

HOLD

TP: Rs 380 | ▲ 7%

GREENPLY INDUSTRIES | Building Materials

29 October 2024

Weak Q2 result on MDF margin pressure

- Topline broadly in line; but sharp miss on EBITDA due to steep sequential contraction in MDF margin (-487bps QoQ to 11.8%)
- Maintained volume guidance for plywood (+8-10%) and MDF (+50%) for FY25; MDF margin guided to improve to 16%/18% in FY25/FY26
- Maintain HOLD with revised TP of Rs 380 as bright future prospects are already baked into the current valuation

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Weak quarter: MTLM missed our estimate for Q2FY25 (revenue/EBITDA/APAT: -2%/-15%/-55%) mainly due to sharp sequential contraction in MDF segment margin (-487bps QoQ to 11.8%). Overall, MTLM's revenue/EBITDA grew by 13%/19% YoY in Q2FY25 over a low base, but APAT was down 23% YoY in Q2FY25 due to the negative contribution from its new furniture fittings JV business. On a 5Y CAGR basis, MTLM EBITDA grew at a nominal 5% CAGR in Q2FY25.

Key highlights: Plywood EBITDA grew by 17.9% YoY in Q2FY25 driven by higher volumes (+5.8% YoY) and improved margin (+153bps YoY to 8.3% on a low base). MDF EBITDA grew by 24.9% YoY in Q2FY25 as higher volumes (+30.7%) more than offset the impact of lower margin (-154bps YoY to 11.8%).

Guidance: MTLM maintained its volume growth guidance for plywood (at 8-10%) and MDF (at 50%) YoY for FY25. The company expects plywood margin to improve to 10% range over the medium term and MDF margin to improve to 16%/18% in FY25/FY26. The furniture fittings division (Phase I) is expected to become fully operational from Nov'24 and Phase II is expected to be completed by Dec'25. The furniture fittings division revenue is expected to be Rs 4bn-5bn in the next three years in the best-case scenario.

Maintain HOLD; TP cut by 5% to Rs 380: We remain positive on MTLM's long-term prospects as we see strong earnings growth prospect (EPS to grow at a healthy 44% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (from 10.7% in FY24 to 18.9% in FY27E). However, we maintain HOLD as we believe its bright prospects are baked well into current valuations (trades at 29.0x on 1Y forward P/E vs. 5Y average of 23.0x). We have cut our TP to Rs 380 (Rs 400 earlier) due to the downward revision of our EPS estimates (-6.1%/-9.1%/-5.5% for FY25E/FY26E/FY27E) based on a weak Q2FY25 result. Our target P/E remains unchanged at 25x on Sep'26 (Jun'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MTLM IN/Rs 355
Market cap	US\$ 522.9mn
Free float	48%
3M ADV	US\$ 2.3mn
52wk high/low	Rs 412/Rs 157
Promoter/FPI/DII	52%/6%/31%

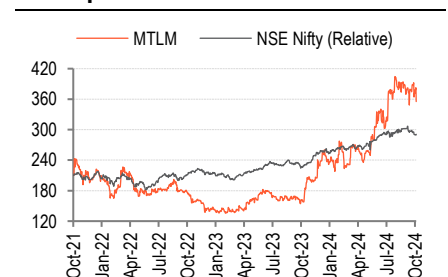
Source: NSE | Price as of 29 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	21,799	25,321	29,777
EBITDA (Rs mn)	1,875	2,519	3,323
Adj. net profit (Rs mn)	757	1,199	1,744
Adj. EPS (Rs)	6.1	9.7	14.1
Consensus EPS (Rs)	6.1	10.9	15.1
Adj. ROAE (%)	11.2	15.6	19.2
Adj. P/E (x)	58.0	36.6	25.2
EV/EBITDA (x)	21.3	15.2	11.8
Adj. EPS growth (%)	(26.7)	58.4	45.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance: Consolidated

