

Greenply Industries

The plywood maker for growing India

Greenply Industries Ltd (GIL) manufactures plywood & allied products and medium density fibreboards (MDF). GIL offers a portfolio of residential and commercial products comprising plywood & block boards, MDF, wood floors, flush doors and decorative veneers. GIL offers wood floors under the brand name Green Floormax. Currently, GIL has ~26% market share in the organized plywood industry.

Shifting of trend towards the organized plywood sector to propel growth: Indian plywood industry is estimated at `18,000cr (largely unorganised), and accounts for ~75% share of revenues. With the implementation of GST, the share of organized players is expected to improve, which would benefit branded players like GIL. Hence, we believe that GIL is best placed to gain market share on the back of better product quality, strong brands and wide distribution network. Currently, the company has ~26% market share in the organized plywood industry.

Capacity addition in MDF segment a growth catalyst: GIL has added new MDF plant in Andhra Pradesh, which would increase the capacity from 1,80,000 CBM to 540,000 CBM (new plant can generate revenue of `800-900cr). Total capex required for this MDF plant is `700cr out of which the company has already spent ~`550cr till 1HFY18 and the balance would be spent by FY2019. The commercial production would start from 2QFY19, boosting the company's profitability. Currently the company has ~30% market share in MDF.

Pradhan Mantri Awas Yojana (PMAY) – trigger for MDF segment: The government has set an aim to build ~1.2cr houses by 2022 under PMAY, which would increase the demand for plywood industry for making doors and furniture. Moreover, in the lower segment, demand for MDF would increase for these houses.

Strong brand visibility with wide distribution network: GIL has been continuously focusing on strong brand visibility. Historically, the company has been spending around 3% (% of sales) on ad spends to increase its brand visibility. Currently, GIL's products (Plywood and MDF) are available across India through 30-35 branches, which address more than 2,000 dealers and nearly 10,000 retailers.

Outlook and Valuation: We expect GIL to report net revenue CAGR of ~14% to ~`2,478cr over FY2017-20E mainly due to healthy growth in plywood & lamination business and MDF (capacity expansion) on the back of strong brand and distribution network. On the bottom-line front, we expect ~13% CAGR to ~`179cr over the same period owing to strong revenue and better margins in MDF business. **At the current market price of `340, the stock trades at PE of 23.3x its FY2020E EPS of `14.6. We initiate coverage on GIL with Buy recommendation and Target Price of `395 (27x FY20E EPS), indicating an upside of ~16% from the current levels.**

Key financials

Y/E March (` cr)	FY2017	FY2018E	FY2019E	FY2020E
Net sales	1,664	1,711	2,188	2,478
% chg	1.0	2.8	27.9	13.2
Net profit	125	135	161	179
% chg	(1.9)	7.7	19.2	11.4
EBITDA margin (%)	14.5	14.5	15.6	15.7
EPS (`)	10.2	11.0	13.1	14.6
P/E (x)	33.2	30.9	25.9	23.3
P/BV (x)	5.4	4.6	3.9	3.3
RoE (%)	16.2	14.9	15.1	14.4
RoCE (%)	16.3	13.6	16.6	16.3
EV/Sales (x)	2.7	2.7	2.1	1.8
EV/EBITDA (x)	18.5	18.7	13.5	11.6

Source: Company, Angel Research, Note: CMP as of March 1, 2018

BUY

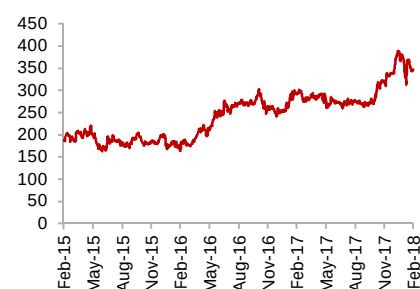
CMP	`340
Target Price	`395
Investment Period	12 Month

Stock Info	
Sector	Plywood
Market Cap (` cr)	4,155
Net Debt (` cr)	413
Beta	1.0
52 Week High / Low	401/255
Avg. Daily Volume	57,987
Face Value (`)	1
BSE Sensex	34,047
Nifty	10,458
Reuters Code	GRPL.BO
Bloomberg Code	MTLM.IN

Shareholding Pattern (%)	
Promoters	51.0
MF / Banks / Indian FIs	20.6
FII / NRIs / OCBs	14.9
Indian Public / Others	13.5

