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Plywood business growing in single-digits

Greenply Industries has demerged (record date: July 15, 2019) into Greenply Industries (plywood business) & Greenpanel Industries (largely MDF business with small component of plywood business). Shareholders of the erstwhile Greenply Industries will get one share each of the newly formed Greenply Industries (currently listed) & Greenpanel Industries (could get listed in Q3 FY20E separately). We would be tracking the newly formed Greenply Industries (GIL), which is mainly into the plywood business. The topline grew 13.1% YoY to ₹ 349.4 crore while the bottomline grew 81.7% YoY to ₹ 21.0 crore in Q1FY20.

Aims to achieve further growth through outsourcing

Plywood sales volumes grew 4.1% YoY to 13.57 MSM (premium category contributed 64%) in Q1FY20 while realisations improved 3.3% YoY to ₹ 222/sq mt. GIL's own manufacturing facility is operating at 139% utilisation as of Q1FY20. With capacity constraints in place, it plans to achieve further growth via outsourcing. It has already entered into a JV (30% ownership) for premium-end products (11 MSM plant capacity) that is expected to commence production by Q3FY20E & could ensure revenue worth ₹ 100-115 crore at peak utilisation for GIL. It is also planning to enter another JV that will be utilised for production of Ecotec & film-faced plywood. GIL is looking at 6-7% overall volume growth & increase in realisation by 1-2% in FY20E. Overall, it expects 8-10% plywood division growth in FY20E. Overall, we expect revenues to grow at 13.8% CAGR to ₹ 1,830.2 crore in FY19-21E.

Undertaking expansion of face veneer unit at Gabon

GIL currently has a 36,000 CBM per annum capacity at Gabon, which it plans to increase to 96,000 CBM by October, 2019 at a capex of ₹ 27 crore. Currently, out of total output from the 36,000 CBM plant at Gabon, GIL's requirement is only 15-20%. Balance is sold to other customers (67% value comes from India, 14% from Spain, 2% from Vietnam, 13% from Indonesia and balance from Southeast Asia). However, once capacity increases to 96,000 CBM, GIL's requirement will drop to 10% of output from Gabon. With South Asian markets now becoming net importers of face veneer from Gabon, GIL would focus more on increasing supply to South Asian & European markets. Overall, the management aims to clock ₹ 215 crore revenue from the Gabon facility in FY20E.

Valuation & Outlook

GIL moving towards an asset-light business model by targeting growth through outsourcing remains the silver lining for the company. However, with the domestic plywood business growing at a muted rate, GIL is expected to derive growth largely from exports business in Gabon, which should be watched, due to dynamics in the international market. Hence, we maintain **HOLD** recommendation on the stock with a TP of ₹ 160/share.

Key Financial Summary *

(₹ Crore)	FY19P	FY20E	FY21E	CAGR FY19-21E
Net Sales	1412.2	1635.3	1830.2	13.8%
EBITDA	144.0	186.7	219.6	23.5%
Net Profit	79.7	101.8	123.6	
EPS (₹)- Diluted	6.5	8.3	10.1	24.6%
P/E (x)	22.4	17.5	14.4	
Price/book (x)	5.3	4.1	3.2	
EV/EBITDA (x)	14.0	10.8	8.9	
RoCE (%)	21.3	23.9	24.1	
RoE (%)	23.8	23.3	22.1	

Source: Company, ICICI Direct Research; * These are proforma financial numbers; we await detailed financial statement from the company



Particulars

Particulars	Amount (₹ crore)
Market Capitalization	1,783.5
Total Debt	250.1
Cash	20.6
EV	2,013.0
52 week H/L (₹)	97 / 184
Equity capital	12.3
Face value (₹)	1.0

Key Highlights

- Topline grew 13.1% YoY to ₹ 349.4 crore in Q1FY20
- Plywood business volumes grew 4.1% YoY to 13.57 MSM while realisations improved 3.3% YoY to ₹ 222/sq mt in Q1FY20
- GIL currently has a 36,000 CBM per annum capacity at Gabon, which it plans to increase to 96,000 CBM by October, 2019 at capex of ₹ 27 crore
- Maintain HOLD with target price of ₹ 160/share

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Exhibit 1: Variance Analysis

