

BUY

TP: Rs 195 | ▲ 42%

GREENPLY INDUSTRIES

Construction Materials

11 February 2021

Q3 beat as demand gains traction

Greenply Industries' (GIL) consolidated Q3FY21 revenue dipped 2% YoY, bettering our estimate of a 6% drop. Though India operations declined 3% YoY, Gabon subsidiary revenue rose 15%. Operating margins increased 80bps YoY, causing EBITDA/PBT to rise 5%/18%. Management expects to see high-double-digit topline growth and sustained margin improvement in FY22. We raise FY21-FY23 EBITDA 3-19% to bake in a faster demand rebound than anticipated and better margins. On rollover, our Mar'22 TP rises to Rs 195 (from Rs 150).

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Flattish revenues: GIL's consolidated Q3 revenue dipped 2% YoY to Rs 3.4bn as India business declined 3% (volumes down 2.4%) to Rs 3.1bn. Face veneer operations at the Gabon subsidiary posted a healthy 15% YoY increase to Rs 303mn. GIL has seen good demand traction in the India plywood business in January with all major cities reopening. Management has guided for high-double-digit revenue growth in FY22 due to a low base. GIL also indicated that the Gabon subsidiary may face logistical challenges in the next 1-2 quarters.

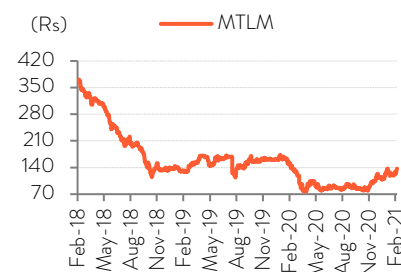
Healthy margins: Consolidated operating margins increased 80bps YoY to 12.3%, yielding EBITDA/PBT growth of 5%/18% YoY. India plywood margins expanded 130bps YoY to 12% backed by higher gross margins, whereas Gabon operations saw 630bps contraction to 14.9% owing to an adverse product mix and higher logistics cost. Management has guided for further improvement in India margins and 13-14% levels for Gabon in FY22.

Maintain BUY: GIL's consolidated net debt has declined by Rs 1.75bn to Rs 827mn in 9MFY21, aided by reduction in debtors. The company is on track to be net debt-free by FY23. Alongside the significant improvement in balance sheet, management is guiding for better revenue growth and profitability. We raise FY21-FY23 PAT 8-27% and roll to a Mar'22 TP of Rs 195 (18x fwd P/E).

Ticker/Price	MTLM IN/Rs 137
Market cap	US\$ 230.6mn
Shares o/s	123mn
3M ADV	US\$ 1.4mn
52wk high/low	Rs 155/Rs 73
Promoter/FPI/DII	52%/2%/46%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,122	14,204	11,651	14,533	15,952
EBITDA (Rs mn)	1,507	1,562	1,192	1,806	2,038
Adj. net profit (Rs mn)	852	841	626	1,129	1,320
Adj. EPS (Rs)	6.9	6.9	5.1	9.2	10.8
Adj. EPS growth (%)	236.1	(1.3)	(25.6)	80.4	16.9
Adj. ROAE (%)	14.0	23.6	15.4	23.5	22.9
Adj. P/E (x)	19.7	20.0	26.8	14.9	12.7
EV/EBITDA (x)	14.5	13.7	16.1	10.3	8.6

Source: Company, BOBCAPS Research

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



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	3,404	3,460	(1.6)	2,955	15.2	7,686	10,757	(28.5)
COGS	1,972	2,037	(3.2)	1,779	10.8	4,459	6,253	(28.7)
% of sales	57.9	58.9	(94bps)	60.2	(228bps)	58.0	58.1	(11bps)
Employee expenses	385	406	(5.1)	351	9.8	1,053	1,243	(15.3)
% of sales	11.3	11.7	(42bps)	11.9	(55bps)	13.7	11.6	215bps
Operating Expenses	630	620	1.6	502	25.5	1,461	2,003	(27.1)
% of sales	18.5	17.9	59bps	17.0	151bps	19.0	18.6	39bps
EBITDA	417	397	5.0	323	29.0	712	1,258	(43.4)
EBITDA Margin (%)	12.3	11.5	77bps	10.9	131bps	9.3	11.7	(242bps)
Depreciation/Amortisation	59	64	(7.0)	57	4.4	167	191	(12.6)
EBIT	358	334	7.3	267	34.2	545	1,067	(48.9)
EBIT Margin (%)	10.5	9.6	87bps	9.0	149bps	7.1	9.9	(282bps)
Net Interest Expenses	36	49	(24.8)	38	(3.8)	129	153	(15.6)
Other Income	16	2	706.0	11	40.0	29	7	287.4
PBT	337	287	17.5	240	40.5	445	921	(51.7)
Tax Expenses	87	73	18.4	45	94.3	99	223	(55.4)
Net Income before extraordinary items	251	214	17.1	196	28.2	346	698	(50.5)
Share of profit/(loss) from JV	(1)	(1)	(3.0)	(10)	(92.5)	(23)	(11)	110.8
Reported Net Income	249.9	213.2	17.2	185.5	34.7	322.8	687.5	(53.1)

