

29 June 2020

Greenply Industries

One-off hit PAT; demand recovery, the key; upgrading to a Buy

Marred by poor sales/margin and a one-off, Greenply's Q4 FY20 was weak. On an anticipated weak FY21, we expect a bounce back only in FY22 on improved consumer sentiment for home renovation/purchases. The face veneer backward integration in Gabon will play its role in RM sourcing at reasonable prices even as the balance sheet remains strong. Several cost reduction steps may cushion margins. Considering Greenply's leading position in plywood, backward-integration, strong balance sheet and attractive valuations (11x FY22e P/E) after the 50% fall in its stock price since Jan'20, we upgrade it to a Buy, with a lower target of ₹110 (14x FY22e P/E), earlier ₹170. Domestic demand recovery and a ramp-up at Gabon are key monitorables.

Weak Q4, hit by poor sales/margin; one-off led to PAT loss. 15% y/y lower plywood volumes led to consol. rev/EBITDA declining 12%/38% y/y with a poor, 8.7%, EBITDA margin (down 364bps y/y, 283bps q/q). Weak margins were seen in domestic operations (7.7%) and Gabon (14.6%, due to revaluation). On a ₹500m provision (incl. ~127m interest) on an excise duty refund order for earlier periods, it reported a ₹215m net loss. The NWC-cycle lengthened by 15 days due to more debtor days; net-debt/equity was ~0.6x.

Weak sentiment to hurt domestic demand. Plywood highly depends on real-estate, for which the near-term outlook is very weak. We expect consumer sentiment to improve only gradually.

Gabon likely to do well in FY21. The Gabon operation was closed only for a week in Apr'20 and is now ramping up well with face veneer supplies to the Mid-East, Europe and India. Management expects a rise in face-veneer volume after tripling capacities to 96,000 cubic metres in Nov'19.

Valuation. We like Greenply for its leading position in plywood, backward-integration and strong balance-sheet. After its significant price drop, we upgrade the stock to a Buy. **Risk:** Delay in the ramp-up at Gabon.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	9,123	14,122	14,204	9,928	14,698
Net profit (₹ m)	208	797	472	290	968
EPS (₹)	1.7	6.5	3.8	2.4	7.9
PE (x)	50.2	13.1	22.1	36.0	10.8
EV / EBITDA (x)	18.6	8.5	8.0	13.6	6.2
PBV (x)	3.9	3.1	2.8	2.6	2.2
RoE (%)	7.8	23.8	12.5	7.3	20.2
RoCE (%) after tax	6.5	15.9	17.0	7.3	15.9
Dividend yield (%)	0.7	0.5	0.7	0.9	1.2
Net debt / equity (x)	0.7	0.5	0.5	0.1	0.1

Source: Company, Anand Rathi Research

Anand Rathi Share and Stock Brokers Limited (hereinafter "ARSSBL") is a full-service brokerage and equities-research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient. Disclosures and analyst certifications are present in the Appendix.

Rating: **Buy**

Target Price: ₹110

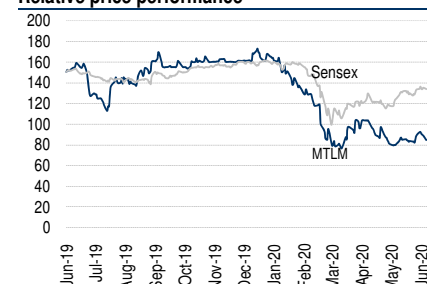
Share Price: ₹85

Key data	MTLM IN / GRPL.BO
52-week high / low	₹195 / 70
Sensex / Nifty	34962 / 10312
3-m average volume	\$0.2m
Market cap	₹10bn / \$137.3m
Shares outstanding	123m

Shareholding pattern (%)	Mar'20	Dec'19	Sep'19
Promoters	51.8	51.8	51.7
- of which, Pledged	-	-	-
Free float	48.2	48.2	48.3
- Foreign institutions	10.8	10.9	11.0
- Domestic institutions	23.1	22.8	22.2
- Public	14.3	14.5	15.1

