

## Still time for MDF to stabilise

Greenply Industries' (GIL) topline grew 18.1% YoY to ₹ 516.2 crore on account of strong growth in plywood business and better-than-expected MDF revenue growth. EBITDA margins contracted sharply by 273 bps YoY (227 bps contraction QoQ) to 10.3% due to low capacity utilisations at AP MDF plant and change in MDF sales mix with increase in export volumes. PAT declined 17.3% YoY to ₹ 27.0 crore on account of higher finance cost.

## Strong volume growth in plywood division in FY19

Plywood business revenues grew 26.7% YoY to ₹ 380.8 crore driven by 23.9% volume growth at 17.2 million sq mt (MSM) while average realisation grew 1.4% YoY to ₹ 220 /sq meter in Q4FY19. Despite plywood industry growing <5% YoY, GIL's plywood sales grew 19.6% YoY to ₹ 1,372 crore in FY19. This was primarily on account of strong sales volume growth of 19.5% YoY to 61.0 MSM in FY19. Higher sales volume was as GIL got incremental market share on account of gain in market share due to stricter implementation of e-way bill and benefits from loyalty program. In plywood segment, ₹ 1,012 crore sales was from premium segment, ₹ 310 crore from mid-segment and ₹ 32 crore from low-segment in FY19. The management has guided for 10-12% plywood volume growth in FY20E.

## Clocks strong MDF volume growth; EBITDA margins decline

GIL's MDF sales volumes grew 61.5% YoY to 65,341 CBM on account of additional capacity from Andhra Pradesh (AP) MDF plant. Average realisation declined 25.5% YoY (7.7% QoQ) to ₹ 19,343/CBM, leading to 1080 bps YoY decline in MDF EBITDA margins to 21.0% in Q4FY19. This was on account of lower capacity utilisation at AP MDF plant (30%), domestic MDF price cuts & change of domestic: export mix. Going ahead, GIL aims 80% & 60% utilisation at Uttarakhand & AP MDF plants, respectively, in FY20E. In FY19, while blended EBITDA margins declined 1110 bps YoY to 17.7%, the management has guided for 17% margins in FY20E. Overall, while GIL's management opines MDF prices to have hit rock bottom, we expect MDF prices to take some more time to stabilise. Overall, we expect MDF revenue growth at 55% CAGR to ₹ 1038.2 crore in FY19-21E.

## Valuation & Outlook

We remain positive on GIL on a medium to long term basis as the share of organised plywood players is set to expand with increasing compliance towards e-way bill, higher brand aspirations & GIL's strong brand recall. However, due to MDF supply glut in domestic market, MDF prices could take some time to stabilise. Also, while MDF margins are expected to stabilise at ~17% in the interim, they are still below our initial expectations of 20-25%. We rollover our valuation on FY21E estimates & maintain **HOLD** recommendation on the stock with a TP of ₹ 175/share (~13x FY21E EPS).

### Key Financial Summary

(₹ Crore)	FY17E	FY18E	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	1663.1	1680.4	1832.2	2225.7	2694.2	21.3%
EBITDA	253.2	239.7	199.2	268.6	357.0	33.9%
Net Profit	135.0	135.7	100.8	109.6	165.3	
EPS (₹)- Diluted	11.2	11.2	8.4	9.1	13.7	28.1%
P/E (x)	14.8	14.8	19.9	18.3	12.1	
Price/book (x)	2.5	2.2	2.0	1.8	1.6	
EV/EBITDA (x)	9.1	10.9	13.7	10.0	7.3	
RoCE (%)	17.6	12.1	8.2	10.8	14.0	
RoE (%)	17.2	14.8	10.0	9.9	13.1	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount (₹ crore)
Market Capitalization	2,003.3
Total Debt	722.4
Cash	5.4
EV	2,720.3
52 week H/L (₹)	110 / 260
Equity capital	12.1
Face value (₹)	1.0

### Key Highlights

- Topline grew 18.1% YoY to ₹ 516.2 crore on account of strong growth in plywood business and better-than-expected MDF revenue growth
- Plywood business revenues grew 26.7% YoY to ₹ 380.8 crore driven by 23.9% volume growth at 17.2 million sq mt (MSM)
- MDF sales volumes grew 61.5% YoY to 65,341 CBM on account of additional capacity from Andhra Pradesh (AP) MDF plant
- Maintain **HOLD** with a target price of ₹ 175/share