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	3,101	3,195	(3.0)	2,384	30.1	6,560	9,704	(32.4)
COGS	1,820	1,966	(7.4)	1,433	27.0	3,884	5,848	(33.6)
% of sales	58.7	61.5	(285bps)	60.1	(143bps)	59.2	60.3	(106bps)
Employee expenses	339	357	(5.0)	304	11.5	919	1,125	(18.3)
% of sales	10.9	11.2	(24bps)	12.8	(182bps)	14.0	11.6	242bps
Operating Expenses	569	530	7.4	411	38.7	1,208	1,684	(28.2)
% of sales	18.4	16.6	178bps	17.2	114bps	18.4	17.4	107bps
EBITDA	372	341	9.0	236	57.8	549	1,048	(47.6)
EBITDA Margin (%)	12.0	10.7	131bps	9.9	211bps	8.4	10.8	(243bps)
Depreciation/Amortisation	42	52	(19.2)	40	5.1	118	159	(25.6)
EBIT	330	289	14.1	196	68.7	431	889	(51.6)
EBIT Margin (%)	10.6	9.0	159bps	8.2	243bps	6.6	9.2	(260bps)
Net Interest Expenses	22	40	(44.3)	23	(5.1)	86	125	(30.9)
Other Income	22	10	122.7	15	48.9	46	31	49.5
PBT	330	259	27.3	187	76.3	390	795	(50.9)
Tax Expenses	87	73	18.4	45	94.3	99	223	(55.4)
Net Income before extraordinary items	243	186	30.7	143	70.7	291	572	(49.1)
Reported Net Income	243	186	30.7	143	70.7	291	572	(49.1)

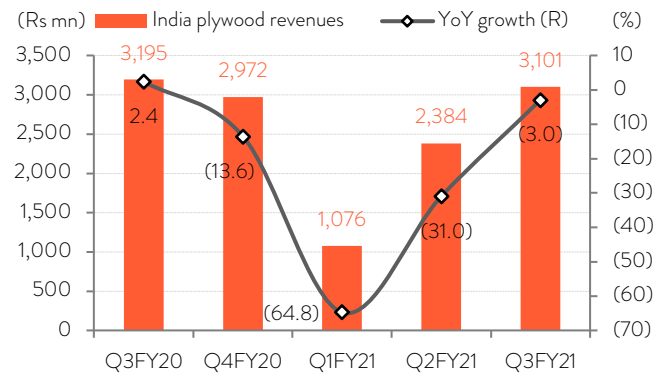
Source: Company, BOBCAPS Research

FIG 3 – SUBSIDIARIES (PRIMARILY GABON OPERATIONS)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	303	265	14.6	571	(46.9)	1,126	1,053	7.0
EBITDA	45	56	(19.4)	88	(48.4)	163	209	(22.1)
EBITDA Margin (%)	14.9	21.2	(628bps)	15.4	(44bps)	14.5	19.9	(539bps)