Estimates revision (%)	FY21e	FY22e
Sales	(39)	(16)
EBITDA	(59)	(20)
PAT	(75)	(27)

Relative price performance



Source: Bloomberg

Ashish Poddar
Research AnalystDevanshi Kapadia
Research Associate

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (₹ m)

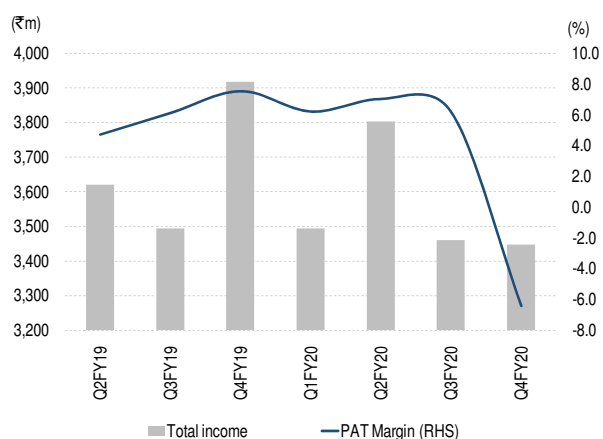
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	9,123	14,122	14,204	9,928	14,698
Growth (%)	-	54.8	0.6	-30.1	48.0
Direct costs	5,643	8,530	8,355	5,858	8,671
SG&A	2,816	4,151	4,293	3,262	4,309
EBITDA	664	1,440	1,556	808	1,717
EBITDA margins (%)	7.3	10.2	11.0	8.1	11.7
- Depreciation	180	224	257	260	260
Other income	14	33	20	52	52
Interest expenses	77	186	208	200	200
PBT	421	1,062	611	400	1,309
Effective tax rate (%)	32.6	29.7	22.0	25.5	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	208	797	472	290	968
Adjusted income	208	797	972	290	968
WANS	123	123	123	123	123
FDEPS (₹ / sh)	1.7	6.5	3.8	2.4	7.9
FDEPS growth (%)		283.4	(40.7)	(38.6)	233.9
Gross margins (%)	38.1	39.6	41.2	41.0	41.0

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT (adj. for int.exp./other income)	485	1,216	799	548	1,457
+ Non-cash items	180	224	257	260	260
Oper. prof. before WC	664	1,440	1,056	808	1,717
- Incr. / (decr.) in WC	1,739	340	379	-1,222	573
Others incl. taxes	527	129	210	172	384
Operating cash-flow	-1,601	971	467	1,858	761
- Capex (tang. + intang.)	2,579	517	468	150	250
Free cash-flow	-4,180	454	-1	1,708	511
Acquisitions					
- Div. (incl. buyback & taxes)	88	59	88	118	123
+ Equity raised	123	-	-	-	-
+ Debt raised	2,538	-322	155	-80	80
- Fin investments	322	-100	16	1,000	200
- Misc. (CFI + CFF)	(2,210)	247	153	96	96
Net cash-flow	280	-75	-103	414	172

