

BUY

TP: Rs 320 | ▲ 24%

GREENPLY INDUSTRIES | Building Materials

22 May 2024

Misses estimate on weak plywood margin; upbeat outlook

- **MTLM missed our EBITDA estimate by 16% in Q4 on sharper-than-expected contraction in plywood margin on high timber prices**
- **Management guided for a positive outlook on plywood and MDF even in challenging market conditions**
- **Maintain BUY; raise TP by 7% to Rs 320 on strong earnings growth prospects (51% CAGR over FY24-FY26E) and reasonable valuations**

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Weak quarter: MTLM missed our estimate for Q4FY24 (Revenue: -4%; EBITDA: -16%) mainly due to sharper-than-expected contraction in plywood segment EBITDA margin (-237bps YoY to 7.9% vs 10% estimate due to high timber prices). Overall, GREENP Revenue/EBITDA grew by 40%/28% YoY in Q4.

Key highlights: Despite challenging market conditions, MTLM reported (a) healthy plywood volume growth (+10.6% YoY; 5Y CAGR: +3.8%); (b) ramp-up of new MDF plant capacity (to 76% in Q4FY24 from 70% in Q3FY24) with a slight improvement in MDF segment margin (+60bps QoQ to 14.1%); and net debt stood at Rs 5.0bn in Mar'24 vs Rs 7.3bn in Dec'23 due to the divestment of a 51% stake in the loss-making subsidiary in Gabon.

Guidance: The company aims to grow its plywood volumes at 8-10% YoY in FY25 and improve EBITDA margin by 50-75bps in FY25. It expects plywood EBITDA margin to improve further to 10%+ level over the next 2-3 years. The company aims to increase its MDF sales volume by 60% YoY in FY25 and EBITDA margin to 15-16% in FY25 from 14.1% in Q4FY24. Management expects the MDF segment EBITDA margin to improve to 18-20% over the medium term. The furniture fittings division is expected to start generating revenue from Q2FY25 and to report loss in FY25 due to the first year of operations; expect good ramp up in FY26 with positive PAT in FY26; and ~Rs 2bn of revenue with healthy EBITDA margin in FY27.

Maintain BUY; raise TP by 7% to Rs 320: We maintain our BUY rating on the stock as we see strong earnings growth prospects (EPS estimated to grow at 51% CAGR over FY24-FY26E), improving return ratios (ROE projected to improve to 17.4% in FY26 from 10.6% in FY24), and reasonable valuation (trades at 24.7x on 1Y forward P/E vs 5Y average of 22.7x). We have reduced our EPS estimates by 2.9%/3.8% for FY25/FY26 based on weak Q4FY24 result, but we have increased our TP by 7% to Rs 320 (Rs 300 earlier) as we roll forward our valuation from Sep'25 to Mar'26. We retain our target P/E of 25x on Mar'26E EPS.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MTLM IN/Rs 257
Market cap	US\$ 387.6mn
Free float	48%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 285/Rs 149
Promoter/FPI/DII	52%/2%/33%

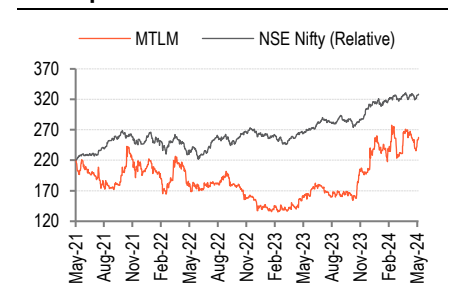
Source: NSE | Price as of 22 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	21,799	24,461	27,431
EBITDA (Rs mn)	1,868	2,528	3,054
Adj. net profit (Rs mn)	752	1,210	1,718
Adj. EPS (Rs)	6.1	9.8	13.9
Consensus EPS (Rs)	6.1	11.2	15.1
Adj. ROAE (%)	11.1	15.8	19.0
Adj. P/E (x)	42.3	26.3	18.5
EV/EBITDA (x)	14.9	10.4	8.9
Adj. EPS growth (%)	(23.7)	60.9	42.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total operating income	5,998	4,272	40.4	5,821	3.0	22,657	18,037	25.6
Raw-Material expense	3,686	2,644	39.4	3,495	5.5	13,622	11,024	23.6
Gross Profit	2,312	1,628	42.0	2,326	(0.6)	9,036	7,013	28.8
Employee expense	681	570	19.6	734	(7.2)	2,905	2,372	22.5
Other expense	1,054	608	73.3	1,088	(3.1)	4,239	2,975	42.5
EBITDA	577	450	28.1	504	14.3	1,892	1,665	13.6
D&A	145	75	94.0	149	(2.5)	590	336	75.3
EBIT	431	375	14.9	355	21.4	1,302	1,329	(2.0)
Interest cost	90	28	220.8	147	(38.9)	545	215	153.8
Non-operating expense/(income)	(78)	69	(212.4)	(170)	(54.2)	(293)	(46)	533.5
PBT	419	278	50.7	377	11.0	1,051	1,160	(9.4)
Tax	94	113	(16.8)	96	(2.7)	298	192	55.1
Reported PAT	325	165	96.6	281	15.7	754	969	(22.2)
Adjusted PAT	284	165	71.5	214	32.6	645	872	(26.1)
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	38.6	38.1	44	40.0	(141)	39.9	38.9	100
Employee cost	11.4	13.3	(198)	12.6	(125)	12.8	13.2	(33)
Other cost	17.6	14.2	334	18.7	(111)	18.7	16.5	221
EBITDA margin	9.6	10.5	(92)	8.7	95	8.3	9.2	(88)
Tax rate	22.4	40.5	(1,813)	25.5	(315)	28.3	16.5	1,178
APAT margin	4.7	3.9	86	3.7	105	2.8	4.8	(199)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

