

BUY

TP: Rs 205 | ▲ 43%

GREENPLY INDUSTRIES

Construction Materials

12 February 2020

Gabon operations disappoint

Greenply Industries' (GIL) consolidated Q3FY20 revenue slipped 1% YoY, coming in below estimates. India operations grew 2.4% YoY (volumes up 5%), whereas Gabon subsidiary revenue fell 29% due to lower demand for face veneer in key markets such as India. Operating margins and EBITDA were flat YoY. Management has cut FY20 revenue growth guidance for India to ~4-4.5% from 8% and now expects Gabon revenues of ~Rs 1.5bn (from Rs 2bn). We lower FY20-FY22 PAT by 3-8% and roll to a Mar'21 TP of Rs 205 (vs. Rs 210).

Arun Baid

research@bobcaps.in

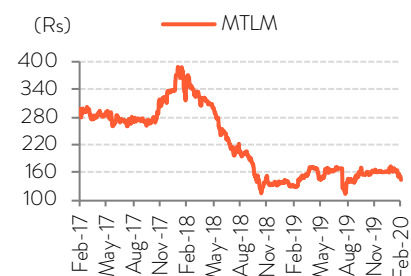
Revenues disappoint: GIL's consolidated revenue dipped 1% YoY to Rs 3.5bn. India plywood revenues grew just 2% YoY to Rs 3.2bn due to tough market conditions, whereas subsidiaries – primarily Gabon face veneer operations – posted a 29% YoY decline to Rs 265mn. Management has guided for improvement in Gabon operations due to better traction in new markets such as Southeast Asia and Europe. For India operations, GIL expects lower growth due to tough market conditions and tight working capital control. Management has guided for improvement in working capital cycle by 4-5 days in FY20.

Ticker/Price	MTLM IN/Rs 143
Market cap	US\$ 246.2mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 195/Rs 112
Promoter/FPI/DII	52%/11%/37%

Source: NSE

Margins and EBITDA flattish: GIL's consolidated operating margins expanded just 9bps YoY to 11.5%, resulting in flat EBITDA. Plywood margins rose 70bps YoY to 11% due to lower other expenses, whereas Gabon margins decreased by 400bps to 18.1% as lower sales resulted in negative operating leverage. Management has maintained FY20 EBITDA margin guidance for India (~11%) and Gabon (~17.5-18%) operations.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: Q3 results have been lower than estimated, leading us to cut our earnings forecasts for FY20-FY22 by 3-8%. On rollover, we move to a Mar'21 TP of Rs 205 (earlier Rs 210), set at an unchanged 18x forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	9,123	14,122	14,764	16,417	18,080
EBITDA (Rs mn)	715	1,507	1,747	1,987	2,208
Adj. net profit (Rs mn)	253	852	996	1,216	1,397
Adj. EPS (Rs)	2.1	6.9	8.1	9.9	11.4
Adj. EPS growth (%)	NA	236.1	16.9	22.2	14.8
Adj. ROAE (%)	3.1	14.0	26.7	26.6	25.1
Adj. P/E (x)	69.3	20.6	17.6	14.4	12.6
EV/EBITDA (x)	NA	NA	12.6	10.0	8.9

Source: Company, BOBCAPS Research

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

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenue	3,195	3,120	2.4	3,455	(7.5)	9,704	9,399	3.3
COGS	1,966	1,914	2.7	2,076	(5.3)	5,848	5,867	(0.3)
% of sales	61.5	61.4	19bps	60.1	145bps	60.3	62.4	(217bps)
Employee expenses	357	365	(2.1)	412	(13.3)	1,125	1,055	6.6
% of sales	11.2	11.7	(51bps)	11.9	(75bps)	11.6	11.2	36bps
Operating Expenses	530	534	(0.8)	586	(9.6)	1,684	1,616	4.2
% of sales	16.6	17.1	(53bps)	17.0	(38bps)	17.4	17.2	16bps
EBITDA	341	306	11.4	380	(10.2)	1,048	861	21.8
EBITDA Margin	10.7	9.8	86bps	11.0	(32bps)	10.8	9.2	165bps
Depreciation/Amortisation	52	49	7.3	54	(3.2)	159	141	12.7
EBIT	289	258	12.2	326	(11.4)	889	719	23.6
EBIT Margin	9.0	8.3	79bps	9.4	(39bps)	9.2	7.7	151bps
Net Interest Expenses	40	35	15.4	43	(8.2)	125	104	20.3
Other Income	10	13	(21.3)	10	(3.0)	31	51	(39.7)
PBT	259	236	9.9	293	(11.6)	795	667	19.3
Tax Expenses	73	84	(13.1)	64	14.1	223	237	(6.1)
Net Income before extraordinary items	186	152	22.7	229	(18.7)	572	429	33.3
Reported Net Income	186	152	22.7	229	(18.7)	572	429	33.3
Adjusted PAT	186	152	22.7	229	(18.7)	572	429	33.3

