

ICICI Securities Limited
is the author and
distributor of this report

Company update and
reco change

Wood Panel

Target price: Rs100

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 19.2	↑ 17.3
EBITDA	↑ 30.5	↑ 36.4
EPS	↑ 162.7	↑ 71.0

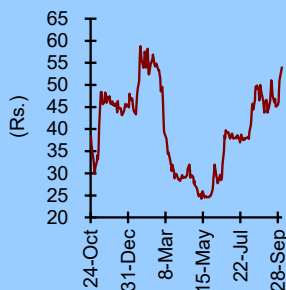
Target price revision

Rs100 from Rs39

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	52.3	52.1	52.1
Institutional investors	30.0	29.3	29.2
MFs and others	17.4	16.8	16.4
FIs/Banks	0.1	0.0	0.0
FII	12.5	12.5	12.8
Others	17.7	17.6	17.7

Price chart



Listed on Oct 23, 2019

Research Analysts:

Nehal Shah

nehal.shah@icicisecurities.com
+91 22 6637 7235

Jigar Shah

jigar.shah@icicisecurities.com
+91 22 6637 7416

INDIA

ICICI Securities

Greenpanel Industries

BUY

Upgrade from Hold

Rs54

Demand revival in MDF to trigger rerating

Greenpanel Industries has been trading at benign valuations ever since its listing in Oct'19 (post its demerger from Greenply Industries) largely attributed to demand and pricing headwinds in the MDF category and large capex (Rs7.9bn) committed on its Andhra Pradesh project leading to under-utilisation of its MDF assets and muted profitability. However, with faster-than-expected demand recovery in MDF category (which also seems sustainable) post Covid-19 breakout, GNPL may sweat its capacities much faster than envisaged earlier. Besides, delay in greenfield MDF projects of CPBI and Rushil Décor, coupled with stable MDF pricing and its recently initiated productivity enhancement and cost control measures at its MDF units, may drive significant improvement in its profitability going forward. Upgrade to BUY.

- **Increase earnings by 163%/71% for FY21/FY22.** Adjusting for the improving demand and earnings visibility in MDF segment, we increase our revenue/earnings estimates by 19%/17% and 163%/71%, respectively, for FY21/FY22. We expect the company to report revenue/PAT CAGR of 15%/138% over FY20-FY22E. **With the company available at 8x FY22 earnings or 4.5x EV/EBITDA, we upgrade the stock to BUY (HOLD earlier) with a revised TP of Rs100 (15x FY22 earnings) vs Rs39 (10x FY22 earnings) earlier.**
- **Key beneficiary of capacity vacuum likely to be faced by MDF majors amid sharp revival in demand.** Despite incremental capacity addition announced by few unorganised players in the recent past, we expect GNPL to be the biggest beneficiary of the burgeoning demand for MDF (post Covid-19) with CPBI likely to run out of their capacities over the next few quarters. Also, a) delayed greenfield projects of Rushil Décor and CPBI; b) likely imposition of anti-dumping duty on thin MDF and CVD on all MDF imports and c) increasing demand for modular furniture (for own consumption and exports) would drive higher utilisation rates and firm MDF pricing for GNPL in near to medium term. We expect GNPL's overall revenues to grow at 14.5% CAGR over FY20-FY22.
- **EBITDA margin at an inflection point.** Stable category pricing, operating leverage, recently initiated productivity enhancement and cost control measures and improving revenue mix (focus on domestic volumes) would drive strong margin recovery in FY22E for GNPL. We, thus, expect its overall MDF margins to expand to 20% in FY22E vs 16.7% in FY21E (GNPL already demonstrated 19.1% margins in Q4FY20 despite loss of sales in Mar'20 due to sudden lockdown).
- **RoCEs may scale up in double digits in FY22E.** We expect MDF category RoCEs to inch upwards of 17-18% by FY23 vs 12-13% witnessed in FY19/FY20. This is likely to be driven by higher asset turns for large MDF players and expected improvement in their profitability. GNPL, too, may scale up its RoCEs to double digits (12.7% by FY22E) driven by higher capacity utilisation, expected improvement in profitability, higher FCF generation (with no capex in store over the next two years and stricter working capital management) and subsequent debt reduction. This we believe will drive P/E multiple expansion for GNPL going forward.