Source: Company, Anand Rathi Research

Fig 5 – Revenue, PAT-margin - quarterly trend



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

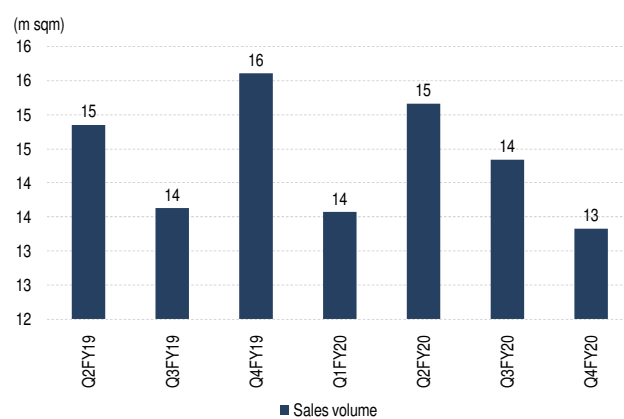
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	123	123	123	123	123
Net worth	2,672	3,352	3,779	3,951	4,796
Debt	2,538	2,216	2,371	2,291	2,371
Minority interest	-	-	-	-	-
DTL / (Assets)	-41	-41	-105	-105	-105
Capital employed	5,169	5,527	6,045	6,137	7,062
Net tangible assets	2,164	2,457	2,784	2,684	2,684
Net intangible assets	75	75	67	67	67
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	160	160	52	42	32
Investments (strategic)	-	-	-	-	-
Investments (financial)	322	222	238	1,238	1,438
Current assets (ex cash)	4,858	5,709	6,273	4,331	5,777
Cash	280	206	103	516	688
Current liabilities	2,691	3,302	3,472	2,741	3,624
Working capital	2,166	2,407	2,802	1,590	2,153
Capital deployed	5,169	5,527	6,045	6,137	7,062
Contingent liabilities	5,380	271	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	50.2	13.1	22.1	36.0	10.8
EV / EBITDA (x)	18.6	8.5	8.0	13.6	6.2
EV / Sales (x)	1.4	0.9	0.9	1.1	0.7
P/B (x)	3.9	3.1	2.8	2.6	2.2
RoE (%)	7.8	23.8	12.5	7.3	20.2
RoCE (%) - after tax	6.5	15.9	17.0	7.3	15.9
RoIC	13.7	17.2	18.3	7.7	18.8
DPS (₹ / sh)	0.6	0.4	0.6	0.8	1.0
Dividend yield (%)	0.7	0.5	0.7	0.9	1.2
Dividend payout (%)	35.4	6.2	15.6	33.9	12.7
Net debt / equity (x)	0.7	0.5	0.5	0.1	0.1
Receivables (days)	92	79	92	80	75
Inventory (days)	51	44	46	45	45
Payables (days)	79	60	60	60	60
CFO : PAT %	-770.3	121.9	48.0	641.0	78.6

Source: Company, Anand Rathi Research

Fig 6 – Plywood volume – quarterly trend



Source: Company

Financial highlights

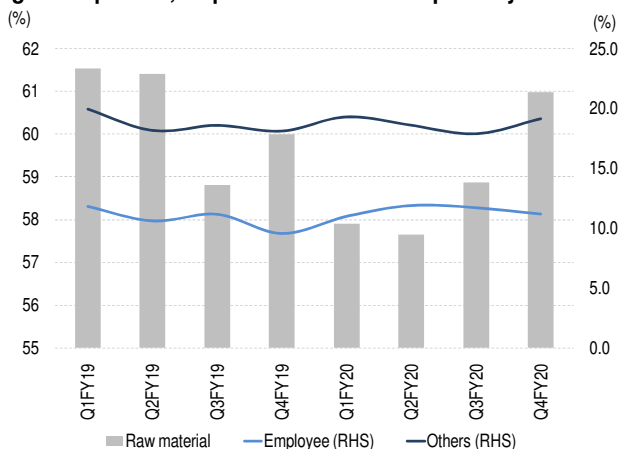
Fig 7 – Financials (standalone)