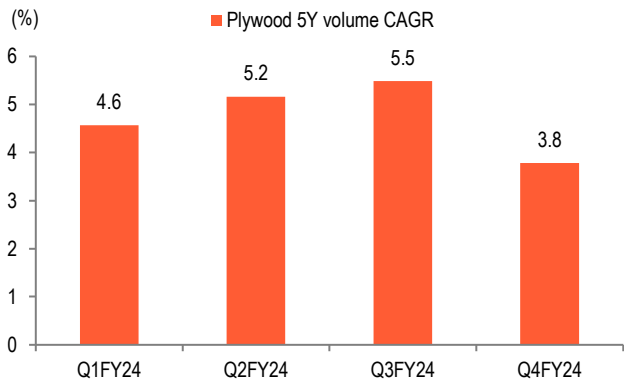
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (Rs mn)								
Plywood	5,075	4,780	6.2	5,189	(2.2)	20,028	18,456	8.5
MDF	1,322	0	NM	1,284	3.0	3,684	0	NM
Total	6,397	4,780	33.8	6,473	(1.2)	23,712	18,456	28.5
Volumes								
Plywood (mn sqm)	19	17	10.6	18	5.6	72	66	8.8
MDF (CBM)	45,764	0	NM	41,928	9.1	1,24,773	0	NM
Realisation								
Plywood (Rs/sqm)	270	281	(4.0)	292	(7.4)	278	279	(0.2)
MDF (Rs/CBM)	28,881	-	-	30,617	(5.7)	29,524	-	-
EBITDA (Rs mn)								
Plywood	400	490	(18.4)	360	11.1	1,500	1,733	(13.4)
MDF	186	0	NM	173	7.5	406	0	NM
Total	577	450	28.1	504	14.3	1,892	1,665	13.6
EBITDA margin (%)								
Plywood	7.9	10.3	(237bps)	6.9	94bps	7.5	9.4	(190bps)
MDF	14.1	-	-	13.5	60bps	11.0	-	-
Total	9.0	9.4	(40bps)	7.8	122bps	8.0	9.0	(104bps)