Market Cap	Rs6.6bn/US\$90mn	Year to Mar	FY19	FY20	FY21E	FY22E
Bloomberg	GREENP IN	Revenue (Rs bn)	5,991	8,766	9,015	11,500
Shares Outstanding (mn)	122.6	Rec. Net Income (Rs bn)	346	361	203	821
52-week Range (Rs)	59/24	EPS (Rs)	2.8	2.1	1.7	6.7
Free Float (%)	47.7	% Chg YoY	(61.4)	(26.8)	(19.8)	304.9
FII (%)	12.8	P/E (x)	19.0	45.5	32.5	8.0
Daily Volume (US\$/'000)	39	P/B (x)	7.1	6.8	7.5	12.6
Absolute Return 3m (%)	41.7	EV/E (x)	15.8	8.6	7.5	4.5
Absolute Return 12m (%)	NA	Dividend yield (%)	0.0	0.0	0.0	0.0
Sensex Return 3m (%)	8.7	RoCE (%)	3.0	5.6	6.5	12.7
Sensex Return 12m (%)	4.6	RoE (%)	5.5	3.9	3.1	11.7

Please refer to important disclosures at the end of this report

MDF industry: Improving growth prospects ahead

The market size of MDF industry is currently pegged at Rs22bn. Despite increasing awareness and growing acceptance of the category, MDF segment was going through a rough phase in the past 2-3 years due to aggressive capacity addition by industry participants. However, over the last 2-3 quarters, category margins have improved with top players maintaining pricing discipline in particular. Going forward in the post-Covid-19 environment, we may witness a considerable change in its demand-supply pattern with MDF demand likely to gain considerable traction.

Table 1: Tier-wise key brands in MDF segment

Particulars	Players	Key target segment
Top organised players	GNPL, CPBI and Action	Retail
Tier 2 players	Rushil Décor, Shirdi Industries, Mangalam Timber and Pioneer Panel Products	Retail/OEM segment
Unorganised players	Trenox, Metro, Nuwood, etc	OEM segment

Source: I-Sec research

Table 2: Brand-wise competing players

Particulars	Competing brands
Top organised players	  
Tier 2 organised players	  
Unorganised players	   

Source: I-Sec research

Table 3: Demand-supply gap in MDF industry may narrow down post FY22

Year	Installed capacity (CBM)	Available domestic supply (CBM)	Demand (CBM)	Excess supply (CBM)	Excess supply (%)
FY18	811500	850000	850000	-	-
FY19	1477500	1577500	935000	6,42,500	41
FY20	1477500	1577500	1000450	5,77,050	37
FY21	1627500	1777500	1000450	7,77,050	44
FY22	2032500	2182500	1300585	8,81,915	40
FY23	2212500	2362500	1625731	7,36,768	31

Note:

1. Installed capacity includes capacity of organised as well as unorganised players
2. Available domestic supply = Total installed capacity – capacity reserved for exports + Imports
3. Rushil Décor and CPBI's MDF greenfield projects are expected to come on stream in FY22/FY23 respectively.
4. Rest of the capacity additions are from unorganised players in FY22

Source: I-Sec research

Expect MDF category to grow at 15-20% CAGR post FY21

Post FY21, we expect MDF industry to grow at an impressive 15-20% CAGR over the next five years. We may, however, witness higher growth (in 20-25% range) in FY22/FY23 driven by low base of the last two years and strong demand from modular furniture makers. Key demand drivers include:

- Increasing awareness and acceptance of MDF.
- Increasing preference over cheap plywood segment.
- Increasing demand for modular furniture in India post Covid-19 driven by consumer's preference for a) renting over ownership of homes and b) buying modular furniture over renovating their homes in the near term.
- Increase in short cycle press capacities in India who would in-turn supply to furniture makers.
- India may become a manufacturing hub for modular furniture along with other Asian countries like Vietnam, Malaysia (replacing China), etc for exports to US, Europe, etc.
- Likely import substitution with possible imposition of ADD on thin MDF and CVD on all imports of MDF in the near future.

