

Greenply Industries (GREIN)

₹ 135

Supply glut could delay MDF price stability...

We attended the analyst meet of Greenply Industries (GIL). The key takeaways are: -i) MDF industry currently operates at 50% capacity utilisation, ii) the management has guided for ~60% blended utilisation for its MDF business while Andhra MDF plant is expected to reach break-even at PBT level in FY20E, iii) on the plywood business, GIL will increase the proportion of outsourcing to 30% in the next three years and iv) the management has guided for ₹ 1500-1600 crore revenues and 11.5% EBITDA margin for plywood business post de-merger. We maintain our HOLD rating on the stock as we believe pricing scenario for MDF division could take time (about two years) to stabilise on account of supply glut.

Management guides for blended MDF utilisation at ~60% in FY20E...

The domestic MDF market has a total installed capacity of 13 lakh CBM in addition to 2.5 lakh CBM MDF imports. However, domestic demand has been pegged at 8 lakh CBM, which has led to a supply glut in the market, resulting in a significant decline in average MDF realisations for all players in the industry. GIL also took ~15% price cuts in the South Indian markets with the commissioning of its Andhra Pradesh plant (360,000 CBM), which resulted in logistic cost saving. With utilisation levels at the Andhra plant expected to improve (20% utilisation in Q2FY19), the management has guided for ~60% blended utilisation in FY20E and aims at sales volume of 2.1 lakh CBM & 3.2 lakh CBM in FY19E & FY20E, respectively. Of this, it will export 50000 CBM and 1 lakh CBM in FY19E & FY20E, respectively. Also, the Andhra plant, which will cater to southern & western India, is expected to reach break-even at PBT level by FY20E end. On the pricing front, with MDF industry operating at ~50% utilisation level, the price scenario for MDF could stabilise over two years.

Plywood business to be more asset-light...

GIL's in-house production contributes 78% to overall plywood revenues, while 22% is contributed by processing & finishing of outsourced MAT ply. The company aims to make plywood business more asset-light by increasing the proportion of the outsourcing route to 30% over the next three years. This target will be mainly met by outsourcing mid-segment variants, which will free up the existing capacity for premium variants. On its expansion plans, the Uttar Pradesh plant is expected to be commissioned in FY20E, for which, the company will incur capex worth ₹ 55-60 crore. Also, GIL is looking to expand the Gabon face veneer facility to 96000 CBM with a total capex worth \$8 million by Q1FY20E. Overall, the management has guided for ₹ 1500-1600 crore revenues and 11.0-11.5% EBITDA margins for the plywood business post de-merger.

Demand supply mismatch in MDF weigh on valuation; maintain HOLD...

While we remain positive on GIL over a long term basis on account of rising pie of organised plywood players (currently 30% of plywood market), we believe the pricing scenario for the MDF division will take time (about two years) to stabilise on account of supply glut. On the positive side, GIL's plywood business is expected to see double digit growth in an asset light manner. Overall, we expect GIL's revenues to grow at 16.9% CAGR to ₹ 2296.3 crore in FY18-20E, led by growth in MDF revenues on account of capacity addition. However, the earnings growth is expected to be restricted by EBITDA margin pressure on account of MDF pricing pressure. We maintain our **HOLD** recommendation with a target price of ₹ 140 (~14x FY20E EPS).

Rating Matrix

Rating	:	Hold
Target	:	₹ 140
Target Period	:	12-18 months
Potential Upside	:	4%

Key Financials

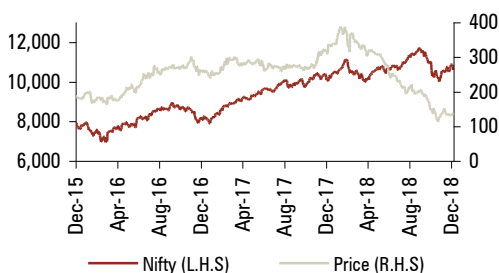
(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	1,663.1	1,680.4	1,781.3	2,296.3
EBITDA	253.2	239.7	195.2	290.5
Net Profit	135.0	135.7	84.9	123.5
EPS (₹)	11.2	11.2	7.0	10.2

Valuation Summary

(x)	FY17	FY18	FY19E	FY20E
P/E	12.1	12.0	19.2	13.2
Target P/E	12.5	12.5	19.9	13.7
EV / EBITDA	7.6	9.3	11.5	7.5
P/BV	2.1	1.8	1.6	1.5
RoNW (%)	17.2	14.8	8.5	11.1
RoCE (%)	17.6	12.1	7.4	12.3