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Total operating income	6,405	5,677	12.8	5,839	9.7	12,244	9,981	22.7	6,530	(1.92)
Raw-Material expense	3,904	3,450	13.2	3,461	12.8	7,364	5,975	23.3		
Gross Profit	2,501	2,227	12.3	2,378	5.2	4,879	4,005	21.8		
Employee expense	825	725	13.9	734	12.5	1,559	1,376	13.3		
Other expense	1,100	1,019	7.9	1,065	3.2	2,165	1,875	15.4		
EBITDA	576	483	19.2	579	(0.5)	1,155	755	53.1	678	(15.0)
D&A	151	139	8.3	150	0.6	301	250	20.1		
EBIT	425	344	23.6	429	(0.9)	855	504	69.5		
Interest cost	145	118	22.3	104	38.9	249	196	26.8		
Non-operating expense/(income)	24	(31)	(177.6)	(12)	(303.4)	12	(46)	(127.2)		
PBT	256	257	(0.4)	337	(24.0)	594	354	67.9		
Tax	81	70	15.9	5	1,442.5	86	108	(20.0)		
Reported PAT	176	188	(6.4)	332	(47.1)	508	246	106.2		
Adjusted PAT	145	188	(22.6)	159	(8.6)	304	246	23.7	319	(54.5)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	39.1	39.2	(18)	40.7	(168)	39.9	40.1	(28)		
Employee cost	12.9	12.8	12	12.6	32	12.7	13.8	(105)		
Other cost	17.2	18.0	(79)	18.2	(107)	17.7	18.8	(111)		
EBITDA margin	9.0	8.5	48	9.9	(92)	9.4	7.6	188		
Tax rate	31.5	27.1	443	1.6	2995	14.5	30.4	(1591)		
APAT margin	2.3	3.3	(104)	2.7	(46)	2.5	2.5	2		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

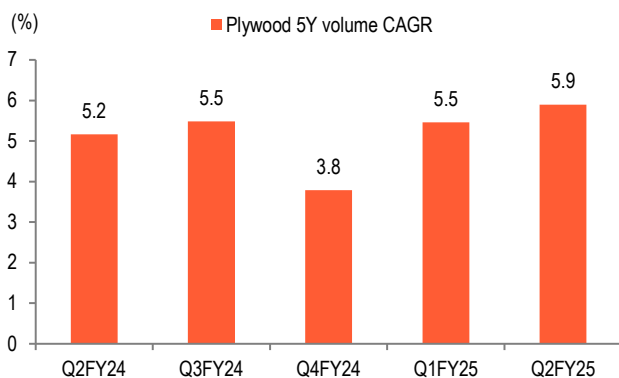
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Revenue (Rs mn)								
Plywood	5,141	5,343	(3.8)	4,519	13.8	9,660	10,054	(3.9)
MDF	1,265	896	41.3	1,321	(4.3)	2,586	1,078	139.8
Volumes								
Plywood (mn sqm)	20.2	19.1	5.8	17.7	14.1	38	35	7.1
MDF (CBM)	40,553	31,019	30.7	42,724	(5.1)	83,277	37,081	124.6
Realization								
Plywood (Rs/sqm)	251	245	2.4	245	2.4	255	284	(10.3)
MDF (Rs/CBM)	31,197	28,872	8.0	30,926	0.9	31,058	29,082	6.8
EBITDA (Rs mn)								
Plywood	429	364	17.9	355	20.8	784	740	5.9
MDF	149	119	24.9	220	(32.3)	369	44	733.7
EBITDA margin (%)								
Plywood	8.3	6.8	153bps	7.9	49bps	8.1	7.4	76bps
MDF	11.8	13.3	(154bps)	16.7	(487bps)	14.3	4.1	1016bps

