RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6218 6432

GREENPLY INDUSTRIES LTD

PRICE: RS.302 RECOMMENDATION: ACCUMULATE
TARGET PRICE: RS.322 FY19E PE: 23.4X

Revenues for Q2FY18 were ahead of our estimates led by better than expected growth in plywood volumes. Forex fluctuations and decline in plywood realizations impacted the margins. Lower than expected interest expense and lower tax expense led to net profit coming slightly ahead of our estimates.

Company expects the volumes to start witnessing improvement from next year onwards once E-way bill gets implemented. Currently, the unorganized market is still not complying to the tax standards and hence the organized players are not able to benefit from the shift of market from unorganized to organized. But once E-way bill gets implemented, benefit would start getting accrued to the organized players. Volume growth in plywood is likely to be led by drivers such as shift towards organized segment post GST implementation, development of smart cities and rising urbanization. Company is also on track to expand its capacity in MDF and plywood to cater to incremental demand requirements.

We tweak our estimates and arrive at a price target of Rs 322 based on 25x FY19 estimates. Volumes are likely to recover sharply from FY19 onwards and company plans to cater to improved demand going forward with higher value added products, increased outsourcing in plywood and new capacity in plywood and MDF. Owing to limited upside from the current levels, we maintain ACCUMULATE rating on the stock and would advise investors to look for declines to enter the stock.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	16,549	17,998	19,883
Growth (%)	0%	9%	10%
EBITDA	2,450	2,790	3,082
EBITDA margin (%)	14.8%	15.5%	15.5%
PBT	1,909	2,159	2,239
Net profit	1,366	1,528	1,584
EPS(Rs)	11.1	12.5	12.9
Growth(%)	4%	12%	4%
CEPS(Rs)	15.1	16.4	18.0
BVPS(Rs)	63.7	75.4	87.6
DPS (Rs)	0.6	0.6	0.6
ROE (%)	19.7	17.9	15.8
ROCE (%)	20.8	18.7	17.1
Net debt	1,714	4,569	3,325
Net working capital (Days)	71.4	71.4	71.4
P/E (x)	27.1	24.2	23.4
P/BV (x)	4.7	4.0	3.4
EV/Sales (x)	2.3	2.3	2.0
EV/EBITDA (x)	15.6	14.7	12.9

Source: Company, Kotak Securities – Private Client Research

Financial highlights

(Rs mn)	Q2FY18	Q2FY17	YoY (%)
Net Sales	**4460.97**	**4346.3**	**2.6**
Total Expenditure	3823.3	3703.75	3.2
EBITDA	**637.7**	**642.6**	**-0.8**
EBITDA margins (%)	14.29%	14.78%	
Depreciation	113.7	122.02	
EBIT	**524.0**	**520.5**	**0.7**
Interest	22.99	68.71	
EBT (Exc other income)	501.0	451.8	10.9
Other operating income	10.02	5.41	
Other Income		24.4	
EBT	**511.0**	**481.6**	**6.1**
Tax	147.0	130.7	
Tax (%)	29%	27%	
Profit After Tax	364.0	350.9	
Other comprehensive income	11.88	-1.47	
Net profit	**375.9**	**349.5**	**7.6**
Equity Capital	122.6	122.6	
Face Value (In Rs)	1.00	1.00	
EPS (Rs)	**3.0**	**2.9**	**3.8**

Source: Company

Revenue growth led by plywood volume growth

Revenues for Q2FY18 were ahead of our estimates led by better than expected growth in plywood volumes. Sequentially plywood volumes have revived sharply led by restocking in the channel. However, the recovery in the demand is still not sharp as the unorganized market players are still not complying to the GST and hence the organized players are finding it difficult to gain the market share of unorganized players. Demand also continues to remain weak.

Plywood division sales stood at 13.74 msm comprising of 8.88 msm from own manufactured plants while 4.86 msm from outsourcing. Capacity utilization in the plywood segment stood at 110% as against 116% during Q2FY17. Average net realization of plywood declined by 3% YoY to Rs 226 per sqm, although it was flat sequentially. Company had taken a price hike of 2% from August but it was not absorbed in the system. Now during this quarter, it would try to hike prices with improvement in sales product mix. Overall for the plywood division, we expect that volume growth to gain traction from FY19 onwards post implementation of E-way bill.

MDF volumes declined both sequentially and on yearly basis. MDF volumes were down by 4.4% YoY owing to the impact of GST. MDF Utilizations stood at 93% during Q2FY18. Volumes in MDF segment stood at 45767 cubic meter vs 47860 cubic meter in Q2FY17. Average realizations of MDF improved by 3% YoY at Rs 26576 per CBM. Company has taken a price hike of 4% in MDF segment during the last quarter which was reflected in improvement in MDF realizations. During the quarter, exports were at 4264 CBM at an average rate of Rs 16239 per CBM (as against 5341 CBM in Q2FY17 at Rs 15957 per CBM). Targeting export market is the conscious strategy of the company to create a new market of MDF for its upcoming AP plant.