Stock Data

Particulars	Amount (₹ crore)
Market Capitalization	1,629.2
Total Debt (FY18)	597.6
Cash (FY18)	30.0
EV	2,196.8
52 week H/L (₹)	110 / 401
Equity capital	12.1
Face value (₹)	1.0

Price Movement

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Other Analyst Meet Highlights

- **Industry glimpse:** The plywood industry market size is pegged at ₹ 19000 crore of which, GIL commands 26% market share. In the MDF industry (market size: ₹ 1800 crore), the company has 22% market share. MDF domestic capacity has more than doubled in the past year and is at 13 lakh CBM currently. With 45% share in overall demand, South India contributes to the highest MDF demand in India, followed by North (30%), West (15%)
- **MDF update:** While the Andhra Pradesh MDF plant was commissioned in July, 2018, GIL got a complete handover of the plant in November, 2018. The company aims to do a substantial quantum of exports to South East Asia and the Middle East from this plant. The management has guided for utilisation at the Uttarakhand and Andhra plant at 80% and 45%, respectively, in FY20E. Furthermore, it is aiming for total exports of 50000 CBM MDF & 1 lakh CBM in FY19E and FY20E, respectively. In South India, GIL and Rushil Décor are the two major MDF players. While Rushil is coming up with additional capacity by FY20E, the management said that further price correction in MDF may not happen as Rushil's MDF is already under-priced
- **Plywood update:** The management said that with Okume timber, now having global acceptance, and with the company using this as a raw material, it will improve operating margins, going ahead. the Uttarakhand plywood plant (10.5 MSM capacity) will be a part of Greenpanel post the de-merger. However, it will have separate operational teams for the MDF & plywood business
- **De-merger update:** The management said that GIL has received Sebi and other stock exchange clearances to demerge the company into Greenply Industries and Greenpanel Industries. Both companies will have overlap of only 10-15% of distribution channels
- **Debt update:** The management has said that of the total debt of ₹ 752.5 crore, Greenply's debt was at ₹ 156 crore while the rest was for Greenpanel, as of Q2FY19
- **Distribution network:** For the plywood segment, the company has 1825 distributors/stockists and 7000 retailers while for the MDF segment & flooring, it has 889 distributors/stockists & 4000 retailers

We have a **HOLD** rating on the stock with a target price of ₹ 140 (14x FY20E EPS)

Outlook and Valuation

While we remain positive on GIL over a long term basis on account of rising pie of organised plywood players (currently 30% of plywood market), we believe the pricing scenario for the MDF division will take time (about two years) to stabilise on account of supply glut. On the positive side, GIL's plywood business is expected to see double digit growth in an asset light manner. Overall, we expect GIL's revenues to grow at 16.9% CAGR to ₹ 2296.3 crore in FY18-20E, led by growth in MDF revenues on account of capacity addition. However, the earnings growth is expected to be restricted by EBITDA margin pressure on account of MDF pricing pressure. We maintain our HOLD recommendation with a target price of ₹ 140 (~14x FY20E EPS).

Exhibit 1: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1656.1	6.1	10.8	8.3	12.5	7.4	21.6	22.8
FY17	1663.1	0.4	11.2	3.4	12.1	7.6	17.2	17.6
FY18	1680.4	1.0	11.2	0.5	12.0	9.3	14.8	12.1
FY19E	1781.3	6.0	7.0	-37.5	19.2	11.5	8.5	7.4
FY20E	2296.3	28.9	10.2	45.5	13.2	7.5	11.1	12.3

Source: Company, ICICI Direct Research

Financial Summary

Profit and loss statement (₹ Crore)				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	1,663.1	1,680.4	1,781.3	2,296.3
Raw Material Expense	651.4	621.5	805.5	1,033.6
Purchase of Traded Goods	228.3	262.5	248.8	271.0
Employee benefit expenses	170.7	185.2	195.2	240.3
Other Expenses	359.4	371.4	336.5	460.7
EBITDA	253.2	239.7	195.2	290.5
Interest	18.1	9.5	30.1	47.3
Depreciation	48.5	44.8	66.4	76.3
Other income	4.4	3.8	4.2	4.6
PBT	190.9	189.2	117.9	171.5
Taxes	55.9	53.5	33.0	48.0
Effective tax rate (%)	29.3	28.3	28.0	28.0
PAT	135.0	135.7	84.9	123.5
PAT Growth rate	3.4	0.5	(37.5)	45.5
Adjusted EPS (Diluted)	11.2	11.2	7.0	10.2