Abs. (%)	3m	1yr	3yr
Sensex	3.7	17.5	15.6
GIL	8.0	18.9	85.4

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya

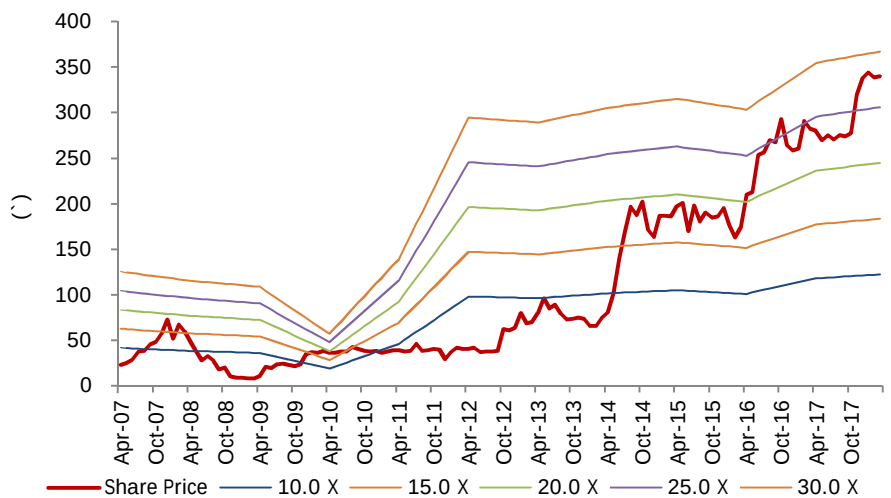
022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

Outlook and Valuation

We expect GIL to report net revenue CAGR of ~14% to ~`2,478cr over FY2017-20E mainly due to healthy growth in plywood & lamination business and MDF (capacity expansion) on the back of strong brand and distribution network. On the bottom-line front, we expect ~13% CAGR to ~`179cr over the same period owing to strong revenue and better margins in MDF business. **At the current market price of `340, the stock trades at PE of 23.3x its FY2020E EPS of `14.6. We initiate coverage on GIL with Buy recommendation and Target Price of `395 (27x FY20E EPS), indicating an upside of ~16% from the current levels.**

Exhibit 1: One year forward PE Chart



Source: Company, Angel Research

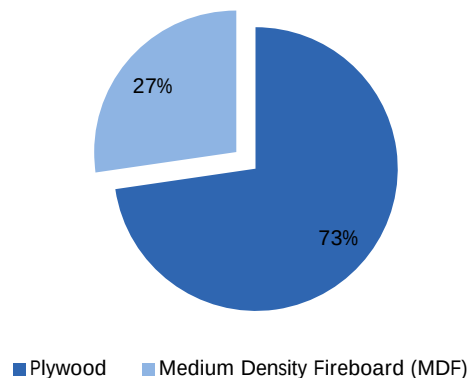
Risks to our estimates

- Most of the company's raw material is imported from other countries. The company also has ECB loan, hence any unfavorable change in currency may pose forex risks, which could significantly impact GIL's margins.
- The company is expanding the MDF plant with capex of ~`700cr, any slowdown in MDF market can impact the company's earnings due higher fixed cost overheads.

Company Background

Greenply Industries Limited is engaged in the business of manufacturing plywood & allied products and medium density fibreboards (MDF) through its factories at various locations. The company's segments include Plywood & Allied Products and Medium Density Fibre Boards & Allied Products. The Plywood & Allied Products segment is engaged in the business of manufacturing and trading of Plywood, block boards, veneer, doors and other wood panel products through its wholesale and retail network. The Medium Density Fibre Boards & Allied Products segment is engaged in the business of manufacturing of Medium Density Fibreboards and other allied products through its wholesale and retail network. The company offers a portfolio of residential and commercial products comprising plywood and block boards, MDF, wood floors, flush doors and decorative veneers. The company offers wood floors under the brand name Green Floormax.

Exhibit 2: Revenue break-up for FY2017



Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	1,564	1,647	1,664	1,711	2,188	2,478
% chg	(29.4)	5.3	1.0	2.8	27.9	13.2
Total Expenditure	1,359	1,409	1,423	1,463	1,847	2,089
Raw Material	909	920	883	907	1,160	1,313
Personnel	145	167	177	183	239	273
Others Expenses	305	321	362	373	449	503
EBITDA	205	239	241	248	341	389
% chg	(22.6)	16.6	0.9	3.0	37.6	13.9
(% of Net Sales)	13.1	14.5	14.5	14.5	15.6	15.7
Depreciation & Amortisation	47	50	51	52	75	98
EBIT	158	189	190	196	266	291
% chg	(23.0)	19.9	0.6	3.0	35.8	9.2
(% of Net Sales)	10.1	11.5	11.4	11.5	12.2	11.7
Interest & other Charges	36	29	19	13	43	43
Other Income	19	10	10	10	10	12
(% of PBT)	13.7	5.9	5.5	5.2	4.3	4.6
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	141	170	181	193	233	260
% chg	(7.6)	20.2	6.9	6.4	20.9	11.4
Tax	17	41	56	58	72	81
(% of PBT)	12.0	24.4	30.8	30.0	31.0	31.0
PAT (reported)	124	128	125	135	161	179
% chg	5.7	3.0	(1.9)	7.7	19.2	11.4
(% of Net Sales)	7.9	7.8	7.5	7.9	7.4	7.2
Basic EPS (`)	10.1	10.4	10.2	11.0	13.1	14.6
Fully Diluted EPS (`)	10.1	10.4	10.2	11.0	13.1	14.6
% chg	5.7	3.0	(1.9)	7.7	19.2	11.4