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Q3FY20	Q3FY19	YoY (%)
Net Revenue	3,460	3,494	(1.0)	3,803	(9.0)	10,757	10,204	5.4
COGS	2,037	2,055	(0.9)	2,193	(7.1)	6,253	6,180	1.2
% of sales	58.9	58.8	6bps	63.5	(458bps)	58.1	60.6	(243bps)
Employee expenses	406	391	3.9	453	(10.5)	1,243	1,140	9.0
% of sales	11.7	11.2	55bps	13.1	(139bps)	11.6	11.2	38bps
Operating Expenses	620	650	(4.7)	708	(12.5)	2,003	1,926	4.0
% of sales	17.9	18.6	(71bps)	20.5	(260bps)	18.6	18.9	(25bps)
EBITDA	397	398	(0.2)	449	(11.4)	1,258	958	31.2
EBITDA Margin	11.5	11.4	9bps	11.8	(31bps)	11.7	9.4	230bps
Depreciation/Amortisation	64	59	8.2	64	(1.2)	191	169	13.3
EBIT	334	339	(1.7)	384	(13.1)	1,067	790	35.1
EBIT Margin	9.6	9.7	(7bps)	10.1	(46bps)	9.9	7.7	218bps
Net Interest Expenses	49	46	6.7	54	(10.2)	153	127	20.4
Other Income	2	4	(51.7)	1	48.2	7	27	(72.0)
PBT	287	298	(3.6)	332	(13.4)	921	689	33.6
Tax Expenses	73	84	(13.1)	64	14.1	223	237	(6.1)
Net Income before extraordinary items	214	214	0.1	267	(20.0)	698	452	54.5
Share of profit/(loss) from JV	(1)	(5)	(85.3)	(3)	(75.4)	(11)	47	(122.9)
Reported Net Income	213.2	208.5	2.3	264.2	(19.3)	687.5	499.4	37.7

Source: Company, BOBCAPS Research

FIG 3 – SUBSIDIARY PERFORMANCE (PRIMARILY GABON)

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY19	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	265	375	(29.3)	348	(23.9)	1,053	805	30.8
EBITDA	48	83	(42.2)	59	(18.6)	186	73	154.8
EBITDA margin	18.1	22.1	(402bps)	17.0	116bps	17.7	9.1	860bps

Source: Company, BOBCAPS Research

Earnings call highlights

- A weak demand climate coupled with tight working capital control affected sales during the quarter. GIL now expects its plywood business to grow at 4-4.5% in FY20 vs. 8% earlier. Management noted that rising compliance (GST, e-way bill) by the unorganised sector could aid some improvement ahead.
- The company plans to draw down working capital days by 4-5 days by end-FY20.
- India plywood margins are guided to hold at current levels of ~11% in FY20 as the company isn't facing significant cost pressure.
- GIL has two JVs in India each of which can deliver peak revenue of Rs 1.1bn-1.15bn.
- Gabon revenues were lower YoY in Q3FY20 due to reduced demand in India amid the consumption slowdown. Also, a fall in face veneer prices in India as Gurjan product prices declined resulted in some shift away from GIL's okume, which dampened sales during the quarter.
- To diversify from face veneer sales concentration in India (from the Gabon plant), management has been focusing on other markets such as Europe and Southeast Asia. During the quarter, revenues from Europe stood at 13% (vs. 1% in Q3FY19) and from Southeast Asia at 27% (vs. 4%).
- GIL now believes Gabon operations can deliver ~Rs 1.5bn of revenues in FY20 (vs. Rs 2bn guided earlier) and maintain current margins of ~18%.
- The JV in Myanmar should be PAT-neutral/positive by the end of FY20.
- GIL has capex plans of Rs 160mn in India and Rs 220mn in Gabon during FY20, of which ~Rs 270mn has already been spent.