### Research Analyst

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**Exhibit 1: Variance Analysis**

Particular	Q4FY19	Q4FY19E	Q4FY18	Chg (%)	Q3FY19	Chg (%)	Comments
Net Sales	516.2	470.0	437.1	18.1	462.9	11.5	Muted topline growth was on account of strong growth in plywood revenues and better-than-expected MDF revenue growth
Other Income	14.1	2.0	1.3	1,027.8	1.5	810.7	
Material Consumed	199.0	214.0	164.4	21.0	210.8	-5.6	
Purchase of Stock in Trade	64.4	63.8	76.9	-16.2	62.8	2.5	
Changes in Inventories of WIP	35.5	0.0	-9.4	-478.7	-20.6	-272.0	
Employee Benefit Expenses	56.4	47.0	41.8	34.9	57.6	-2.1	
Other Expenses	107.5	87.6	106.3	1.2	93.9	14.4	
EBITDA	53.3	57.6	57.1	-6.6	58.3	-8.6	
EBITDA Margin (%)	10.3	12.3	13.1	-273 bps	12.6	-227 bps	EBITDA margin contraction was due to margin contraction in MDF division
Depreciation	20.0	19.9	11.1	79.6	19.9	0.3	
Interest	14.0	5.0	1.3	948.5	-1.7	-948.3	
PBT	33.4	34.7	45.9	-27.1	41.6	-19.6	
Taxes	6.5	6.8	13.2	-51.3	5.9	9.1	
PAT	27.0	27.9	32.6	-17.3	35.7	-24.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

Particulars (₹ crore)	FY17	FY18	FY19	FY20E		FY21E	Comments	
				Old	New			
Revenue	1,663.1	1,680.4	1,832.2	2,306.2	2,225.7	-3.5	2,694.2	We introduce FY21E estimates
EBITDA	253.2	239.7	199.2	294.4	268.6	-8.8	357.0	
EBITDA Margin (%)	15.2	14.3	10.9	12.8	12.1	-73 bps	13.2	
PAT	135.0	135.7	100.8	126.2	109.6	-13.2	165.3	
EPS (₹)	11.2	11.2	8.4	10.5	9.1	-13.2	13.7	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

Volume Assumptions	FY17	FY18E	FY19E	Current	Introduced	Earlier	Comments
				FY20E	FY21E	FY20E	
Plywood (In million sq mt)	50.2	51.1	61.0	64.8	68.8	60.6	We introduce FY21E estimates
MDF (In CBM)	189,000	190,800	197,763	360,000	450,000	396,000	