Volume table

Plywood volumes	Q2FY18	Q2FY17	YoY (%)
Production mn sq m	8.88	9.36	-5.1%
Outsourcing mn sq m	4.86	3.68	32.1%
Total Sales mn sq m	13.74	13.04	5.4%
Realization per mn sq m	226	233	-3.0%
Plywood Revenues (Rs mn)	3126.9	3080.3	1.5%
MDF			
Total Sales (CBM)	45767	47860	-4.4%
Realization per CBM	26576	25802	3.0%
MDF Revenues (Rs mn)	**1216.6**	**1236.1**	**-1.6%**
Plywood margins	11%	10.40%	
MDF margins	26%	28.70%	

Source: Company

We maintain our estimates and expect revenues to grow at a CAGR of 9.6% between FY17-19.

Operating margins in line with estimates

Operating margins stood at 14.3% for Q2FY18 vs 14.8% for Q2FY17 and the decline in margins was mainly due to forex fluctuations. Margins were impacted due to higher other expenses to the tune of Rs 60.3 mn which included forex fluctuations on Long Term Borrowings of 32 mn Euro and 4mn USD for new MDF Plant under construction in Andhra Pradesh.

During Q2FY18, plywood margins stood at 11% vs 10.4% during Q2FY17 while MDF margins stood at 26% vs 28.7% in Q2FY17. MDF margins decline was led by forex fluctuations of Rs 60.3 mn on long term borrowings for the new plant. Plywood division margins improvement YoY despite lower realizations was due to lower raw material costs as well as reduction in overall wastages. Company plans to improve product mix further in plywood through value added products like Green Defender, Green Gold Prima and Natural Veneers.

In terms of sourcing of raw material – face veneer, company had three options – Myanmar (timber cost of $1100 per CBM), Indonesia (timber cost of $900 per CBM) and Gabon (timber cost of $900 per CBM). It is now sourcing from Gabon. The first phase of Gabon plant has become operational while the second phase would be operationalized by December 2017. Gabon plant has a capacity of 35000 CBM and Greenply's current requirement are around 17500 CBM. Once it gets operational, the surplus would be sold to the third party players.

We maintain our margin estimates and expect margins of 15.5% going forward. Improvement is likely to be led by pricing gains.

Net profit performance ahead of our estimates

Lower than expected interest expense and lower tax expense led to net profit coming slightly ahead of our estimates.

MDF capacity expansion in AP is going on track to expand its capacity by 300000-360000 CBM at a planned capex of 7-7.3 Bn to be invested over FY16-FY19. In respect of setting-up of new unit adjacent to the existing unit of the Company in Bamanbore, Gujarat, for manufacturing of decorative plywood/decorative veneers, the Company has started civil construction work at the site. Gujarat unit capex is around Rs 400 mn and this will have revenue potential of Rs 1.25-1.3 bn. It expects to spend Rs 320 mn in FY18 and remaining in FY19. For UP plant, company is planning to set up additional lines for plywood for a capacity of 13.5 msm. The Company has made an application for the allotment of land with respective government authority. On UP plant, capex is around Rs 1.15 bn and revenue potential is Rs 3-3.25 bn. It expects to spend Rs 550 mn in FY18 and remaining Rs 600 mn in FY19.

We tweak our estimates to factor in lower interest and depreciation and expect net profits to grow at a CAGR of 8.9% between FY17-19.

Valuation and recommendation

We maintain ACCUMULATE rating on Greenply Industries Ltd with a price target of Rs.322

At current price of Rs 302, stock is trading at 24.2x and 23.4x P/E and 14.7x and 12.9x EV/EBITDA on FY18 and FY19 estimates respectively. We tweak our estimates and arrive at a revised price target of Rs 322 based on 25x FY19 estimates. Volumes are likely to recover sharply from FY19 onwards and company plans to cater to improved demand going forward with higher value added products, increased outsourcing in plywood and new capacity in plywood and MDF. Owing to limited upside from the current levels, we maintain ACCUMULATE rating on the stock and would advise investors to look for declines to enter the stock.

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ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
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NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

Fundamental Research Team

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6218 6431

Amit Agarwal
Logistics, Paints, Transportation
agarwal.amit@kotak.com
+91 22 6218 6439

Nipun Gupta
Information Technology
nipun.gupta@kotak.com
+91 22 6218 6433

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6218 6427

Teena Virmani
Construction, Cement
teena.virmani@kotak.com
+91 22 6218 6432

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6218 6426

Jatin Damania
Metals & Mining
jatin.damania@kotak.com
+91 22 6218 6440

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6218 5373

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Sumit Pokharna
Oil and Gas
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Ashini Shah
Midcap
ashini.shah@kotak.com
+91 22 6218 5438

Technical Research Team

Shrikant Chouhan
shrikant.chouhan@kotak.com
91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Derivatives Research Team

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT
prasenjit.biswas@kotak.com
+91 33 6625 9810

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