Likely catalyst for MDF category in the near term**A) Initiation of ADD investigation on thin MDF and initiation of anti-subsidy investigation concerning imports of MDF.**

While anti-dumping duty (ADD) on thick MDF boards (having thickness of 6mm and above) imported into India from Indonesia and Vietnam has been in existence since 2009, there has been no imposition of ADD on thin MDF boards yet. However, in Feb'20, the Directorate General of Trade Remedies vide notification no. F.No.6/13/2020 and Case No. ADD-OI-11/2020 initiated ADD investigation concerning imports of plain (thin) MDF boards having thickness of less than 6mm originating in or exported from Vietnam, Malaysia, Thailand and Indonesia.

The injury (due to dumped imports), if proven, may provide relief to major MDF manufacturers like Greenpanel Industries, Action Group and Century Plyboards (for which thin MDF accounts for 30-35% of their overall MDF revenues) in the form of likely reduction of price differential between manufactured and imported MDF – thereby, driving higher volumes through import substitution.

B) CVD can be notified soon

On 5th Nov'19, DGTR initiated anti-subsidy investigation concerning imports of MDF (thick as well as thin) from Malaysia, Indonesia, Thailand Sri Lanka, and Vietnam vide notification No. OI (CVD) – 6/2019. As per industry participants, the quantum of countervailing duty (can be in the range of 12-15% across MDF thicknesses) may be notified soon.

The current price differential between domestic manufactured thick/thin MDF and imports into South India stands at 10-12%/25-30%, respectively. Currently, imports into India are estimated at 250,000 CBM/annum. Imposition of CVD is expected to further narrow down this gap and discourage imports.

Expect MDF category RoCEs to scale up over the next two years

Table 4: MDF category RoCEs may expand in FY22/FY23E

Particulars	FY16-FY18	FY19	FY23E
Viable capacity	1,80,000	1,80,000	1,80,000
Capacity utilisation	100%	80%	100%
Production/sales volume	1,80,000	1,44,000	1,80,000
Capex	3,600	3,800	4,250
Debt	2,400	2,533	2,833
Domestic realisations/CBM	26,000	23,000	24,000
Revenues	4,680	3,312	4,320
Asset turnover	1.3	0.9	1.0
Working capital investment	539	354	462
Capital employed	4,139	4,154	4,712
EBITDA margin	28%	21%	25%
Total EBITDA	1,310	696	1,080
Depreciation	180	190	255
Interest	264	253	255
PBT	866	253	570
Tax	303	88	144
PAT	563	165	426
EBIT	1,130	506	825
Capital employed	4,139	4,154	4,712
ROCE	27.3%	12.2%	17.5%

Source: I-Sec research

Table 5: Earnings revision

Estimates	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	7,559.6	9,803.4	9,014.7	11,500.0	19.2%	17.3%
EBITDA	1,153.8	1,685.9	1,505.5	2,300.0	30.5%	36.4%
EBITDA margin	15.3%	17.2%	16.7%	20.0%	140bps	280bps
PAT	77.2	480.2	202.8	821.2	162.7%	71.0%
EPS	0.6	3.9	1.7	6.7	162.7%	71.0%

Source: Company data, I-Sec research

Financial summary

Table 6: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	5,991	8,766	9,015	11,500
Operating Expenses	5,218	7,388	7,509	9,200
EBITDA	774	1,378	1,506	2,300
% margins	12.9%	15.7%	16.7%	20.0%
Depreciation & Amortisation	530	692	717	721
Gross Interest	246	483	519	420
Other Income	127	22	23	23
Recurring PBT	124	226	292	1,182
Less: Taxes	(222)	(28)	89	360
Less: Minority Interest	-	-	-	-
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	346	253	203	821
Extraordinaries (Net)	-	(108)	-	-
Recurring Net Income	346	361	203	821