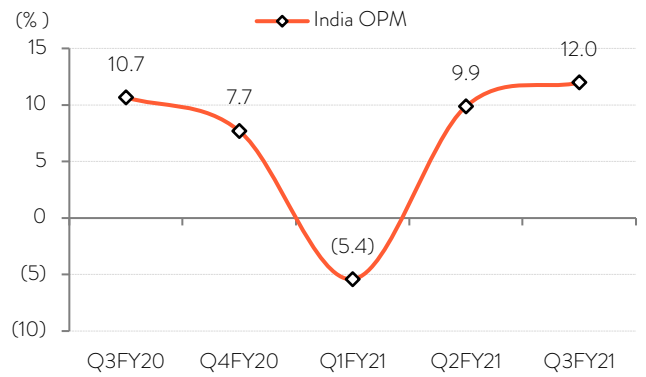
Source: Company, BOBCAPS Research

FIG 4 – INDIA STANDALONE REVENUES



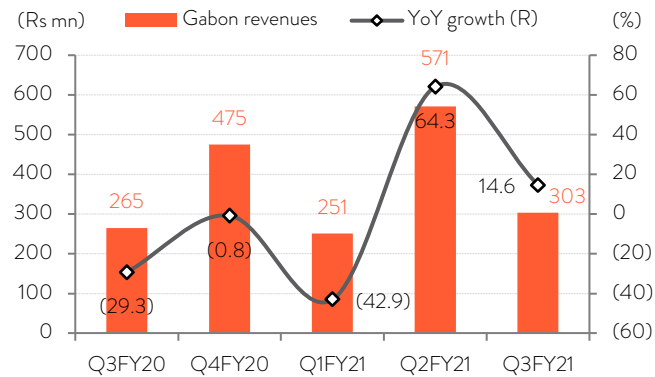
Source: Company, BOBCAPS Research

FIG 5 – INDIA STANDALONE OPERATING MARGINS



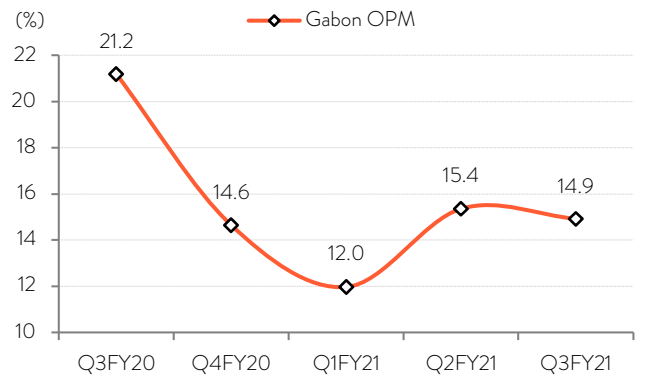
Source: Company, BOBCAPS Research

FIG 6 – GABON REVENUES



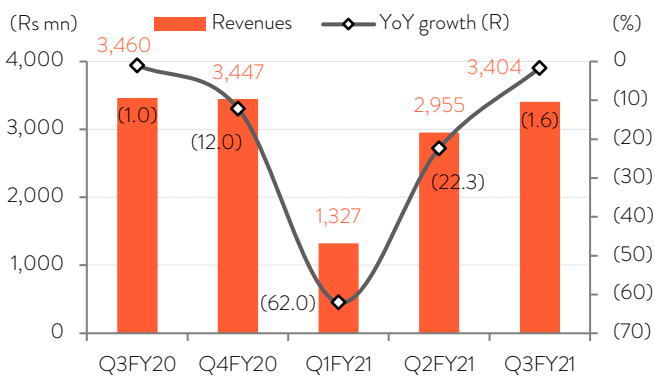
Source: Company, BOBCAPS Research

FIG 7 – GABON OPERATING MARGINS



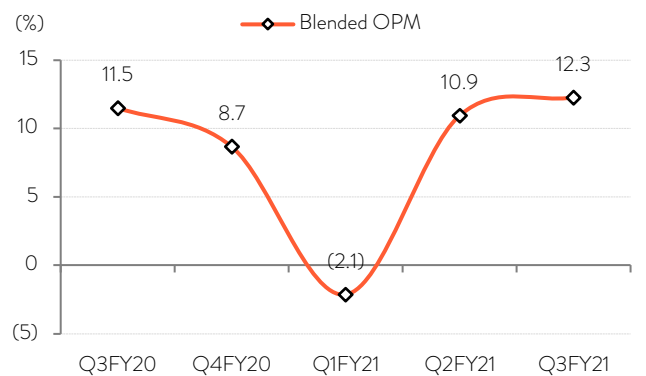
Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED REVENUES



Source: Company, BOBCAPS Research

FIG 9 – CONSOLIDATED MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

- During Q3FY21, GIL saw good demand across product categories. Per management, sales could have been better during the quarter but for some logistical issues.
- Activity in metro markets has been gathering pace post-Covid which yielded good demand traction during the quarter. January trends have been robust as well and the company has guided for high-double-digit growth in FY22 due to a low base.
- GIL is targeting 400bps operating margin expansion by FY23 backed by cost efficiencies. Management believes some recent cost rationalisation measures can also be retained over the long term.
- The Gabon subsidiary faced logistical issues in Q3 due to a lack of container availability, which will hamper business for the next 1-2 quarters.
- Premium plywood sales were at 70% in value terms (60% in volume terms) during Q3.
- Management plans to grow the plywood business sustainably at 10-12% over the long term.
- The company has been widening its distribution reach across rural markets in FY21 and plans to continue this initiative. It has added 100 dealers in 9MFY21.
- GIL intends to enter another product category besides plywood in the building material space but did not disclose further details.
- Capex of Rs 160mn was incurred in 9MFY21 with plans to spend another Rs 40mn-45mn in Q4.
- On a standalone basis, the company is already net debt-free. On a consolidated basis, net debt totals Rs 827mn which is targeted to be reduced to nil by FY23.
- Efforts to improve working capital are ongoing. Management believes net working capital days (down to 42 on a standalone basis from 63 days YoY) can be reduced further to 36-37 days.