Source: Company, BOBCAPS Research

Earnings call highlights

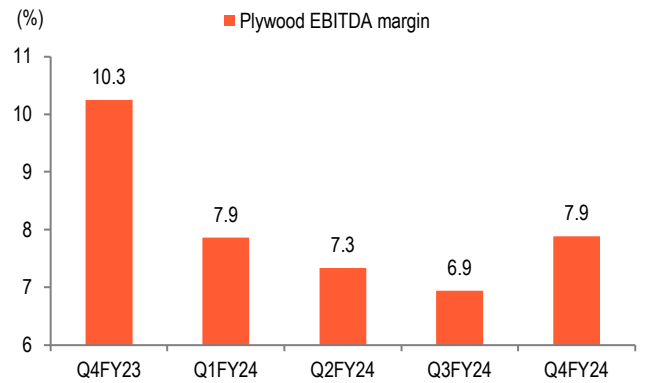
- **Plywood performance:** MTLM's plywood volumes grew by 10.6% YoY (5Y CAGR: +3.8%) in Q4FY24 led by the economy portfolio and B2B sales. Premium plywood volume was flat YoY, whereas economy segment volume grew by 13% YoY in Q4FY24. However, segment EBITDA de-grew by 18.4% YoY in Q4FY24 due to the sharp contraction in EBITDA margin (-237bps YoY to 7.9%) on account of gross margin pressure (-140bps YoY due to steep increase in timber prices) and higher ad spend (+180bps YoY).
- **Plywood outlook:** Despite observations of weak demand in Q1FY25 (YTD), management still aims to grow its plywood volume at 8-10% YoY in FY25 and improve EBITDA margin by 50-75bps in FY25. It expects segment EBITDA margin to improve to 10%+ level over the next 2-3 years. Timber prices are expected to remain stable over the next six quarters and then they are likely to come down once the new plantations comes into the market.
- **MDF performance:** MTLM has been able to speedily ramp up its new MDF plant (operating rate improved to 76% in Q4FY24 from 70% in Q3FY24 and 52% in Q2FY24) even in challenging market conditions. The MDF segment's gross margin fell by 288bps QoQ to 44.6% in Q4FY24 due to weak realisation (-5.7%), but segment EBITDA margin improved by 60bps QoQ to 14.1% in Q4FY24 due to the benefit of operating leverage. OEM:retail sales mix was 13:87 in Q4FY24.
- **MDF outlook:** The company aims to increase its MDF sales volume by 60% YoY in FY25 and improve EBITDA margin to 15-16% in FY25 from 14.1% in Q4FY24 due to better product mix and operating efficiencies. Management further expects the segment EBITDA margin to improve to 18-20% on a sustainable basis. The company does not expect any further price correction in MDF in the near future due to the impact of steep increase in timber prices for the industry.
- **Furniture fittings:** The plant was commissioned in Mar'24 and is expected to commence full operations from Jul'24. Management expects: (1) the division to generate a revenue from Q2FY25 and report a loss in FY25 due to the first year of operations; (2) good ramp up in FY26 with positive PAT in FY26; and (3) more than Rs 2bn in revenue with healthy EBITDA margin in FY27. The company plans to spend Rs 2.5bn on this plant, which could generate peak revenue of Rs 8bn. Management expects the division to operate at an EBITDA margin of 25%+ once it crosses revenues of Rs 5bn. MTLM proposes to invest Rs400mn-450mn in this JV project, of which Rs 250mn was invested in FY24 and another Rs150mn-200mn will be invested in FY25.
- **Ad spend:** MLTM aims to spend 3-4% of sales on advertising and promotions in FY25.
- **Capex:** Management plans to spend Rs700mn-800mn on capex in FY25.
- **Gabon:** The company has booked exceptional income of Rs 47mn related to the divestment of a 51% stake in its loss-making subsidiary in Gabon.
- **Net debt:** MTLM plans to reduce net debt by Rs 500mn in FY25.

Fig 3 – MTLM’s plywood volume grew by 10.6% YoY and 3.8% on a 5Y CAGR basis in Q4FY24



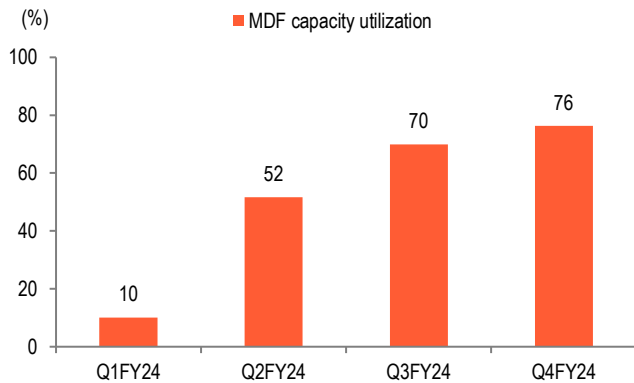
Source: Company, BOBCAPS Research

Fig 4 – Plywood margin fell 237bps YoY in Q4FY24 on higher timber prices and increased brand spend