Source: Company, BOBCAPS Research

Earnings call highlights

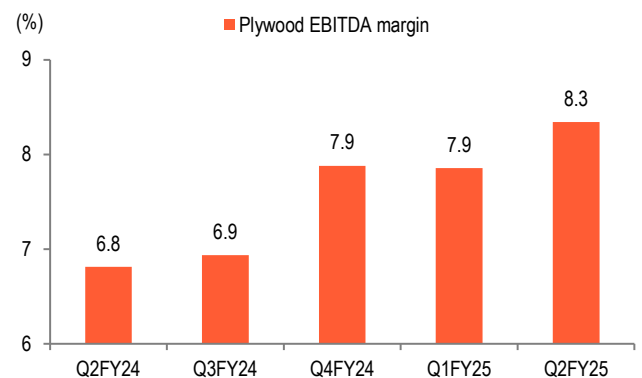
- Plywood:** Segment volume grew by 5.8% YoY (5Y CAGR: +5.9%) in Q2FY25 driven by economy range. Plywood segment margin improved by 153bps YoY to 8.3% in Q2FY25 on account of improved realisation (+2.4% YoY) and low base effect. The company hiked prices by 2.0-2.5% in Aug-Sep'24. The company maintained its guidance of growing plywood volume at 8-10% YoY for FY25.
- MDF:** Segment volume grew by 30.7% YoY in Q2FY25, but segment EBITDA margin fell sharply by 154bps YoY/487bps QoQ to 11.8% in Q2FY25 due to the impact of the seven-day plant shutdown in Sep'24 (for maintenance), sharp rise in power costs, and higher raw material prices. The company has hiked prices by 1.0-1.5% from Oct'24 onwards. Going ahead, the company maintains its guidance of growing MDF volume at +50% YoY in FY25. EBITDA margin is expected to be 16% for FY25 and 18% for FY26.
- Timber prices:** Timber prices went up for plywood by 13-14% YoY/8% QoQ and for MDF by 6% YoY/3% QoQ in Q2FY25. Timber prices are expected to remain at an elevated level and are likely to ease from CY26.
- Furniture fittings:** The segment reported operating loss of Rs 35mn on revenue of Rs 10mn in Q2FY25 due to the initial start-up cost. This segment is likely to see full phase 1 product range manufacturing from Nov'24 as all the equipment has been successfully installed and trial production has been completed. MTLM expects to clock a revenue of Rs 4bn-5bn in the next three years in the best case scenario.
- Capex:** The company spent Rs 0.25bn in H1FY25 and plans to incur capex of Rs 0.45bn-50bn in H2FY25. The glue plant is expected to be ready for operations in Q3FY25 and HDF flooring segment by mid Q4FY25.
- Net debt:** It has gone down from Rs 4.3bn in Jun'24 to Rs 3.4bn in Sep'24 due to the one-time procurement of imported raw material through LC of Rs 0.7bn (which is expected to mature by Mar'25). The company expects net debt to be at Rs 4.5bn by the end of FY25.