Particular	Q1FY20	Q1FY19	YoY		QoQ		Comments
			Change (%)	Q4FY19	Change (%)		
Net Sales	349.4	308.9	13.1	391.7	-10.8		
Other Income	0.4	0.8	-49.3	0.6	-32.1		
Material Consumed	136.3	121.2	12.4	159.4	-14.5		
Purchase of Stock in Trade	74.1	73.6	0.7	64.9	14.2		
Changes in Inventories of WIP	-8.1	-4.7	70.8	10.8	-174.9		
Employee Benefit Expenses	38.4	36.6	5.1	37.4	2.7		
Other Expenses	67.5	61.7	9.5	71.1	-5.0		
EBITDA	41.1	20.6	99.9	48.2	-14.6		
EBITDA Margin (%)	11.8	6.7	511 bps	12.3	-53 bps		EBITDA margin expansion on account of improvement in realisations
Depreciation	6.3	5.4	16.2	5.6	13.2		
Interest	5.0	3.8	33.4	5.9	-15.0		
PBT	30.2	12.2	147.6	37.3	-19.0		
Taxes	8.5	5.4	56.6	7.8	9.3		
PAT	21.0	11.6	81.7	29.7	-29.3		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

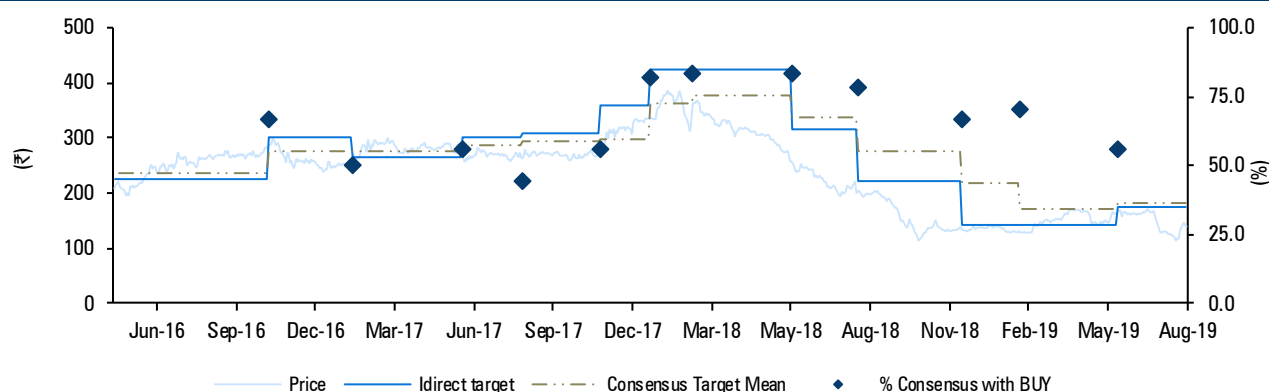
Particulars (₹ crore)	FY19	FY20E	FY21E	Comments
		Introduced	Introduced	
Revenue	912.3	1,412.2	1,635.3	We introduce GIL's estimates for the first time as a demerged entity
EBITDA	66.4	144.0	186.7	
EBITDA Margin (%)	7.3	10.2	11.4	
PAT	20.8	79.7	101.8	
EPS (₹)	1.7	6.5	8.3	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** GIL is looking at 6-7% overall volume growth and increase in realisation by 1-2% in FY20E. The company is targeting more than 50% volumes from the outsourcing model. GIL aims to derive 50% of revenues from the outsourcing model in the next two years. Overall, it is aiming at 8-10% growth in the plywood division in FY20E. On the margin front, it has guided for ~11% margins in FY20E
- **Revenue distribution:** Premium segment contributed 71% to the topline while the balance was contributed by the trading segment (₹ 87 crore sales from trading business) in Q1FY20. In volume terms, premium category contributed 64% in Q1FY20
- **Premium segment:** In volume terms, premium segment grew ~10%, including decorative. On the realisation front, there was 0.5% growth from the premium segment
- **Trading business:** In Ecotec and low-end plywood along with PVC, GIL witnessed volume de-growth of 5% but also had a realisation gain of 7.2%. Overall, it achieved nominal value growth of 0.5% in Q1FY20. Volume de-growth in Ecotec was due to impact from lower project sales as the company tightened its WC cycle and took price increases. The management is shifting its focus from project segment to retail segment for this category and has guided for 12-13% revenue growth in trading business (Ecotec, low-end plywood and PVC) in FY20E
- **JV business:** GIL's own manufacturing facility is operating at 139% utilisation as of Q1FY20. With capacity constraints in place, the company plans to achieve further growth through outsourcing. GIL has already entered into a JV (11 MSM plant capacity) for premium-end products in which it owns 30% equity. This facility could ensure supplies worth ₹ 100-115 crore for GIL. Production at this unit is expected to commence by Q3FY20E. The company is also contemplating on entering another JV that will be utilised for production of Ecotec and film-faced plywood
- **Expansion at Gabon:** At present, GIL has a 36,000 CBM per annum capacity at Gabon. The company is planning to increase this to 96,000 CBM by October, 2019 at a capex of ₹ 27 crore. It incurred ₹ 7 crore capex towards this in Q1FY20 and incremental ₹ 20 crore capex is planned in rest of FY20E. Overall, the management aims to clock ₹ 215 crore revenue from the Gabon facility in FY20E
- **Export plans:** At present from the 36,000 CBM plant at Gabon, GIL requires only 15-20% of the output. The balance is being sold to other customers wherein 67% of the value comes from India, 14% from Spain, 2% from Vietnam, 13% from Indonesia and balance from other countries in Southeast Asia. Going forward, once the capacity increases to 96,000 CBM, GIL's requirement will drop to only 10% of the output from Gabon. South Asian markets that were suppliers of the face veneer have now become net importers of face veneer from Gabon. Hence, the company would now focus more on the South Asian and European market. The new expansion will be 100% dedicated mostly to the European market
- **Working capital & debt:** Consolidated WC cycle improved by seven days YoY to 60 days while on a standalone basis, WC cycle improved six days YoY to 58 days in Q1FY20. Overall, consolidated D/E is at 0.73x while standalone D/E is at 0.92x as of Q1FY20