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	3,167	3,490	5,274	6,162
of which cash & cash eqv.	199	115	255	493
Total Current Liabilities & Provisions	2,139	2,573	4,254	4,677
Net Current Assets	1,028	918	1,020	1,485
Investments	-	-	-	-
Net Fixed Assets	11,375	11,111	10,651	10,230
Capital Work-in-Progress	38	57	-	-
Goodwill	-	-	-	-
Total Assets	12,441	12,085	11,671	11,715
Liabilities				
Borrowings	5,865	5,400	4,930	4,300
Deferred Tax Liability	121	69	69	69
Minority Interest	-	-	-	-
Equity Share Capital	123	123	123	123
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	6,332	6,494	6,549	7,224
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	6,455	6,616	6,672	7,346
Total Liabilities	12,441	12,085	11,671	11,715

Source: Company data, I-Sec research

Table 8: Quarterly trends

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Total Income	18,066	19,266	15,447	8,778
% growth (YoY)	2.8%	4.3%	-5.8%	-56.5%
EBITDA	3,682	4,632	3,009	664
Margin (%)	20.4	24.0	19.5	7.6
Other income	558	398	140	200
Add: Extraordinaries	(222)	-	(330)	-
Net profit	3,445	3,418	1,575	268

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	7,048	903	1,320	1,542
Working Capital Changes	(1,075)	290	(926)	(327)
Capital Commitments	(6,755)	(447)	(200)	(300)
Free Cashflow	(782)	747	193	915
Cashflow from Investing Activities	-	-	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	1,389	(465)	(470)	(630)
Dividend paid	(147)	(147)	(147)	(147)
Change in Deferred Tax Liability	(317)	(218)	563	100
Chg. in Cash & Bank balance	143	(83)	140	238

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS	2.8	2.1	1.7	6.7
Cash EPS	7.1	6.8	7.5	12.6
Dividend per share (DPS)	1.0	1.0	1.0	1.0
Book Value per share (BV)	52.6	54.0	54.4	59.9
Growth (%)				
Net Sales	-25.1	46.3	2.8	27.6
EBITDA	-52.8	78.1	9.3	52.8
PAT	-61.4	-26.8	-19.8	304.9
Cash EPS	-27.8	-4.5	10.0	67.7
Valuation Ratios (x)				
P/E	19.0	45.5	32.5	8.0
P/CEPS	7.5	7.9	7.2	4.3
P/BV	1.0	1.0	1.0	0.9
EV / EBITDA	15.8	8.6	7.5	4.5
EV / Sales	2.0	1.4	1.2	0.9
Operating Ratios				
Raw Material / Sales (%)	42.6	44.7	42.0	41.5
Employee cost / Sales (%)	13.5	11.3	0.0	0.0
SG&A / Sales (%)	0.0	0.0	13.9	13.9
Other Income / PBT (%)	102.5	19.1	7.7	1.9
Effective Tax Rate (%)	-179.2	-23.5	30.5	30.5
Working Capital (days)	60.0	43.2	50.0	48.0
Inventory Turnover (days)	81.9	64.1	70.0	70.0
Receivables (days)	27.8	29.4	32.0	29.0
Payables (days)	49.7	50.2	52.0	51.0
Net D/E Ratio (x)	0.9	0.8	0.7	0.5
Return/Profitability Ratio (%)				
Net Income Margins	5.8	2.9	2.2	7.1
RoACE	3.0	5.6	6.5	12.7
RoAE	5.5	3.9	3.1	11.7
Dividend Payout	42.6	101.7	72.6	17.9
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	12.9	15.7	16.7	20.0

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Nehal Shah, CA; Jigar Shah, CA*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed 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, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.