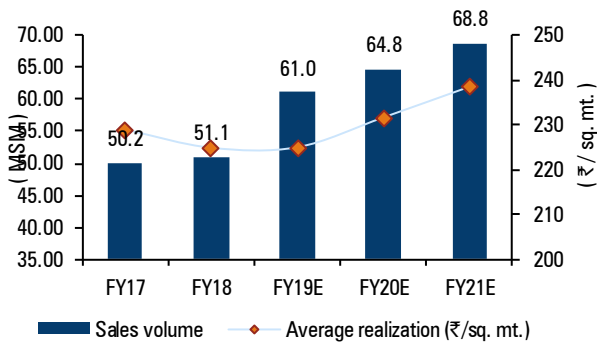
Source: Company, ICICI Direct Research

## Conference call Highlights

- **MDF industry update:** India imports 2,50,000 – 3,00,000 CBM MDF per annum as of FY19. As anti-dumping duty is applicable on MDF with >6 mm thickness, price difference between domestic and imported MDF with >6mm thickness is 8-10%, while it is ~25% in case of <6 mm thick MDF. Anti-dumping duty on <6 mm thick MDF could be implemented in the next 12-18 months. Currently, international MDF prices are at \$160-175/CBM vs. \$190/CBM a year ago. As per GIL's management, domestic industry MDF prices have not reduced so far in Q1FY20E and are believed to have hit rock bottom
- **GIL's MDF business:** Uttarakhand MDF plant operated at 73% utilisation, while the AP plant operated at 30% utilisation in FY19. The company aims to achieve 80% & 60% utilisation at these plants, respectively in FY20E. GIL clocked 65,341 CBM MDF sales volume in Q4FY19, out of which 19,100 CBM were exports (42,981 CBM MDF exports out of 1,97,763 CBM in FY19). On the EBITDA margins front, the management has guided for 17% blended MDF EBITDA margins in FY20E (21.5-22.0% margins at Uttarakhand plant and ~15% margins at AP plant)
- **Andhra Pradesh MDF plant:** AP MDF plant contributed 66,073 CBM to the overall MDF sales volumes in FY19. On the financials front, this plant clocked ₹ 115 crore revenues and ₹ 4.7 crore EBITDA in FY19
- **Uttarakhand MDF plant:** Uttarakhand MDF plant contributed 1,31,689 CBM to the overall MDF sales volumes in FY19. On the financials front, this plant clocked ₹ 314 crore revenues and ₹ 71.4 crore EBITDA in FY19
- **Plywood industry & GIL's performance:** Despite plywood industry growing by <5% YoY, GIL's plywood sales volume grew 19.5% YoY to 61.0 MSM in FY19. This was on account of GIL getting incremental market share due to: a) stricter implementation of e-way bill which forced unorganized players to take price hikes in plywood making a level-playing field for organized players; b) loyalty program introduced by the company five years back which has now reaped benefits for the company. Premium segment contributed 40.4 MSM sales volume (~17% YoY growth) in FY19. On the financial front, out of ₹ 1,372 crore plywood sales in FY19, ₹ 1,012 crore sales was from premium segment, ₹ 310 crore from mid-segment and ₹ 32 crore from low-segment. The management has guided for 10-12% plywood volume growth in FY20E
- **EBITDA margin:** EBITDA margin was lower in Q4FY19 on account of lower capacity utilisation at AP MDF plant (30% utilisation in Q4FY19), MDF price reductions and change in domestic : export mix
- **Capex & debt:** GIL incurred ₹ 145 crore capex in FY19. Of this, ₹ 118 crore was towards AP MDF plant, ₹ 13 crore towards UP plywood plant and ₹ 14 crore towards Gujarat decorative veneer plant. The company has no capex plants in FY20E. Furthermore, the management plans to repay ~₹ 100 crore debt in FY20E
- **Foreign loans:** GIL has raised loan from German bank (interest rate @8%) and ECB loan worth €11 million from Standard Chartered Bank (interest rate @0.5% including hedging cost). It will be annually repaying €4 million to the German bank loan and has repaid €2 million paid in April, 2019. Furthermore, GIL will be repaying the Standard Chartered bank loan in equal quarterly instalments over a period of five years, starting FY21E

