6	4,079	5,771	(29.3)
% of sales	60.4	60.2	29bps	61.3	(86bps)	58.8	60.9	(201bps)
Employee expenses	637	506	25.9	561	13.4	952	1,198	(20.5)
% of sales	12.9	11.7	117bps	12.4	49bps	13.7	12.6	110bps
Other Expenses	831	720	15.5	793	4.9	1,271	1,624	(21.7)
% of sales	16.8	16.6	16bps	17.5	(68bps)	18.3	17.1	121bps
EBITDA	489	498	(1.7)	401	21.9	630	890	(29.2)
EBITDA Margin (%)	9.9	11.5	(162bps)	8.8	104bps	9.1	9.4	(30bps)
Depreciation/Amortisation	89	64	37.9	76	16.5	126	165	(23.8)
EBIT	400	433	(7.6)	325	23.2	504	725	(30.5)
EBIT Margin (%)	8.1	10.0	(193bps)	7.2	93bps	7.3	7.6	(37bps)
Net Interest Expenses	73	35	111.5	51	43.6	68	124	(45.1)
Other Income	14	20	(29.1)	16	(8.5)	41	30	37.2
PBT	341	419	(18.5)	289	17.9	476	630	(24.4)
Tax Expenses	91	100	(8.8)	76	20.1	116	168	(30.8)
Net Income before extraordinary items	250	318	(21.6)	213	17.1	361	463	(22.1)
Extraordinary items	0	0	-	0	-	0	0	-
Share of profit/(loss) from JV	(14)	1	(1033.9)	(6)	137.0	(1)	(19)	(96.9)
Reported Net Income	236	320	(26.2)	207	13.8	360	443	(18.8)

Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Net Revenue	4,318	3,762	14.8	3,946	9.4	5,896	8,264	(28.7)
COGS	2,783	2,311	20.4	2,515	10.7	3,525	5,297	(33.5)
% of sales	64.4	61.4	302bps	63.7	72bps	59.8	64.1	(432bps)
Employee expenses	518	449	15.4	486	6.4	844	1,004	(16.0)
% of sales	12.0	11.9	6bps	12.3	(34bps)	14.3	12.1	216bps
Other Expenses	633	571	10.8	613	3.2	1,004	1,246	(19.4)
% of sales	14.7	15.2	(53bps)	15.5	(89bps)	17.0	15.1	196bps
EBITDA	385	431	(10.8)	332	16.0	523	717	(26.9)
EBITDA Margin (%)	8.9	11.5	(255bps)	8.4	50bps	8.9	8.7	21bps
Depreciation/Amortisation	51	46	9.9	50	1.6	90	101	(10.8)
EBIT	334	385	(13.3)	282	18.5	433	615	(29.6)
EBIT Margin (%)	7.7	10.2	(250bps)	7.1	59bps	7.3	7.4	(10bps)
Net Interest Expenses	16	14	11.6	13	23.2	31	29	8.5
Other Income	29	26	10.9	26	11.4	53	54	(2.9)
PBT	346	397	(12.6)	294	17.7	455	641	(29.0)
Tax Expenses	92	101	(9.3)	76	21.3	117	168	(30.1)
Reported Net Income	255	295	(13.8)	219	16.5	338	473	(28.7)

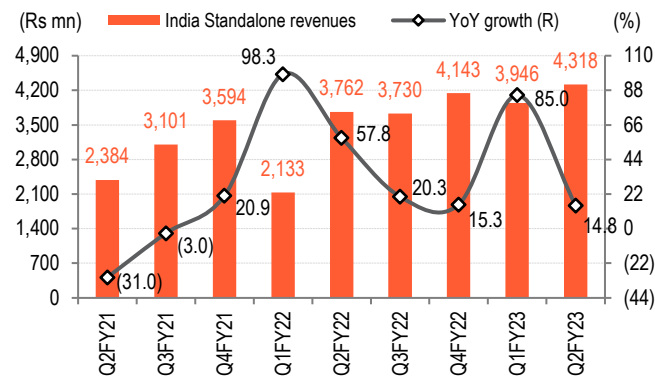
Source: Company, BOBCAPS Research

Fig 3 – Subsidiary results (primarily Gabon)

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Revenue	630	562	12.1	589	6.9	1,036	1,219	(15.0)
EBITDA	104	66	57.4	69	50.5	106	173	(38.7)
EBITDA Margin (%)	16.5	11.8	475bps	11.7	479bps	10.2	14.2	(396bps)