Valuation methodology

GIL is the joint market leader in India's organised plywood industry along with Century Plyboards (CPBI). The company has also set up operations in Gabon for face veneer. We believe GIL is poised for significant 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.

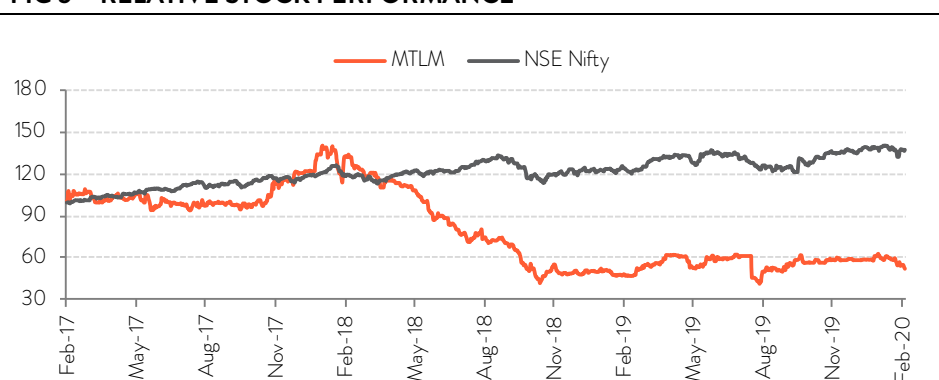
Post the Q3FY20 results, we cut our FY20-FY22 earnings estimates by 3-8% and roll forward to a revised Mar'21 target price of Rs 205 (Rs 210 earlier), set at an unchanged 18x one-year forward P/E multiple. Maintain BUY.

FIG 4 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	14,764	16,417	18,080	15,612	17,804	19,584	(5.4)	(7.8)	(7.7)
EBITDA	1,747	1,987	2,208	1,772	2,088	2,330	(1.4)	(4.8)	(5.2)
PAT	996	1,216	1,397	1,025	1,325	1,526	(2.8)	(8.2)	(8.4)

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on sourcing of wood or face veneer will affect 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	9,123	14,122	14,764	16,417	18,080
EBITDA	715	1,507	1,747	1,987	2,208
Depreciation	(180)	(224)	(259)	(273)	(292)
EBIT	535	1,282	1,489	1,714	1,917
Net interest income/(expenses)	(77)	(186)	(205)	(188)	(169)
Other income/(expenses)	(67)	71	11	11	13
Exceptional items	(46)	(55)	0	0	0
EBT	391	1,167	1,295	1,537	1,761
Income taxes	(137)	(315)	(299)	(321)	(365)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	208	797	996	1,216	1,397
Adjustments	46	55	0	0	0
Adjusted net profit	253	852	996	1,216	1,397

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,190	2,320	2,422	2,604	2,844
Other current liabilities	2,495	634	647	720	793
Provisions	252	64	74	82	90
Debt funds	7,122	2,500	2,280	2,010	1,560
Other liabilities	265	(41)	(41)	(41)	(41)
Equity capital	123	123	123	123	123
Reserves & surplus	8,652	3,230	3,984	4,906	5,965
Shareholders' fund	8,775	3,352	4,107	5,029	6,088
Total liabilities and equities	21,098	8,829	9,489	10,404	11,334
Cash and cash eq.	337	206	14	129	302
Accounts receivables	2,856	3,050	3,249	3,626	4,005
Inventories	2,312	1,694	1,804	2,052	2,273
Other current assets	1,900	964	1,416	1,574	1,734
Investments	185	222	222	222	222
Net fixed assets	5,706	2,420	2,684	2,701	2,699
CWIP	7,704	173	0	0	0
Intangible assets	99	99	99	99	99
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	21,098	8,829	9,489	10,404	11,334

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20E	FY21E	FY22E
Net income + Depreciation	1,254	1,490	1,688
Interest expenses	205	188	169
Non-cash adjustments	0	0	0
Changes in working capital	(635)	(521)	(437)
Other operating cash flows	0	0	0
Cash flow from operations	824	1,157	1,420
Capital expenditures	(350)	(290)	(290)
Change in investments	0	0	0
Other investing cash flows	0	0	0
Cash flow from investing	(350)	(290)	(290)
Equities issued/Others	0	0	0
Debt raised/repaid	(220)	(270)	(450)
Interest expenses	(205)	(188)	(169)
Dividends paid	(241)	(294)	(338)
Other financing cash flows	0	0	0
Cash flow from financing	(666)	(752)	(957)
Changes in cash and cash eq.	(191)	115	173
Closing cash and cash eq.	14	129	302