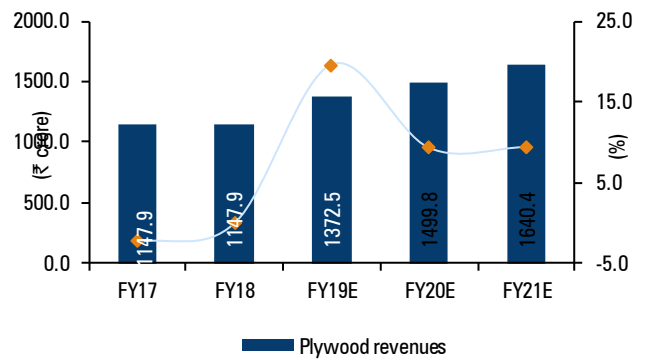
## Company Analysis

Exhibit 4: Plywood volumes trend



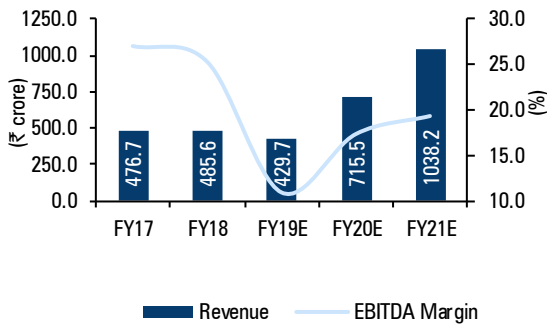
Source: Company, ICICI Direct Research

Exhibit 5: Plywood revenues trend



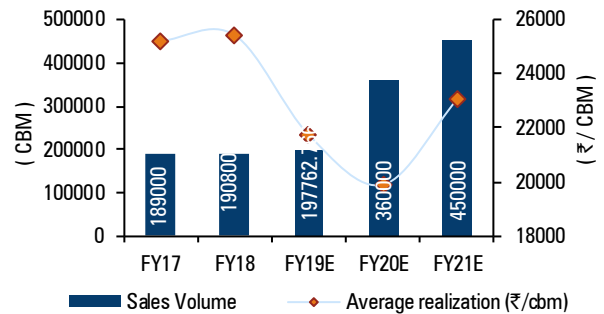
Source: Company, ICICI Direct Research

Exhibit 6: MDF revenue & EBITDA margin trend



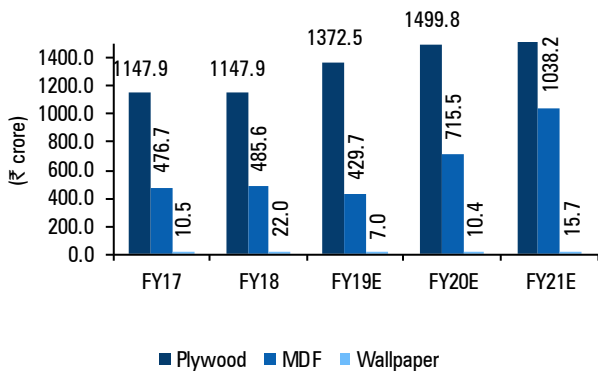
Source: Company, ICICI Direct Research

Exhibit 7: MDF sales volume & average realisation trend



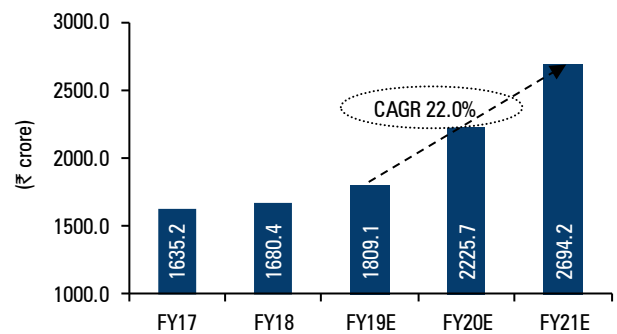
Source: Company, ICICI Direct Research

Exhibit 8: Segmental revenue trend



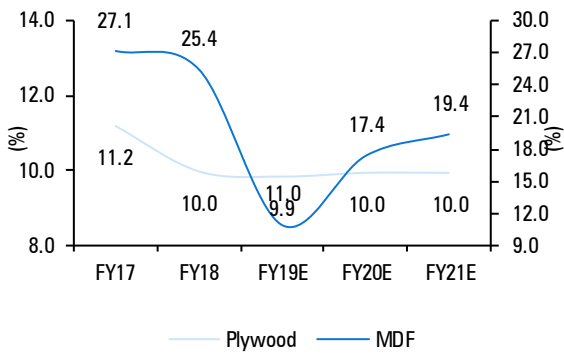
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenue trend