Exhibit 3: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 4: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	S M Management Pvt. Ltd.	30-Jun-19	25.8%	31.6	0.0
2	Prime Holdings Pvt. Ltd.	30-Jun-19	9.8%	12.0	0.0
3	Jwalamukhi Investment Holdings	30-Jun-19	9.6%	11.8	0.0
4	Mittal (Shiv Prakash & Shobhan)	30-Jun-19	9.5%	11.7	0.0
5	HDFC Asset Management Co., Ltd.	30-Jun-19	8.4%	10.3	0.0
6	SBI Funds Management Pvt. Ltd.	30-Jun-19	4.4%	5.4	0.0
7	IDFC Asset Management Company Private Lim	30-Jun-19	3.7%	4.5	0.5
8	Tata Asset Management Limited	30-Jun-19	3.2%	3.9	0.0
9	WestBridge Capital Partners, LLC	30-Jun-19	3.0%	3.6	0.0
10	Mittal (Rajesh)	30-Jun-19	2.5%	3.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 5: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
IDFC Asset Management Company Private Limited	1.1	0.5	Reliance Nippon Life Asset Management Limited	-0.5	-0.3
SBI Funds Management Pvt. Ltd.	0.1	0.0	ICICI Prudential Asset Management Co. Ltd.	-0.1	0.0
Dimensional Fund Advisors, Ltd.	0.0	0.0			
Florida State Board of Administration	0.0	0.0			
Tata Asset Management Limited	0.0	0.0			

Source: Reuters, ICICI Direct Research

Exhibit 6: Shareholding Pattern

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

Source: Company, ICICI Direct Research

Financial summary

These are proforma financial numbers; we are currently awaiting detailed financial figures from the company