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	1.7	6.5	8.1	9.9	11.4
Adjusted EPS	2.1	6.9	8.1	9.9	11.4
Dividend per share	0.0	0.4	1.6	2.0	2.3
Book value per share	71.6	27.3	33.5	41.0	49.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	NA	NA	1.5	1.2	1.1
EV/EBITDA	NA	NA	12.6	10.0	8.9
Adjusted P/E	69.3	20.6	17.6	14.4	12.6
P/BV	NA	5.2	4.3	3.5	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	73.5	76.6	76.9	79.1	79.3
Interest burden (PBT/EBIT)	64.4	86.7	87.0	89.7	91.9
EBIT margin (EBIT/Revenue)	5.9	9.1	10.1	10.4	10.6
Asset turnover (Revenue/Avg TA)	49.5	94.4	161.2	165.1	166.3
Leverage (Avg TA/Avg Equity)	2.2	2.5	2.5	2.2	2.0
Adjusted ROAE	3.1	14.0	26.7	26.6	25.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue		54.8	4.5	11.2	10.1
EBITDA		110.7	16.0	13.7	11.1
Adjusted EPS		236.1	16.9	22.2	14.8
Profitability & Return ratios (%)					
EBITDA margin	7.8	10.7	11.8	12.1	12.2
EBIT margin	5.9	9.1	10.1	10.4	10.6
Adjusted profit margin	2.8	6.0	6.7	7.4	7.7
Adjusted ROAE	3.1	14.0	26.7	26.6	25.1
ROCE	2.3	8.4	18.7	20.2	20.7
Working capital days (days)					
Receivables	118	76	78	76	77
Inventory	126	86	73	72	74
Payables	113	65	66	64	63
Ratios (x)					
Gross asset turnover	1.1	2.3	3.9	4.0	4.1
Current ratio	1.0	1.3	1.4	1.5	1.7
Net interest coverage ratio	6.9	6.9	7.3	9.1	11.4
Adjusted debt/equity	0.8	0.7	0.6	0.4	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

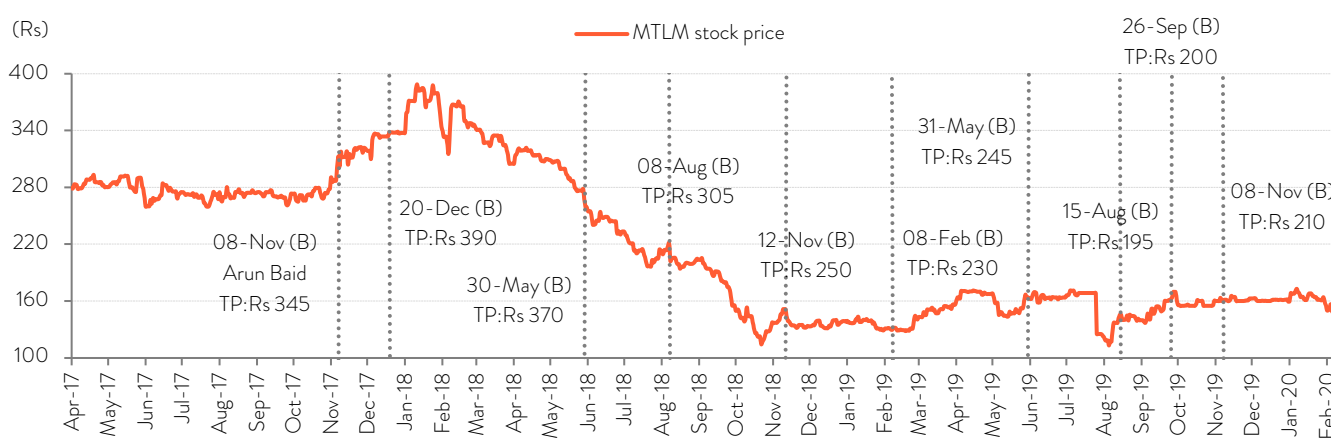
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: GREENPLY INDUSTRIES (MTLM IN)



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

Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.