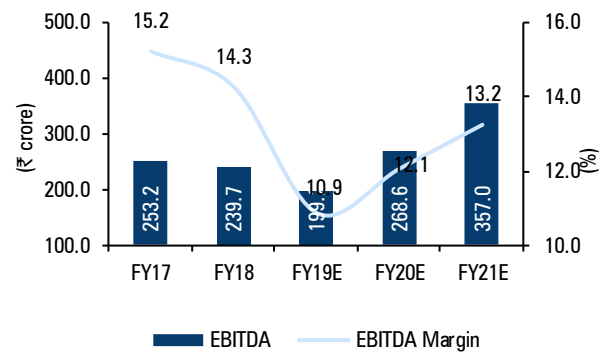
Source: Company, ICICI Direct Research

Exhibit 10: Segmental EBITDA margin trend



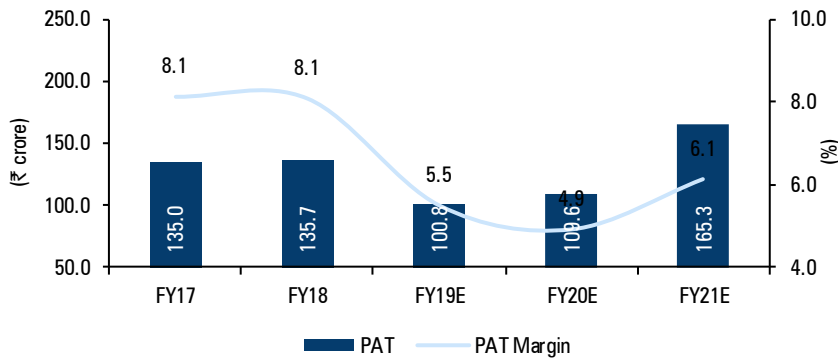
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA margin trend



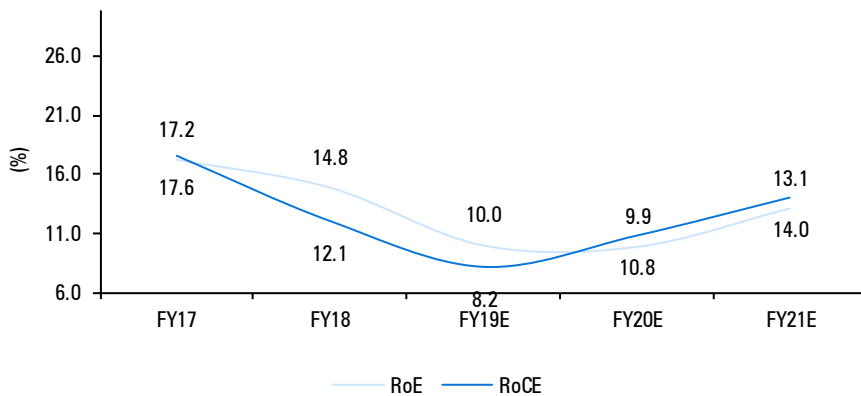
Source: Company, ICICI Direct Research

Exhibit 12: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 13: Return ratios trend



Source: Company, ICICI Direct Research

## Valuation & Outlook

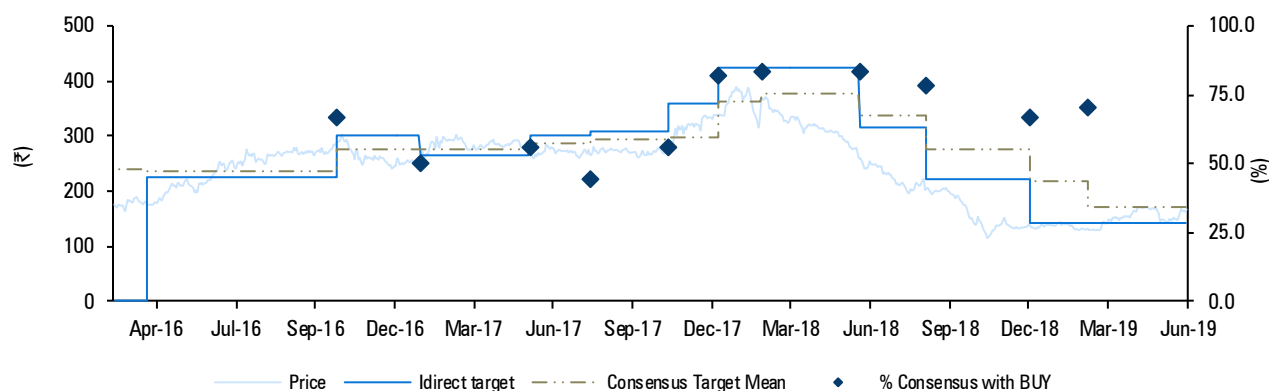
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Exhibit 14: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY16	1656.1	6.1	10.8	8.3	15.3	8.9	21.6	22.8
FY17	1663.1	0.4	11.2	3.4	14.8	9.1	17.2	17.6
FY18	1680.4	1.0	11.2	0.5	14.8	10.9	14.8	12.1
FY19E	1832.2	9.0	8.4	-25.7	19.9	13.7	10.0	8.2
FY20E	2225.7	21.5	9.1	8.7	18.3	10.0	9.9	10.8
FY21E	2694.2	21.0	13.7	50.8	12.1	7.3	13.1	14.0

Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	S M Management Pvt. Ltd.	31-Mar-19	25.8%	31.6	0.0
2	Prime Holdings Pvt. Ltd.	31-Mar-19	9.8%	12.0	0.0
3	Jwalamukhi Investment Holdings	31-Mar-19	9.6%	11.8	-0.1
4	Mittal (Shiv Prakash & Shobhan)	31-Mar-19	9.5%	11.7	0.0
5	HDFC Asset Management Co., Ltd.	30-Apr-19	8.5%	10.4	-1.8
6	SBI Funds Management Pvt. Ltd.	31-Mar-19	4.3%	5.3	0.0
7	IDFC Asset Management Company Private Lim	31-Mar-19	3.3%	4.1	2.5
8	Tata Asset Management Limited	31-Mar-19	3.1%	3.9	0.0
9	WestBridge Capital Partners, LLC	31-Mar-19	3.0%	3.6	0.0
10	Mittal (Rajesh)	31-Mar-19	2.5%	3.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 17: Recent Activity

Buys				Sells			
Investor name	Value (m)	Shares (m)		Investor name	Value (m)	Shares (m)	
IDFC Asset Management Company Private Limited	5.6	2.5		HDFC Asset Management Co., Ltd.	-4.4	-1.8	
Canara Robeco Asset Management Company Ltd.	0.1	0.0		Union Asset Management Company Private Limited	-0.8	-0.4	
Dimensional Fund Advisors, Ltd.	0.1	0.0		Invesco Asset Management (India) Private Limited	-0.6	-0.3	
Tata Asset Management Limited	0.0	0.0		Mahindra Asset Management Company Pvt. Ltd.	-0.6	-0.3	
				Jwalamukhi Investment Holdings	-0.2	-0.1	

Source: Reuters, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	51.0	51.0	51.0	51.0
Public	49.0	49.0	49.0	49.0
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 19: Profit and loss statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>1,680.4</b>	<b>1,832.2</b>	<b>2,225.7</b>	<b>2,694.2</b>
<b>Raw Material Expense</b>	<b>621.5</b>	<b>746.3</b>	<b>961.1</b>	<b>1,178.4</b>
Purchase of Traded Goods	262.5	268.7	293.8	325.6
Employee benefit expenses	185.2	219.1	239.9	282.7
Other Expenses	371.4	398.8	462.3	575.8
<b>EBITDA</b>	<b>239.7</b>	<b>199.2</b>	<b>268.6</b>	<b>357.0</b>
<b>Interest</b>	<b>9.5</b>	<b>38.7</b>	<b>57.9</b>	<b>58.3</b>
Depreciation	44.8	69.0	80.8	87.0
Other income	3.8	20.2	22.2	24.5
<b>PBT</b>	<b>189.2</b>	<b>111.7</b>	<b>152.2</b>	<b>236.1</b>
Taxes	53.5	10.9	42.6	70.8
Effective tax rate (%)	28.3	9.8	28.0	0.3
<b>PAT</b>	<b>135.7</b>	<b>100.8</b>	<b>109.6</b>	<b>165.3</b>
PAT Growth rate	0.5	(25.7)	8.7	0.5
<b>Adjusted EPS (Diluted)</b>	<b>11.2</b>	<b>8.4</b>	<b>9.1</b>	<b>13.7</b>

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
₹ crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
<b>Profit after Tax</b>	<b>135.7</b>	<b>100.8</b>	<b>109.6</b>	<b>165.3</b>
Depreciation	44.8	69.0	80.8	87.0
Interest	9.5	38.7	57.9	58.3
Taxes	53.5	10.9	42.6	70.8
Cash Flow before wc changes	239.7	199.2	268.6	357.0
Cash generated from operations	278.9	180.4	220.9	284.4
Income Tax paid	53.5	10.9	42.6	70.8
<b>Net CF from operating activities</b>	<b>225.4</b>	<b>169.5</b>	<b>178.3</b>	<b>213.5</b>
Capital Work-in-progress	(554.3)	573.5	25.0	25.0
(Purchase)/Sale of Fixed Assets (Net)	11.3	842.0	125.0	125.0
<b>Net CF from Investing activities</b>	<b>(557.9)</b>	<b>(248.3)</b>	<b>(77.8)</b>	<b>(75.5)</b>
Dividend	(9.8)	(7.3)	(7.9)	(11.9)
Interest paid	(9.5)	(38.7)	(57.9)	(58.3)
Inc / (Dec) in Loans	251.8	100.2	-	-
<b>Net CF from Financing activities</b>	<b>232.5</b>	<b>54.2</b>	<b>(65.8)</b>	<b>(70.2)</b>
Net Cash flow	(100.0)	(24.6)	34.7	67.8
Opening Cash	71.6	30.0	5.4	40.0
<b>Closing Cash/ Cash Equivalent</b>	<b>30.0</b>	<b>5.4</b>	<b>40.0</b>	<b>107.8</b>