Source: Company, ICICI Direct Research

Balance Sheet (₹ Crore)				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	774.8	902.8	981.5	1,096.1
Total Shareholders funds	787.0	915.1	993.8	1,108.4
Total Debt	375.8	627.6	709.0	569.0
Deferred Tax Liability	14.0	26.5	26.5	26.5
Total Liabilities	1,188.1	1,647.2	1,807.3	1,781.9
Assets				
Gross Block	762.5	773.8	1,615.8	1,740.8
Less Acc. Dep	263.3	296.7	363.1	439.4
Net Block	499.3	477.1	1,252.7	1,301.4
Net Intangibles Assets	2.0	5.9	5.9	5.9
Capital WIP	216.1	770.4	86.9	61.9
Total Fixed Assets	717.4	1,253.4	1,345.5	1,369.2
Investments	72.4	76.4	76.4	76.4
Inventory	158.3	215.0	227.9	283.1
Sundry Debtors	301.1	284.4	301.5	390.1
Loans & Advances	25.7	58.0	61.5	79.2
Cash & Bank Balances	71.6	30.0	86.3	6.2
Other Current Assets	189.4	165.7	170.8	197.4
Total Current Assets	746.1	753.0	848.0	955.9
Trade Payable	206.4	211.0	224.5	308.3
Other Current Liabilities	123.5	249.8	260.1	317.2
Provisions	26.2	26.5	28.1	36.3
Net Current Assets	390.1	265.6	335.2	294.2
Total Assets	1,188.0	1,647.2	1,807.3	1,781.9

Source: Company, ICICI Direct Research

Cash Flow statement (₹ Crore)				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Profit after Tax	135.0	135.7	84.9	123.5
Depreciation	48.5	44.8	66.4	76.3
Interest	18.1	9.5	30.1	47.3
Taxes	55.9	53.5	33.0	48.0
Cash Flow before wc changes	253.2	239.7	210.2	290.5
Cash generated from operations	181.1	278.9	198.5	259.5
Income Tax paid	55.9	53.5	33.0	48.0
Net CF from operating activities	125.2	225.4	165.5	211.5
Capital Work-in-progress	(207.0)	(554.3)	683.5	25.0
(Purchase)/Sale of Fixed Assets (Net)	11.4	11.3	842.0	125.0
Net CF from Investing activities	(179.3)	(557.9)	(154.4)	(95.4)
Dividend	(9.5)	(9.8)	(6.1)	(8.9)
Interest paid	(18.1)	(9.5)	(30.1)	(47.3)
Inc / (Dec) in Loans	154.4	251.8	81.4	(140.0)
Net CF from Financing activities	176.8	232.5	45.2	(196.2)
Net Cash flow	122.6	(100.0)	56.3	(80.1)
Opening Cash	31.6	71.6	30.0	86.3
Closing Cash/ Cash Equivalent	71.6	30.0	86.3	6.2

Source: Company, ICICI Direct Research

Key Ratios				
	FY17	FY18	FY19E	FY20E
Per Share Data (₹)				
EPS - Diluted	11.2	11.2	7.0	10.2
Cash EPS	15.2	15.0	12.5	16.6
Book Value	65.2	75.8	82.3	91.8
Dividend per share	0.8	0.8	0.5	0.7
Operating Ratios (%)				
EBITDA / Net Sales	15.2	14.3	11.0	12.7
PAT / Net Sales	8.1	8.1	4.8	5.4
Inventory Days	35	47	47	45
Debtor Days	71	69	69	69
Creditor Days	76	89	89	93
Return Ratios (%)				
RoE	17.2	14.8	8.5	11.1
RoCE	17.6	12.1	7.4	12.3
RoIC	22.7	23.0	9.6	12.5
Valuation Ratios (x)				
EV / EBITDA	7.6	9.3	11.5	7.5
P/E (Diluted)	12.1	12.0	19.2	13.2
EV / Net Sales	1.2	1.3	1.3	1.0
Market Cap / Sales	1.0	1.0	0.9	0.7
Price to Book Value	2.1	1.8	1.6	1.5
Dividend Yield	0.6	0.6	0.4	0.5
Solvency Ratios (x)				
Net Debt / Equity	0.4	0.7	0.6	0.5
Debt / EBITDA	1.5	2.6	3.6	2.0
Current Ratio	1.5	1.4	1.4	1.4
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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