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS						
Equity Share Capital	12	12	12	12	12	12
Reserves& Surplus	474	602	760	895	1,056	1,236
Shareholders Funds	486	614	773	908	1,069	1,248
Minority Interest	-	-	-	-	-	-
Total Loans	332	270	397	536	536	536
Deferred Tax Liability	49	50	49	49	49	49
Total Liabilities	867	935	1,218	1,493	1,654	1,833
APPLICATION OF FUNDS						
Gross Block	726	774	797	807	1,507	1,517
Less: Acc. Depreciation	193	232	272	324	399	497
Net Block	533	542	526	484	1,109	1,020
Capital Work-in-Progress	14	9	269	620	-	-
Investments	35	29	26	26	26	26
Current Assets	567	620	757	739	1,006	1,315
Inventories	190	139	158	173	228	285
Sundry Debtors	257	333	302	319	420	496
Cash	8	35	78	41	85	163
Loans & Advances	97	74	66	68	98	136
Other Assets	15	40	153	137	175	235
Current liabilities	291	316	395	410	522	563
Net Current Assets	276	304	363	328	484	752
Deferred Tax Asset	9	50	35	35	35	35
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	867	935	1,218	1,493	1,654	1,833

Source: Company, Angel Research

Consolidated Cashflow Statement

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	141	170	181	193	233	260
Depreciation	47	50	51	52	75	98
Change in Working Capital	(9)	(21)	(25)	(2)	(112)	(190)
Interest / Dividend (Net)	35	28	18	13	43	43
Direct taxes paid	(28)	(38)	(42)	(58)	(72)	(81)
Others	1	2	(0)	0	0	0
Cash Flow from Operations	187	191	183	198	167	131
(Inc.)/ Dec. in Fixed Assets	(86)	(69)	(295)	(10)	0	(10)
(Inc.)/ Dec. in Investments	(19)	6	2	(345)	(80)	0
Cash Flow from Investing	(105)	(63)	(293)	(355)	(80)	(10)
Issue of Equity	0	0	50	0	0	0
Inc./(Dec.) in loans	(47)	(64)	129	139	0	0
Dividend Paid (Incl. Tax)	(7)	(7)	(7)	0	0	0
Interest / Dividend (Net)	(29)	(29)	(22)	(13)	(43)	(43)
Cash Flow from Financing	(82)	(100)	150	126	(43)	(43)
Inc./(Dec.) in Cash	1	28	40	(30)	44	78
Opening Cash balances	3	3	31	71	41	85
Closing Cash balances	3	31	71	41	85	163

Source: Company, Angel Research

Key ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)						
P/E (on FDEPS)	33.6	32.6	33.2	30.9	25.9	23.3
P/CEPS	24.3	23.4	23.7	22.3	17.7	15.0
P/BV	8.6	6.8	5.4	4.6	3.9	3.3
Dividend yield (%)	0.2	0.0	20.6	0.0	0.0	0.0
EV/Sales	2.8	2.7	2.7	2.7	2.1	1.8
EV/EBITDA	21.8	18.3	18.5	18.7	13.5	11.6
EV / Total Assets	5.1	4.7	3.7	3.1	2.8	2.5
Per Share Data (Rs)						
EPS (Basic)	10.1	10.4	10.2	11.0	13.1	14.6
EPS (fully diluted)	10.1	10.4	10.2	11.0	13.1	14.6
Cash EPS	14.0	14.5	14.4	15.3	19.3	22.6
DPS	0.6	0.0	70.0	0.0	0.0	0.0
Book Value	39.7	50.1	63.0	74.0	87.2	101.8
Returns (%)						
ROCE	19.3	21.4	16.3	13.6	16.6	16.3
Angel ROIC (Pre-tax)	20.4	23.0	17.9	14.2	17.8	18.2
ROE	25.5	20.8	16.2	14.9	15.1	14.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.2	2.1	2.1	2.1	1.5	1.6
Inventory / Sales (days)	44	31	35	37	38	42
Receivables (days)	60	74	66	68	70	73
Payables (days)	53	55	66	66	66	64
Working capital cycle (ex-cash) (days)	51	49	35	39	42	51

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)