Exhibit 7: Profit and loss statement #				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	912.3	1,412.2	1,635.3	1,830.2
Gross Profit	348.0	559.1	640.9	720.2
Employee benefit expenses	117.4	151.5	179.9	201.3
Other Expenses	164.2	263.6	272.4	297.3
EBITDA	66.4	144.0	186.7	219.6
Interest	7.7	18.6	18.6	18.6
Depreciation	18.0	22.4	24.6	26.3
Other income	1.4	3.3	2.0	2.0
PBT	42.1	106.2	145.4	176.6
Taxes	13.7	31.5	43.6	53.0
Effective tax rate (%)	32.61	29.66	30.00	30.00
PAT	20.8	79.7	101.8	123.6
Adjusted EPS (Diluted)	1.7	6.5	8.3	10.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement #			
₹ crore			
(₹ Crore)	FY19P	FY20E	FY21E
Profit after Tax	79.7	101.8	123.6
Depreciation	22.4	24.6	26.3
Interest	18.6	18.6	18.6
Taxes	31.5	43.6	53.0
Cash Flow before wc changes	144.0	186.7	219.6
Cash generated from operations	101.8	101.1	134.1
Income Tax paid	31.5	43.6	53.0
Net CF from operating activities	70.3	57.5	81.1
Capital Work-in-progress	-	(10.0)	26.0
(Purchase)/Sale of Fixed Assets (Net)	47.3	30.0	26.0
Net CF from Investing activities	(44.0)	(38.0)	2.0
Dividend	-	-	-
Interest paid	(18.6)	(18.6)	(18.6)
Inc / (Dec) in Loans	(3.7)	-	-
Net CF from Financing activities	(22.3)	(18.6)	(18.6)
Net Cash flow	4.0	0.9	64.5
Opening Cash	16.6	20.6	21.5
Closing Cash/ Cash Equivalent	20.6	21.5	85.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet #			
₹ crore			
(₹ Crore)	FY19P	FY20E	FY21E
Liabilities			
Equity Capital	12.3	12.3	12.3
Reserve and Surplus	323.0	424.8	548.4
Total Shareholders funds	335.3	437.1	560.7
Total Debt	250.1	250.1	250.1
Deferred Tax Liability	-	-	-
Total Liabilities	585.4	687.2	810.8
Assets			
Gross Block	349.0	379.0	405.0
Less Acc. Dep	95.8	120.4	146.8
Net Block	253.2	258.6	258.2
Net Intangibles Assets	-	-	-
Capital WIP	16.0	26.0	-
Total Fixed Assets	269.2	284.6	258.2
Investments	-	-	-
Inventory	169.4	201.6	225.6
Sundry Debtors	305.0	358.4	401.1
Loans & Advances	-	-	-
Cash & Bank Balances	20.6	21.5	85.9
Other Current Assets	52.90	67.21	90.26
Total Current Assets	547.9	648.7	803.0
Trade Payable	232.0	246.4	250.7
Other Current Liabilities	-	-	-
Provisions	-	-	-
Net Current Assets	315.9	402.3	552.3
Total Assets	585.4	687.2	810.8

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios #			
	FY19P	FY20E	FY21E
Per Share Data (₹)			
EPS - Diluted	6.5	8.3	10.1
Cash EPS	8.3	10.3	12.2
Book Value	27.3	35.5	45.6
Dividend per share	-	-	-
Operating Ratios (%)			
EBITDA / Net Sales	10.2	11.4	12.0
PAT / Net Sales	5.6	6.2	6.8
Inventory Days	44	45	45
Debtor Days	79	80	80
Creditor Days	60	55	50
Return Ratios (%)			
RoE	23.8	23.3	22.1
RoCE	21.3	23.9	24.1
RoIC	22.2	25.4	26.7
Valuation Ratios (x)			
EV / EBITDA	14.0	10.8	8.9
P/E (Diluted)	22.4	17.5	14.4
EV / Net Sales	1.4	1.2	1.1
Market Cap / Sales	1.3	1.1	1.0
Price to Book Value	5.3	4.1	3.2
Dividend Yield	-	-	-
Solvency Ratios (x)			
Net Debt / Equity	0.7	0.5	0.3
Debt / EBITDA	1.7	1.3	1.1
Current Ratio	2.3	2.5	2.9
Quick Ratio	1.5	1.7	2.0

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Plywood)

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			V/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)	134	150	Hold	2622	7.1	8.4	9.2	18.8	16.0	14.6	11.4	9.5	8.4	3.1	2.7	2.4	16.4	16.8	16.2
Greenply (MTML)	145	160	Hold	1784	6.5	8.3	10.1	22.4	17.5	14.4	14.0	10.8	8.9	5.3	4.1	3.2	23.8	23.3	22.1

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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