(₹ m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY20	FY19	% Y/Y
Income	3,917	3,494	3,803	3,460	3,447	(12)	(0)	14,204	14,122	1
Raw material costs	2,351	2,023	2,193	2,037	2,102	(11)	3	8,355	8,530	(2)
Employee costs	374	384	453	406	386	3	(5)	1,629	1,515	8
Other expenses	711	675	708	620	661	(7)	7	2,664	2,636	1
EBITDA	482	411	449	397	299	(38)	(25)	1,556	1,441	8
Depreciation	56	63	64	64	66	19	4	257	224	15
Finance costs	59	50	54	49	55	(7)	13	208	186	12
Exceptional item	-	-	-	-	(500)			(500)	-	
Other income	6	4	1	2	13	113	560	20	33	(38)
PBT	373	302	332	287	(309)			612	1,063	(42)
Tax	78	85	64	73	(88)			134	315	(57)
PAT	297	210	264	213	(215)			473	797	(41)
EPS (₹)	2.4	1.7	2.2	1.7	(1.8)			3.9	6.5	(41)
As % of income						bps y/y	bps q/q			bps y/y
Gross margin	40.0	42.1	42.3	41.1	39.0	(98)	(211)	41.2	39.6	159
Employee costs	9.6	11.0	11.9	11.7	11.2	164	(54)	11.5	10.7	74
Other expenses	18.1	19.3	18.6	17.9	19.2	103	126	18.8	18.7	9
EBITDA margin	12.3	11.8	11.8	11.5	8.7	(364)	(283)	11.0	10.2	76
Depreciation	1.4	1.8	1.7	1.8	1.9	50	8	1.8	1.6	22
Finance costs	1.5	1.4	1.4	1.4	1.6	8	19	1.5	1.3	14
Other income	0.2	0.1	0.0	0.1	0.4	22	32	0.1	0.2	(9)
PBT	9.5	8.6	8.7	8.3	(9.0)			4.3	7.5	(322)
Effective tax rate	20.9	28.2	19.4	25.5	28.6	765	306	22.0	29.7	(769)
PAT	7.5	6.2	7.0	6.2	(6.4)			3.4	5.3	(193)
Segment-wise data										
Plywood						% Y/Y	% Q/Q			% Y/Y
Plant Utilisation %	148	139	159	148	122			142	139	
Sales volume (m sq. metres)	15.6	13.6	15.2	14.3	13.3	(15)	(7)	56.4	57.1	(1)
Avg. realisation (₹ / sq. metres)	220	224	227	222	222	1	0	224	223	0
Revenue (₹ m)	3,429	3,042	3,441	3,184	2,963	(14)	(7)	12,630	12,758	(1)
EBITDA margin %	10.3	11.1	11.4	11.0	8.8			10.6	9.9	