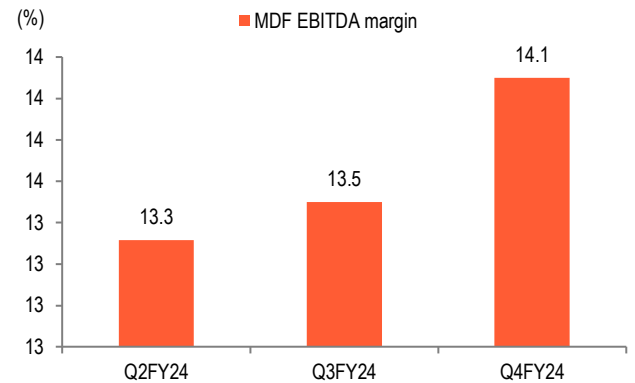
Source: Company, BOBCAPS Research

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



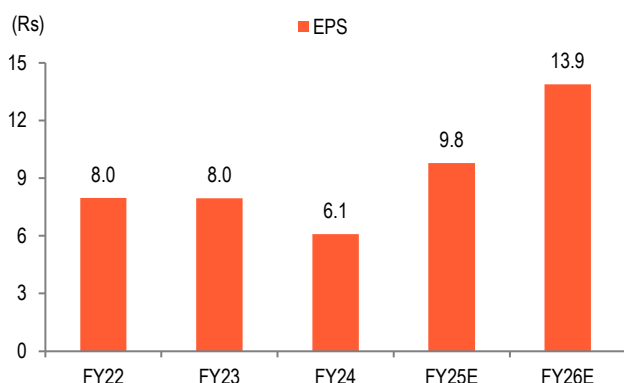
Source: Company, BOBCAPS Research

Fig 6 – MDF EBITDA margin improved slightly in Q4FY24 and management expects it to improve further in FY25



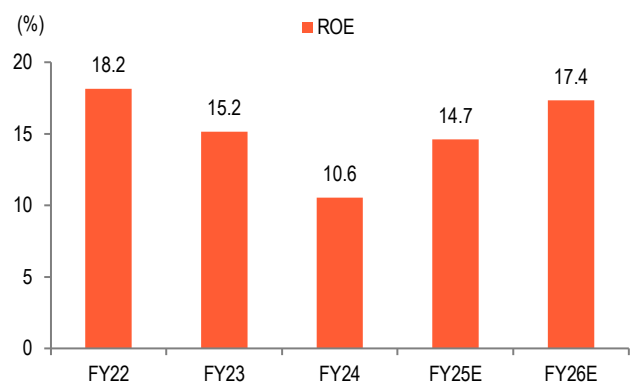
Source: Company, BOBCAPS Research

Fig 7 – MTLM’s EPS is projected to grow at a strong 51% CAGR over FY24-FY26E



Source: Company, BOBCAPS Research

Fig 8 – ROE is also expected to improve from 10.6% in FY24 to 17.4% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our BUY rating on the stock as we see strong earnings growth prospects (EPS estimated to grow at 51% CAGR over FY24-FY26E), improving return ratios (ROE projected to improve to 17.4% in FY26E from 10.6% in FY24), and reasonable valuation (trades at 24.7x on 1Y forward P/E vs 5Y average of 22.7x).

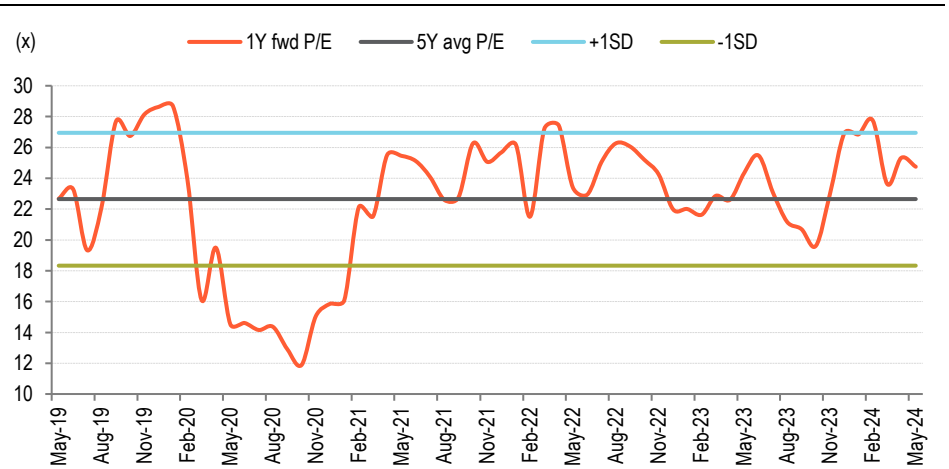
We have reduced our EPS estimates by 2.9%/3.8% for FY25/FY26 based on weak Q4FY24 result, but have increased our TP by 7% to Rs 320 (Rs 300 previously) as we roll forward our valuations from Sep'25 to Mar'26. We retain our target P/E of 25x on Mar'26E EPS.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	24.5	27.4	25.2	28.1	(3.1)	(2.4)
EBITDA	2.5	3.1	2.7	3.3	(8.0)	(7.2)
EBITDA Margin	10.3	11.1	10.9	11.7	(55bps)	(58bps)
EPS (Rs)	9.8	13.9	10.1	14.4	(2.9)	(3.8)