Fig 3 – MTLM's plywood volume grew by 5.8% YoY (5Y CAGR: +5.9%) in Q2FY25



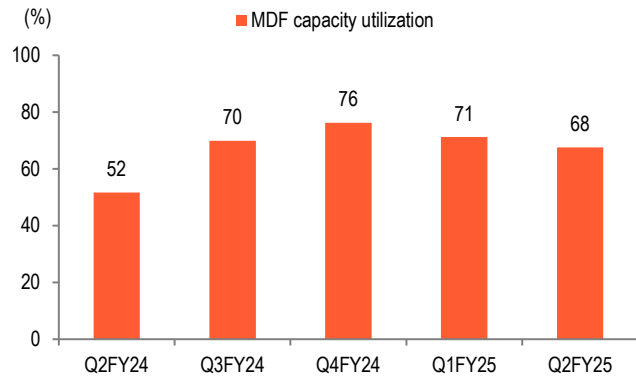
Source: Company, BOBCAPS Research

Fig 4 – Plywood margin improved by 150bps YoY to 8.3% in Q2FY25 over a low base



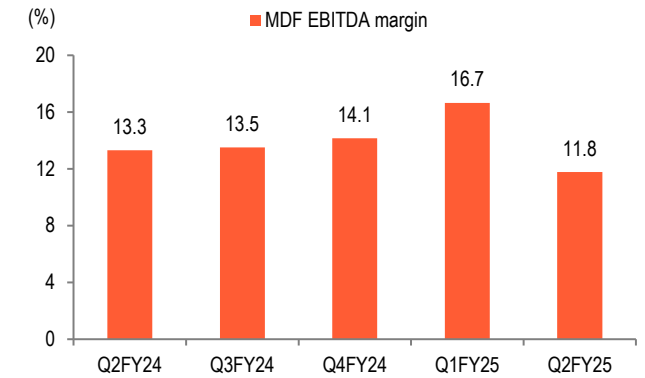
Source: Company, BOBCAPS Research

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



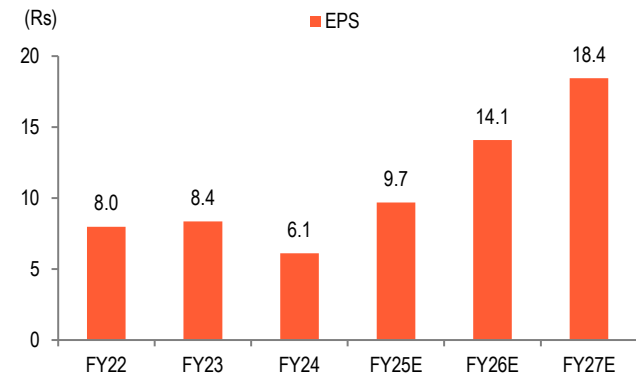
Source: Company, BOBCAPS Research

Fig 6 – MDF’s EBITDA margin fell sharply by 487bps QoQ to 11.8% in Q2FY25



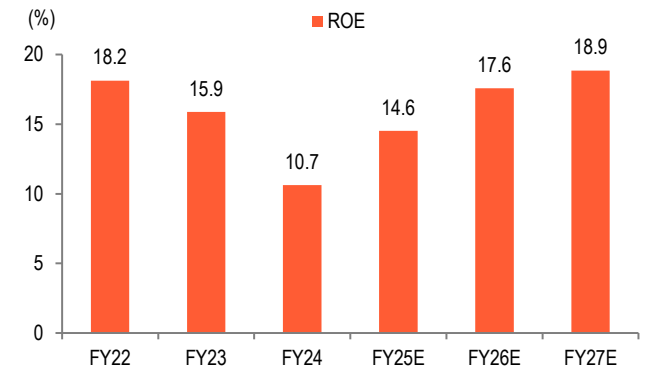
Source: Company, BOBCAPS Research

Fig 7 – MTLM’s EPS is projected to grow at a strong 44.4% CAGR over FY24-FY27E over a low base



Source: Company, BOBCAPS Research

Fig 8 – ROE is also expected to improve from 10.7% in FY24 to 18.9% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We remain positive on MTLM's long-term prospects as we see strong earnings growth prospect (EPS to grow at a healthy 44% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (from 10.7% in FY24 to 18.9% in FY27E). However, we maintain HOLD as we believe its bright prospects are baked well into current valuations (trades at 29.0x on 1Y forward P/E vs. 5Y average of 23.0x).

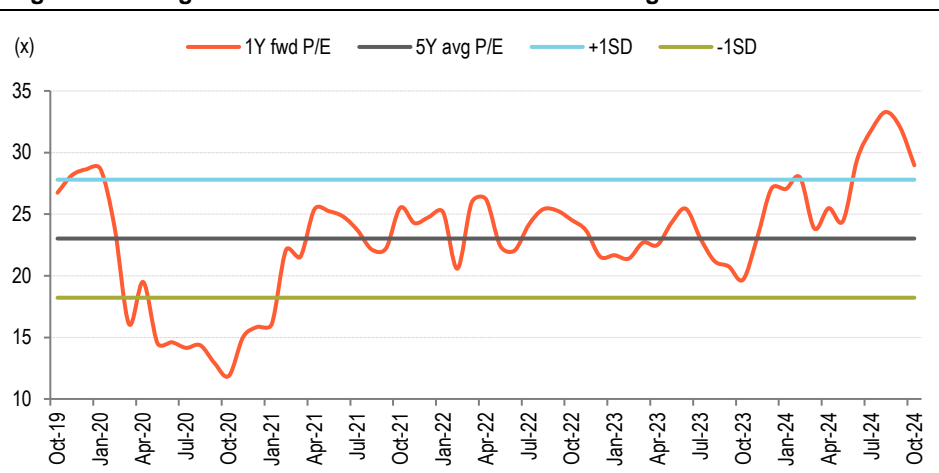
We have cut our TP to Rs 380 (Rs 400 earlier) due to the downward revision of our EPS estimates (-6.1%/-9.1%/-5.5% for FY25E/FY26E/FY27E) based on a weak Q2FY25 result. Our target P/E remains unchanged at 25x on Sep'26 (Jun'26 earlier).