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.

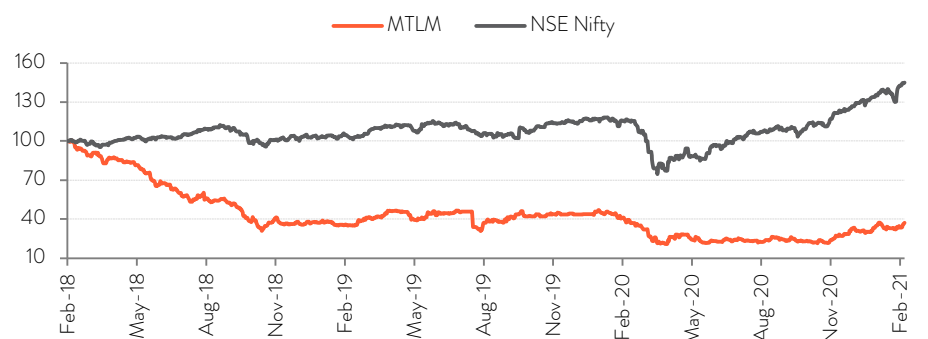
We raise our FY21-FY23 EBITDA estimates by 3-19% and PAT by 8-27% due to faster-than-expected demand recovery and a good margin performance in Q3FY21. On rollover, we have a revised Mar'22 target price of Rs 195 (vs. Rs 150), set at an unchanged 18x one-year forward P/E. Maintain BUY given attractive valuations at 12.7x FY23E P/E, strong return ratios and an improved balance sheet.

FIG 10 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	11,651	14,533	15,952	11,693	13,816	15,278	(0.4)	5.2	4.4
EBITDA	1,192	1,806	2,038	1,156	1,524	1,727	3.1	18.5	18.0
PAT	626	1,129	1,320	577	891	1,083	8.4	26.7	21.9

Source: BOBCAPS Research

FIG 11 – 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
Total revenue	14,122	14,204	11,651	14,533	15,952
EBITDA	1,507	1,562	1,192	1,806	2,038
Depreciation	(224)	(257)	(233)	(283)	(297)
EBIT	1,282	1,304	959	1,523	1,741
Net interest income/(expenses)	(186)	(208)	(159)	(66)	(46)
Other income/(expenses)	71	6	20	30	42
Exceptional items	(55)	(495)	0	0	0
EBT	1,167	1,102	820	1,488	1,736
Income taxes	(315)	(134)	(194)	(359)	(417)
Reported net profit	797	473	626	1,129	1,320
Adjustments	55	368	0	0	0
Adjusted net profit	852	841	626	1,129	1,320

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	2,320	2,317	2,115	2,330	2,559
Other current liabilities	634	504	415	478	524
Provisions	64	348	58	73	80
Debt funds	2,500	2,674	920	800	450
Equity capital	123	123	123	123	123
Reserves & surplus	3,230	3,657	4,213	5,138	6,138
Shareholders' fund	3,352	3,779	4,336	5,260	6,260
Total liabilities and equities	8,870	9,622	7,844	8,940	9,874
Cash and cash eq.	206	103	28	271	760
Accounts receivables	3,050	3,565	2,309	2,749	3,014
Inventories	1,694	1,771	1,354	1,732	1,899
Other current assets	964	646	638	717	787
Investments	222	238	238	238	238
Net fixed assets	2,444	3,076	3,104	3,062	3,005
CWIP	173	52	0	0	0
Intangible assets	75	67	67	67	67
Total assets	8,870	9,622	7,844	8,940	9,874