Source: BOBCAPS Research

Fig 10 – Trading at 24.7x on 1Y forward P/E vs 5Y average of 22.7x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue mix						
Plywood	100.0	100.0	100.0	84.5	77.9	76.4
MDF	0.0	0.0	0.0	15.5	22.1	23.6
Sales volume growth						
Plywood	(19.1)	26.0	15.1	8.8	7.7	9.9
MDF	NA	NA	NA	NA	49.1	16.9
EBITDA margin						
Plywood	10.1	10.0	9.6	7.8	9.1	9.5
MDF	NA	NA	NA	11.0	14.8	16.5

Source: Company, BOBCAPS Research

Key risks

- Muted domestic demand and weak domestic MDF 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	0.3	675	650	HOLD
Astral	ASTRA IN	6.9	2,105	2,200	HOLD
Century Plyboards	CPBI IN	1.8	669	700	HOLD
Cera Sanitaryware	CRS IN	1.1	7,151	7,700	HOLD
Finolex Industries	FNXP IN	2.4	314	265	HOLD
Greenlam Industries	GRLM IN	0.9	600	500	HOLD
Greenpanel Industries	GREENP IN	0.5	302	340	HOLD
Greenply Industries	MTLM IN	0.4	257	320	BUY
Hindware Home Innovation	HINDWARE IN	0.3	375	600	BUY
Kajaria Ceramics	KJC IN	2.5	1,305	1,400	BUY
Prince Pipes & Fittings	PRINCEPIP IN	0.9	638	750	HOLD
Somany Ceramics	SOMC IN	0.4	729	900	BUY
Supreme Industries	SI IN	8.5	5,466	4,650	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	15,628	16,631	21,799	24,461	27,431
EBITDA	1,542	1,541	1,868	2,528	3,054
Depreciation	258	260	545	656	704
EBIT	1,283	1,282	1,323	1,872	2,350
Net interest inc./(exp.)	(119)	(91)	(433)	(363)	(319)
Other inc./(exp.)	99	172	139	160	160
Exceptional items	39	0	0	0	0
EBT	1,224	1,363	1,028	1,670	2,191
Income taxes	303	192	298	407	418
Extraordinary items	0	(96)	(135)	0	0
Min. int./Inc. from assoc.	26	(208)	(13)	(53)	(55)
Reported net profit	947	1,060	852	1,210	1,718
Adjustments	31	(81)	(100)	0	0
Adjusted net profit	978	979	752	1,210	1,718

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	2,164	2,427	3,329	3,736	4,189
Other current liabilities	767	934	700	700	700
Provisions	169	73	23	25	28
Debt funds	2,919	6,620	5,246	4,686	4,046
Other liabilities	188	318	246	246	246
Equity capital	123	123	124	124	124
Reserves & surplus	5,259	6,315	6,970	8,120	9,752
Shareholders' fund	5,382	6,438	7,096	8,246	9,878
Total liab. and equities	11,588	16,810	16,639	17,638	19,087
Cash and cash eq.	1,035	314	224	485	957
Accounts receivables	1,864	2,287	2,490	2,794	3,134
Inventories	2,256	2,784	3,478	3,479	3,921
Other current assets	547	1,143	724	813	912
Investments	258	64	435	635	635
Net fixed assets	3,086	4,014	8,096	8,240	8,336
CWIP	1,096	5,130	124	124	124
Intangible assets	292	578	555	555	555
Deferred tax assets, net	198	55	131	131	131
Other assets	955	442	384	384	384
Total assets	11,588	16,810	16,639	17,638	19,087