Fig 9 – Revised Estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	25.3	29.8	32.6	25.0	28.3	30.8	1.2	5.7	5.7
EBITDA	2.5	3.3	3.9	2.6	3.5	4.1	(4.4)	(5.1)	3.0
EBITDA Margin	9.9	11.2	12.1	10.5	12.4	13.2	(58bps)	(119bps)	(109bps)
Adjusted PAT	1.2	1.7	2.3	1.3	1.9	2.4	(6.1)	(9.1)	(5.5)
EPS (Rs)	9.7	14.1	18.4	10.3	15.5	19.5	(6.1)	(9.1)	(5.5)

Source: BOBCAPS Research

Fig 10 – Trading at 29.0x on 1Y forward P/E vs. 5Y average of 23.0x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

(%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix						
Plywood	100.0	100.0	84.7	77.9	73.9	75.8
MDF	0.0	0.0	15.3	22.1	26.1	24.2
Sales volume growth						
Plywood	26.0	15.1	8.6	7.3	9.7	10.0
MDF	NA	NA	NA	43.7	31.8	0.6
EBITDA margin						
Plywood	10.0	8.7	7.7	9.1	10.7	10.8
MDF	NA	NA	11.0	13.0	12.5	16.0

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	0.2	510	550	HOLD
Astral	ASTRA IN	5.6	1,760	2,200	HOLD
Century Plyboards	CPBI IN	2.2	841	725	HOLD
Finolex Industries	FNXP IN	2.1	289	300	HOLD
Greenlam Industries	GRLM IN	0.8	511	560	HOLD
Greenpanel Industries	GREENP IN	0.5	375	365	HOLD
Greenply Industries	MTLM IN	0.5	355	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	301	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,209	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.6	482	750	BUY
Somany Ceramics	SOMC IN	0.3	653	900	BUY
Supreme Industries	SI IN	6.6	4,336	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	16,631	21,799	25,321	29,777	32,600
EBITDA	1,598	1,875	2,519	3,323	3,935
Depreciation	260	545	631	679	727
EBIT	1,338	1,329	1,888	2,644	3,209
Net interest inc./(exp.)	(91)	(433)	(363)	(318)	(272)
Other inc./(exp.)	172	139	78	79	79
Exceptional items	56	7	0	0	0
EBT	1,363	1,028	1,603	2,405	3,016
Income taxes	192	298	272	587	767
Extraordinary items	(96)	(135)	0	0	0
Min. int./Inc. from assoc.	(208)	(13)	(132)	(74)	32
Reported net profit	1,060	852	1,199	1,744	2,281
Adjustments	(34)	(95)	0	0	0
Adjusted net profit	1,026	757	1,199	1,744	2,281

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,427	3,329	3,876	4,559	4,991
Other current liabilities	934	700	700	700	700
Provisions	73	23	26	31	34
Debt funds	6,620	5,246	4,679	4,039	3,399
Other liabilities	318	246	246	246	246
Equity capital	123	124	124	124	124
Reserves & surplus	6,315	6,970	8,110	9,767	11,933
Shareholders' fund	6,438	7,096	8,236	9,892	12,059
Total liab. and equities	16,810	16,639	17,763	19,467	21,429
Cash and cash eq.	314	224	286	511	1,592
Accounts receivables	2,287	2,490	2,893	3,402	3,724
Inventories	2,784	3,478	3,649	4,348	4,739
Other current assets	1,143	724	843	992	1,086
Investments	64	435	635	635	635
Net fixed assets	4,014	8,096	8,265	8,386	8,460
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	17,763	19,467	21,429

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	627	1,461	1,973	1,992	2,827
Capital expenditures	(5,507)	402	(800)	(800)	(800)
Change in investments	194	(371)	(200)	0	0
Other investing cash flows	212	267	78	79	79
Cash flow from investing	(5,100)	298	(922)	(721)	(721)
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	3,702	(1,374)	(567)	(640)	(640)
Interest expenses	(91)	(433)	(363)	(318)	(272)
Dividends paid	(61)	(62)	(60)	(87)	(114)
Other financing cash flows	203	19	0	0	0
Cash flow from financing	3,753	(1,849)	(989)	(1,046)	(1,026)
Chg in cash & cash eq.	(721)	(90)	62	226	1,081
Closing cash & cash eq.	314	224	286	511	1,592