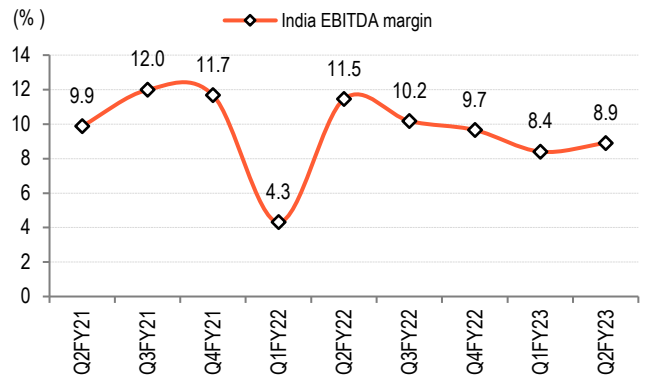
Source: Company, BOBCAPS Research

Fig 4 – India standalone revenue



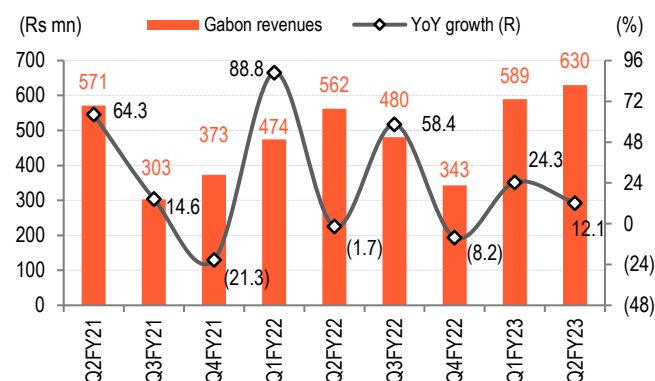
Source: Company, BOBCAPS Research

Fig 5 – India standalone EBITDA margin



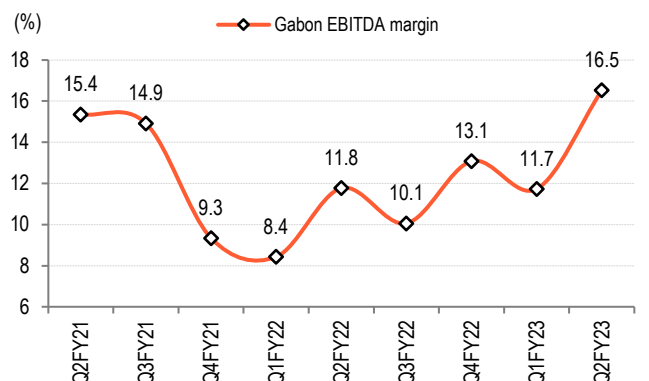
Source: Company, BOBCAPS Research

Fig 6 – Gabon revenue



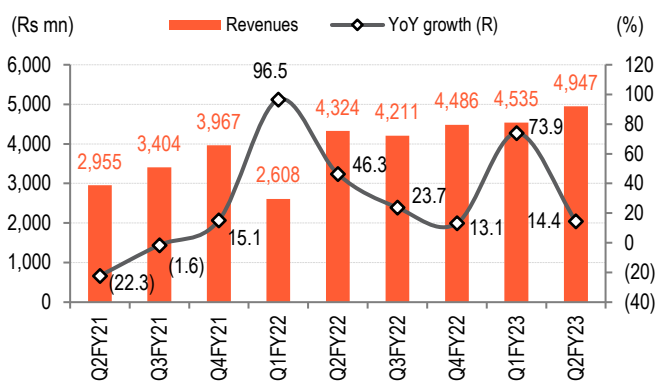
Source: Company, BOBCAPS Research

Fig 7 – Gabon EBITDA margin



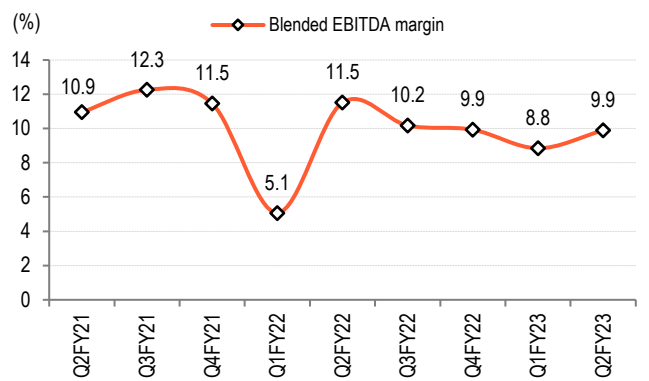
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue



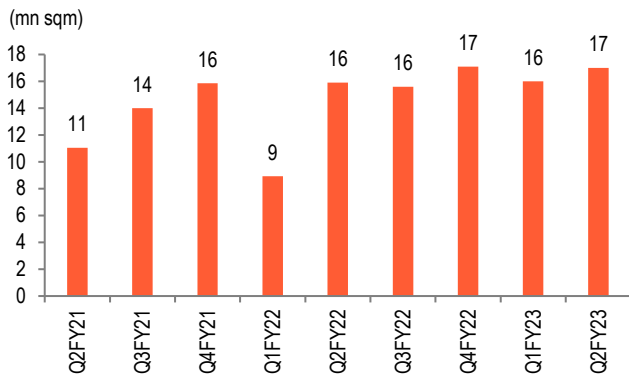
Source: Company, BOBCAPS Research

Fig 9 – Consolidated operating margin



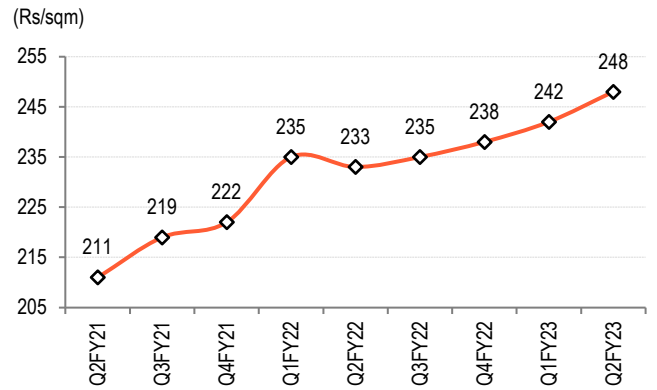
Source: Company, BOBCAPS Research

Fig 10 – India plywood volumes



Source: Company, BOBCAPS Research

Fig 11 – Plywood average price realisation



Source: Company, BOBCAPS Research

Valuation methodology

Management expects a slowdown in Gabon operations in H2FY23 (50-60% revenue drop) due to energy cost volatility and soft demand in Europe, leading us to believe that gains in the India plywood business will be nullified in the near term. MDF could provide strong revenue and EBITDA support in FY24, but execution is a key monitorable. To incorporate the weak Gabon outlook and subdued domestic margins, we cut our FY23/FY24 EBITDA margin forecasts by 90bps/210bps to 9.6%/11.7%, leading to a 9% decline in our EPS estimate for FY24.

The stock is trading at an inexpensive 16x FY24E EPS. We believe that a rerating is dependent on GIL's plywood business outperforming peers after an underwhelming showing in recent quarters. We continue to value GIL at 20x FY24E EPS – in line with its 5Y median of 21x – while lowering our TP to Rs 215 (vs. Rs 235) post estimate changes. Maintain BUY.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	17,859	23,211	17,173	21,436	(4.0)	(8.3)
EBITDA	1,719	2,719	1,795	2,959	(4.3)	(8.1)
EBITDA Margin (%)	9.6	11.7	10.5	13.8	(90bps)	(210bps)
PAT	846	1,313	817	1,447	3.6	(9.3)

Source: BOBCAPS Research

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	1.6	588	735	BUY
Cera Sanitaryware	CRS IN	0.9	5,482	5,225	HOLD
Greenpanel Industries	GREENP IN	0.6	381	595	BUY
Greenply Industries	MTLM IN	0.3	171	215	BUY
Kajaria Ceramics	KJC IN	2.1	1,061	1,325	BUY
Pidilite Industries	PIDI IN	16.3	2,629	1,870	SELL
Somany Ceramics	SOMC IN	0.3	542	830	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Nov 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	14,204	11,653	15,628	17,859	23,211
EBITDA	1,562	1,167	1,503	1,719	2,719
Depreciation	(257)	(231)	(258)	(377)	(554)
EBIT	1,304	936	1,244	1,341	2,164
Net interest inc./(exp.)	(208)	(166)	(119)	(331)	(543)
Other inc./(exp.)	6	44	125	97	109
Exceptional items	(495)	0	0	0	0
EBT	1,102	814	1,250	1,107	1,730
Income taxes	(134)	(205)	(303)	(260)	(417)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	473	609	947	846	1,313
Adjustments	368	0	0	0	0
Adjusted net profit	841	609	947	846	1,313

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	2,317	2,043	2,164	2,995	3,972
Other current liabilities	389	500	792	680	918
Provisions	348	212	225	321	418
Debt funds	2,674	1,917	2,919	7,400	6,400
Other liabilities	115	112	107	103	99
Equity capital	123	123	123	123	123
Reserves & surplus	3,657	4,244	5,259	6,027	7,259
Shareholders' fund	3,779	4,367	5,382	6,150	7,382
Total liab. and equities	9,622	9,151	11,588	17,649	19,189
Cash and cash eq.	103	1,280	726	1,311	1,199
Accounts receivables	3,565	1,939	1,864	2,824	3,637
Inventories	1,771	1,792	2,256	2,504	3,179
Other current assets	646	704	1,789	930	1,208
Investments	238	225	258	258	258
Net fixed assets	3,076	3,070	3,510	9,169	9,620
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	17,649	19,189