Source: Company, Anand Rathi Research

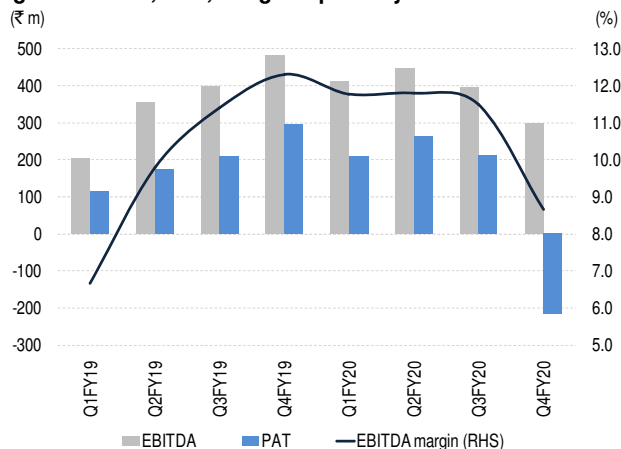
Financial performance in charts

Fig 8 – Expenses, as percent of income – quarterly trend



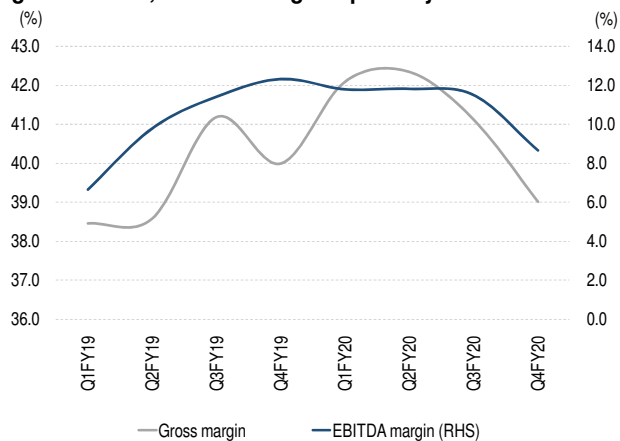
Source: Company, Anand Rathi Research

Fig 9 – EBITDA, PAT, margin - quarterly trends



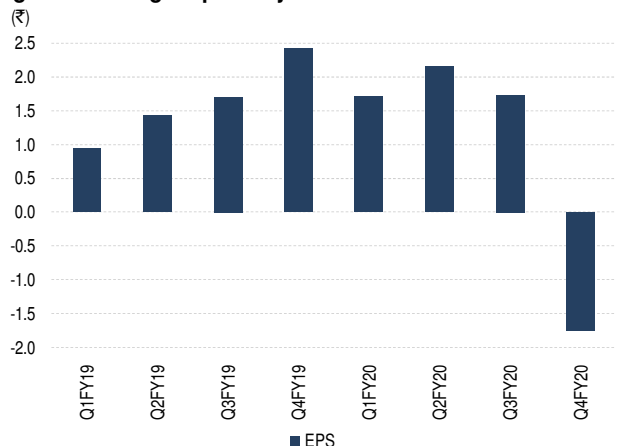
Source: Company, Anand Rathi Research

Fig 10 – Gross, EBITDA-margin - quarterly trends



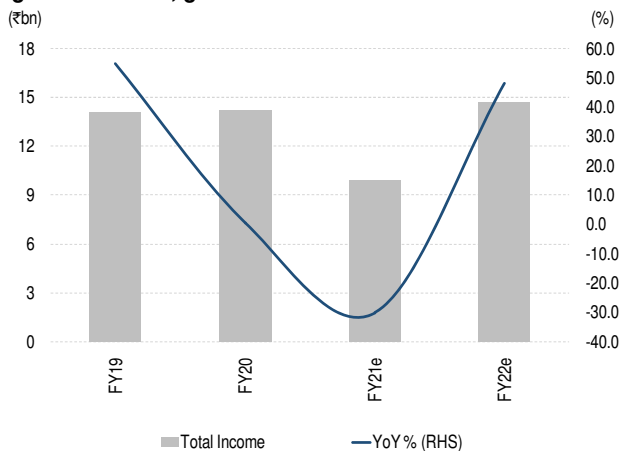
Source: Company, Anand Rathi Research

Fig 11 – Earnings - quarterly trend



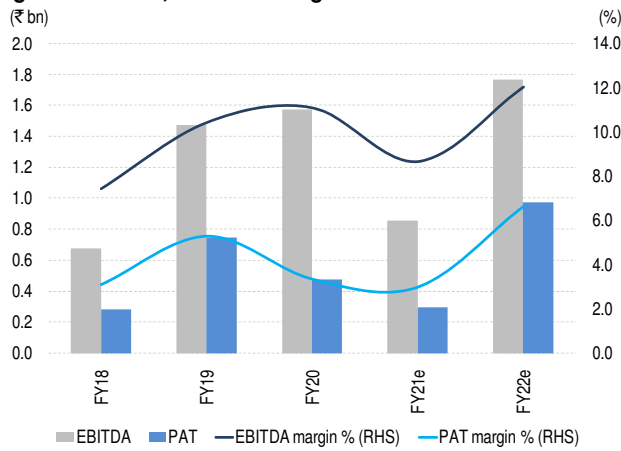
Source: Company, Anand Rathi Research

Fig 12 – Revenue, growth – annual trends



Source: Company, Anand Rathi Research

Fig 13 – EBITDA, PAT and margin – annual trends



Source: Company, Anand Rathi Research

Valuation

We like Greenply for its leading position in plywood. After an anticipated weak FY21, we expect a bounce-back in FY22e on improved consumer sentiment for home renovation/purchases. The backward-integration for face veneer in Gabon will also play its role in RM sourcing at reasonable prices. Several cost-reduction measures may provide a cushion to margins.