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	364	571	1,454	2,084	2,157
Capital expenditures	(1,586)	(5,507)	402	(800)	(800)
Change in investments	(33)	194	(371)	(200)	0
Other investing cash flows	60	269	274	160	160
Cash flow from investing	(1,558)	(5,044)	305	(840)	(640)
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	1,001	3,702	(1,374)	(560)	(640)
Interest expenses	(119)	(91)	(433)	(363)	(319)
Dividends paid	0	0	(28)	(60)	(86)
Other financing cash flows	67	142	(14)	0	0
Cash flow from financing	949	3,753	(1,849)	(983)	(1,045)
Chg in cash & cash eq.	(245)	(721)	(90)	261	472
Closing cash & cash eq.	1,035	314	224	485	957

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	7.7	8.6	6.9	9.8	13.9
Adjusted EPS	8.0	8.0	6.1	9.8	13.9
Dividend per share	0.0	0.0	0.2	0.5	0.7
Book value per share	43.9	52.4	57.4	66.6	79.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	1.9	1.8	1.3	1.1	1.0
EV/EBITDA	19.6	19.8	14.9	10.4	8.9
Adjusted P/E	32.3	32.3	42.3	26.3	18.5
P/BV	5.9	4.9	4.5	3.9	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	79.9	71.8	73.2	72.5	78.4
Interest burden (PBT/EBIT)	95.4	106.4	77.7	89.2	93.2
EBIT margin (EBIT/Revenue)	8.2	7.7	6.1	7.7	8.6
Asset turnover (Rev./Avg TA)	134.9	98.9	131.0	138.7	143.7
Leverage (Avg TA/Avg Equity)	2.2	2.6	2.3	2.1	1.9
Adjusted ROAE	18.2	15.2	10.6	14.7	17.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	34.1	6.4	31.1	12.2	12.1
EBITDA	30.5	0.0	21.2	35.3	20.8
Adjusted EPS	56.8	(0.2)	(23.7)	60.9	42.0
Profitability & Return ratios (%)					
EBITDA margin	9.9	9.3	8.6	10.3	11.1
EBIT margin	8.2	7.7	6.1	7.7	8.6
Adjusted profit margin	6.3	5.9	3.5	4.9	6.3
Adjusted ROAE	20.1	16.6	11.1	15.8	19.0
ROCE	16.7	11.1	11.8	15.7	18.0
Working capital days (days)					
Receivables	44	50	42	42	42
Inventory	53	61	58	52	52
Payables	51	53	56	56	56
Ratios (x)					
Gross asset turnover	3.5	3.1	2.7	2.2	2.3
Current ratio	1.2	1.3	1.3	1.3	1.4
Net interest coverage ratio	10.8	14.1	3.1	5.2	7.4
Adjusted debt/equity	0.4	1.0	0.7	0.5	0.3

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

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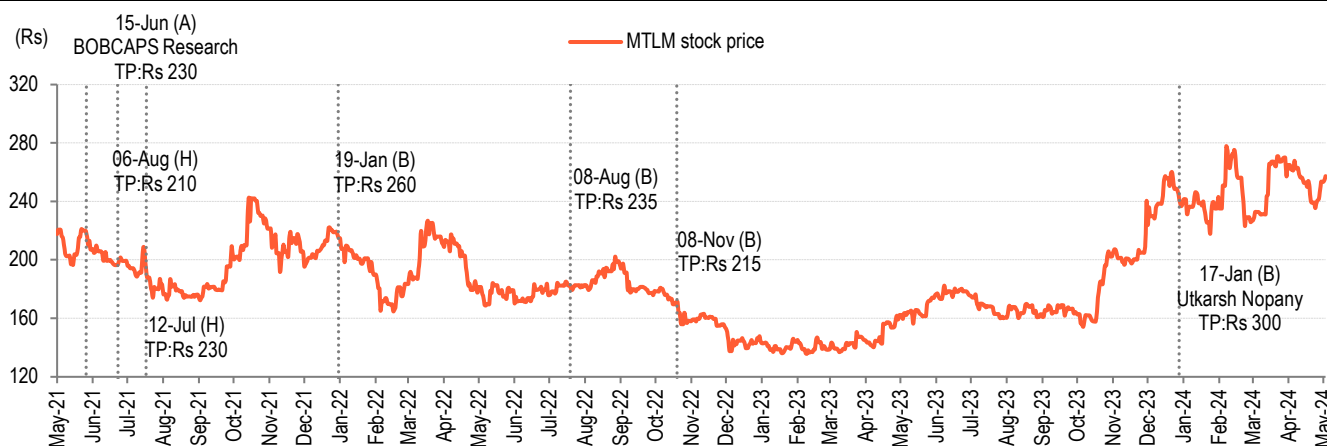
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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