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	730	859	1,412	1,617
Interest expenses	208	159	66	46
Changes in working capital	(236)	1,099	(603)	(219)
Cash flow from operations	701	2,117	874	1,444
Capital expenditures	(559)	(210)	(240)	(240)
Change in investments	(16)	0	0	0
Other investing cash flows	(64)	0	0	0
Cash flow from investing	(639)	(210)	(240)	(240)
Debt raised/repaid	174	(1,754)	(120)	(350)
Interest expenses	(208)	(159)	(66)	(46)
Dividends paid	(59)	(69)	(205)	(319)
Other financing cash flows	(72)	0	0	0
Cash flow from financing	(166)	(1,982)	(390)	(716)
Changes in cash and cash eq.	(103)	(75)	243	488
Closing cash and cash eq.	103	28	271	760

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.5	3.9	5.1	9.2	10.8
Adjusted EPS	6.9	6.9	5.1	9.2	10.8
Dividend per share	0.4	0.4	0.5	1.4	2.2
Book value per share	27.3	30.8	35.4	42.9	51.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.5	1.5	1.7	1.3	1.1
EV/EBITDA	14.5	13.7	16.1	10.3	8.6
Adjusted P/E	19.7	20.0	26.8	14.9	12.7
P/BV	5.0	4.4	3.9	3.2	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	76.6	138.5	76.3	75.9	76.0
Interest burden (PBT/EBIT)	86.7	46.5	85.5	97.7	99.7
EBIT margin (EBIT/Revenue)	9.1	9.2	8.2	10.5	10.9
Asset turnover (Revenue/Avg TA)	95.1	153.6	133.4	173.2	169.6
Leverage (Avg TA/Avg Equity)	2.4	2.6	2.2	1.7	1.6
Adjusted ROAE	14.0	23.6	15.4	23.5	22.9

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	54.8	0.6	(18.0)	24.7	9.8
EBITDA	110.7	3.6	(23.7)	51.5	12.8
Adjusted EPS	236.1	(1.3)	(25.6)	80.4	16.9
Profitability & Return ratios (%)					
EBITDA margin	10.7	11.0	10.2	12.4	12.8
EBIT margin	9.1	9.2	8.2	10.5	10.9
Adjusted profit margin	6.0	5.9	5.4	7.8	8.3
Adjusted ROAE	14.0	23.6	15.4	23.5	22.9
ROCE	8.4	16.5	12.5	20.4	20.7
Working capital days (days)					
Receivables	76	85	92	64	66
Inventory	86	76	85	67	72
Payables	65	67	77	64	64
Ratios (x)					
Gross asset turnover	2.3	3.6	2.6	3.1	3.2
Current ratio	1.3	1.2	1.4	1.7	1.9
Net interest coverage ratio	6.9	6.3	6.0	23.3	37.6
Adjusted debt/equity	0.7	0.7	0.2	0.1	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

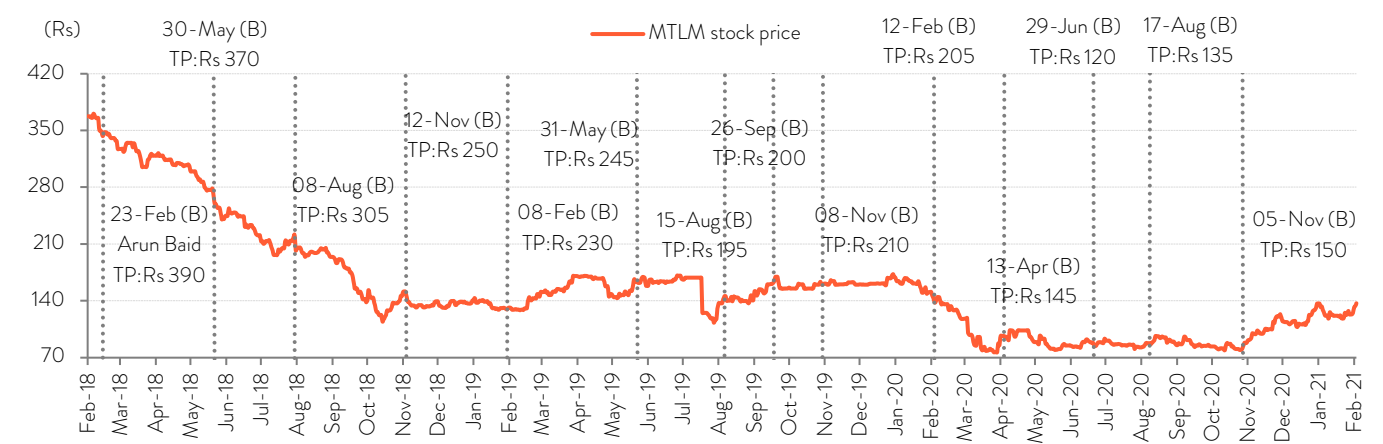
ADD – Expected return from >+5% to +15%

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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