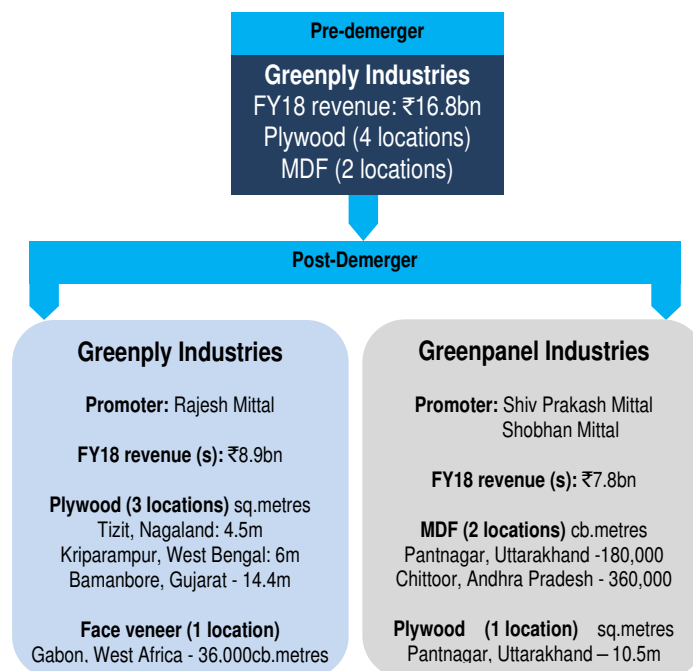
Considering Greenply's leading position in plywood, backward-integration, strong balance-sheet and attractive valuations (11x FY22e P/E) after the ~50% correction in stock price since Jan'20, we upgrade the stock to a Buy, with a lower target of ₹110 (14x FY22e P/E), earlier ₹170. Demand recovery in the domestic market and a ramp-up at Gabon are key monitorables.

Fig 14 – Change in estimates

₹ m)	Old estimates		New estimates		% Var	
	FY21	FY22	FY21	FY22	FY21	FY22
Income	16,266	17,506	9,928	14,698	(39)	(16)
EBITDA	1,968	2,156	808	1,717	(59)	(20)
PAT	1,181	1,324	290	968	(75)	(27)

Source: Anand Rathi Research

Greenply – de-merger plan concluded in FY20



Risks

- **Delay in ramp-up at the Gabon facility.** Greenply almost tripled its face-veneer capacity at Gabon in Q3 FY20. A slow ramp-up could have a material impact on our earnings estimates.
- **Mounting competition in plywood.** Keener competition in plywood, on the entry of newer manufacturers, and cut-throat competition to gain market-share may reflect on our growth and margin estimates.

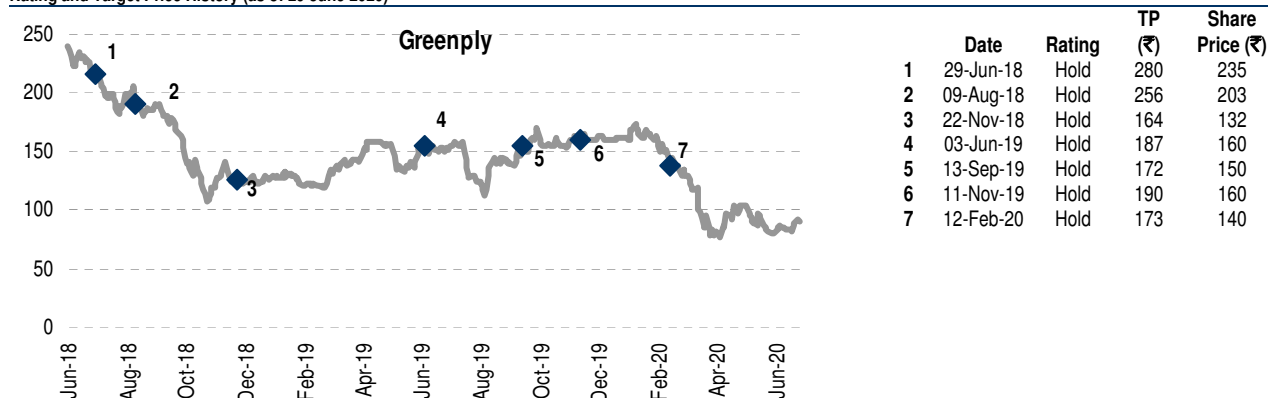
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 29 June 2020)



Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

© 2019. This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.