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	8.6	6.9	9.7	14.1	18.4
Adjusted EPS	8.4	6.1	9.7	14.1	18.4
Dividend per share	0.5	0.5	0.5	0.7	0.9
Book value per share	52.4	57.4	66.6	80.0	97.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	1.8	1.5	1.3	1.2
EV/EBITDA	26.7	21.3	15.2	11.8	10.2
Adjusted P/E	42.5	58.0	36.6	25.2	19.3
P/BV	6.8	6.2	5.3	4.4	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.3	73.7	74.8	72.5	75.6
Interest burden (PBT/EBIT)	101.9	77.3	84.9	91.0	94.0
EBIT margin (EBIT/Revenue)	8.0	6.1	7.5	8.9	9.8
Asset turnover (Rev./Avg TA)	98.9	131.0	142.5	153.0	152.1
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.2	2.0	1.8
Adjusted ROAE	15.9	10.7	14.6	17.6	18.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.4	31.1	16.2	17.6	9.5
EBITDA	3.6	17.3	34.4	31.9	18.4
Adjusted EPS	4.7	(26.7)	58.4	45.4	30.8
Profitability & Return ratios (%)					
EBITDA margin	9.6	8.6	9.9	11.2	12.1
EBIT margin	8.0	6.1	7.5	8.9	9.8
Adjusted profit margin	6.2	3.5	4.7	5.9	7.0
Adjusted ROAE	17.4	11.2	15.6	19.2	20.8
ROCE	11.6	11.9	15.2	19.5	21.3
Working capital days (days)					
Receivables	50	42	42	42	42
Inventory	61	58	53	53	53
Payables	53	56	56	56	56
Ratios (x)					
Gross asset turnover	3.1	2.7	2.4	2.6	2.7
Current ratio	1.3	1.3	1.3	1.4	1.6
Net interest coverage ratio	14.7	3.1	5.2	8.3	11.8
Adjusted debt/equity	1.0	0.7	0.5	0.4	0.1

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%

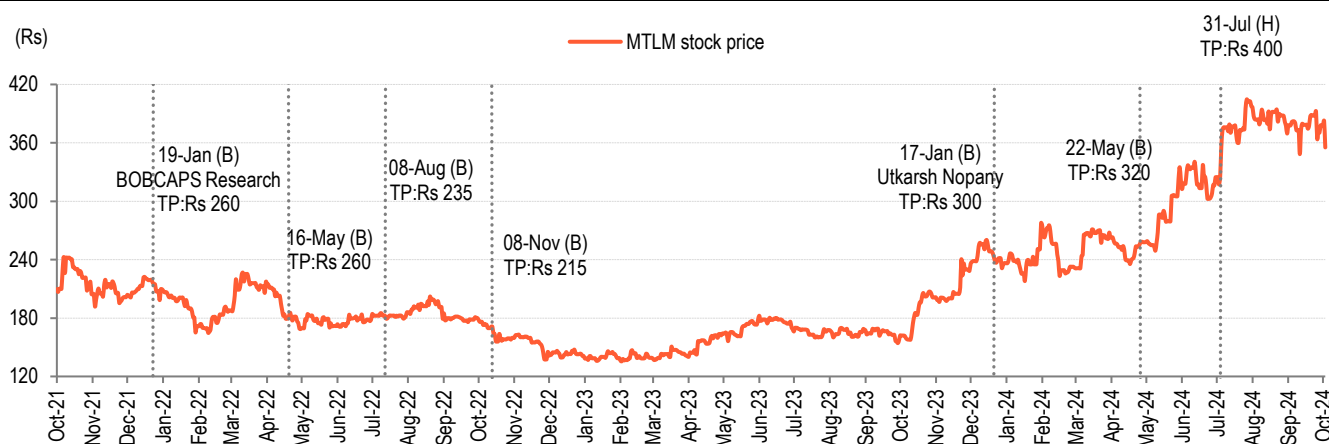
HOLD – Expected return from -6% to +15%

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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