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	701	2,251	271	2,019	1,952
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	(1,000)
Interest expenses	(208)	(166)	(119)	(331)	(543)
Dividends paid	(59)	(49)	58	(78)	(81)
Other financing cash flows	(72)	21	0	0	0
Cash flow from financing	(166)	(951)	941	4,072	(1,624)
Chg in cash & cash eq.	(103)	1,177	(563)	585	(112)
Closing cash & cash eq.	103	1,280	717	1,311	1,199

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	3.9	5.0	7.7	6.9	10.7
Adjusted EPS	6.9	5.0	7.7	6.9	10.7
Dividend per share	0.4	0.4	0.4	0.5	0.5
Book value per share	30.8	35.6	43.9	50.2	60.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	1.8	2.0	1.4	1.3	1.1
EV/EBITDA	16.3	20.1	15.0	13.0	9.2
Adjusted P/E	25.0	34.5	22.2	24.8	16.0
P/BV	5.6	4.8	3.9	3.4	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	138.5	74.8	75.8	76.5	75.9
Interest burden (PBT/EBIT)	46.5	86.9	100.5	82.5	79.9
EBIT margin (EBIT/Revenue)	9.2	8.0	8.0	7.5	9.3
Asset turnover (Rev./Avg TA)	153.6	124.1	150.7	122.2	126.0
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.1	2.5	2.7
Adjusted ROAE	23.6	15.0	19.4	14.7	19.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	0.6	(18.0)	34.1	14.3	30.0
EBITDA	3.6	(25.3)	28.7	14.4	58.2
Adjusted EPS	(1.3)	(27.6)	55.5	(10.7)	55.2
Profitability & Return ratios (%)					
EBITDA margin	11.0	10.0	9.6	9.6	11.7
EBIT margin	9.2	8.0	8.0	7.5	9.3
Adjusted profit margin	5.9	5.2	6.1	4.7	5.7
Adjusted ROAE	23.6	15.0	19.4	14.7	19.4
ROCE	16.5	11.0	12.9	9.4	12.0

Working capital days (days)

	FY20A	FY21A	FY22A	FY23E	FY24E
Receivables	85	86	44	48	51
Inventory	76	95	79	82	79
Payables	67	76	54	58	62

Ratios (x)

	FY20A	FY21A	FY22A	FY23E	FY24E
Gross asset turnover	3.6	2.6	3.2	2.2	2.0
Current ratio	1.2	1.4	1.4	1.8	1.7
Net interest coverage ratio	6.3	5.6	10.4	4.0	4.0
Adjusted debt/equity	0.7	0.1	0.4	1.0	0.7

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

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

BUY – Expected return >+15%

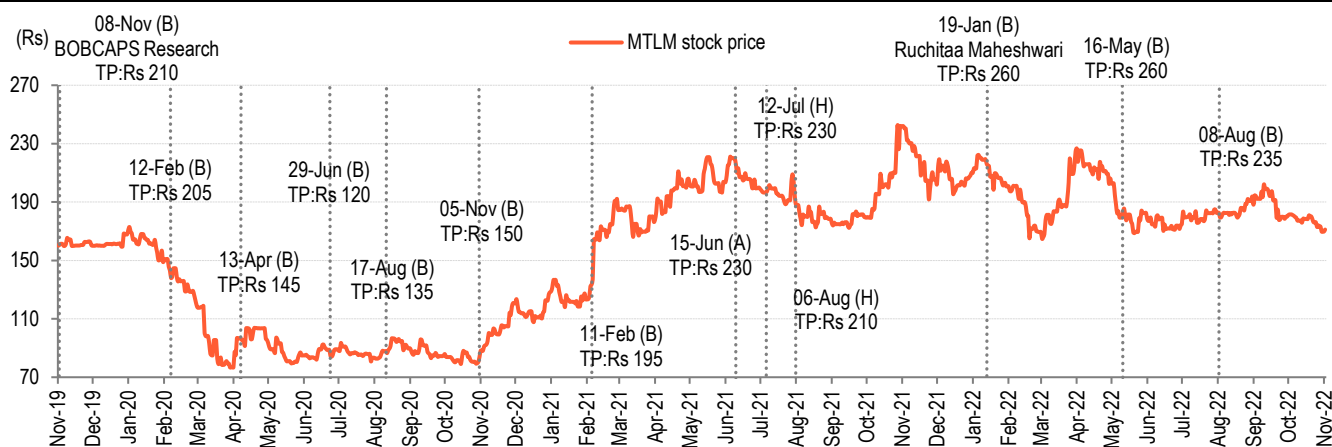
HOLD – Expected return from -6% to +15%

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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