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
₹ crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	902.8	996.3	1,098.0	1,251.3
Total Shareholders funds	915.1	1,008.6	1,110.2	1,263.6
Total Debt	627.6	727.7	727.7	727.7
Deferred Tax Liability	26.5	26.5	26.5	26.5
<b>Total Liabilities</b>	<b>1,647.2</b>	<b>1,840.9</b>	<b>1,942.5</b>	<b>2,095.9</b>
<b>Assets</b>				
Gross Block	773.8	1,615.8	1,740.8	1,865.8
Less Acc. Dep	296.7	367.0	447.8	534.8
Net Block	477.1	1,248.8	1,293.0	1,331.0
Net Intangibles Assets	5.9	5.9	5.9	5.9
Capital WIP	770.4	196.9	171.9	146.9
Total Fixed Assets	1,253.4	1,451.6	1,470.8	1,483.8
Investments	76.4	76.4	76.4	76.4
Inventory	215.0	234.4	290.8	359.4
Sundry Debtors	284.4	310.1	382.8	470.7
Loans & Advances	58.0	63.2	76.8	46.5
Cash & Bank Balances	30.0	5.4	40.0	107.8
Other Current Assets	165.7	173.5	193.7	138.6
Total Current Assets	753.0	786.5	984.2	1,123.1
Trade Payable	211.0	230.1	292.7	354.3
Other Current Liabilities	249.8	265.3	305.5	275.3
Provisions	26.5	28.9	35.2	7.5
Net Current Assets	265.6	262.2	350.8	486.0
<b>Total Assets</b>	<b>1,647.2</b>	<b>1,840.8</b>	<b>1,942.5</b>	<b>2,095.8</b>

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
	FY18	FY19E	FY20E	FY21E
<b>Per Share Data (₹)</b>				
EPS - Diluted	11.2	8.4	9.1	13.7
Cash EPS	15.0	14.1	15.8	20.9
Book Value	75.8	83.6	92.0	104.7
Dividend per share	0.8	0.6	0.7	1.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	14.3	10.9	12.1	13.2
PAT / Net Sales	8.1	5.5	4.9	6.1
Inventory Days	47	47	48	49
Debtor Days	69	69	70	71
Creditor Days	89	89	91	91
<b>Return Ratios (%)</b>				
RoE	14.8	10.0	9.9	13.1
RoCE	12.1	8.2	10.8	14.0
RoIC	23.0	8.9	10.9	14.7
<b>Valuation Ratios (x)</b>				
EV / EBITDA	10.9	13.7	10.0	7.3
P/E (Diluted)	14.8	19.9	18.3	12.1
EV / Net Sales	1.5	1.5	1.2	1.0
Market Cap / Sales	1.2	1.1	0.9	0.7
Price to Book Value	2.2	2.0	1.8	1.6
Dividend Yield	0.5	0.4	0.4	0.6
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	0.7	0.7	0.6	0.5
Debt / EBITDA	2.6	3.7	2.7	2.0
Current Ratio	1.4	1.4	1.4	1.4
<b>Quick Ratio</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, ICICI Direct Research



**Exhibit 23: ICICI Direct coverage universe (Plywood)**

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			3Y/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Century Plyboard (CENPLY)	170	170	Hold	3733	7.1	8.6	9.4	23.8	19.8	18.0	13.7	12.0	10.5	3.9	3.4	3.0	16.6	17.4	16.7
Greenply (MTML)	166	175	Hold	2003	8.4	9.1	13.3	19.9	18.3	12.1	8.2	10.8	14.0	2.0	1.8	1.6	10.0	9.9	13.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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