Greenply Industries (GREIN)

CMP: ₹ 84 | Target: ₹ 95 (13%) | Target Period: 12 months | HOLD

November 6, 2020

Focus on balance sheet bears fruit…

Greenply Industries' (GIL) H1FY21 performance was more about balance sheet than P&L due to Covid-19 impact on overall demand as well as production. The company has reduced its consolidated debt by ~₹ 73 crore in H1FY21 to ₹ 195 crore driven by strong receivables collection and moving to stricter working capital control. GIL's Q1 consolidated topline declined 22.3% YoY at ₹ 295.5 crore impacted by ~31% decline in standalone (plywood revenues) at ₹ 238.4 crore. Consolidated EBITDA was at ₹ 32.3 crore, down 27.9% YoY, with margins at 10.9%, down 90 bps YoY. PAT was down 30% YoY at ₹ 18.6 crore.

Plywood segment recovery to be gradual

Plywood sales volumes declined 27.2% YoY at 11.1 million sq.mt. (MSM) in Q1FY21 (45.1% in H1 at 15.8 MSM) while realisations dipped 5.8% YoY to ₹ 211/sq mt (decline of 3.1% YoY to ₹ 215/sq mt in H1), given the product mix. GIL's own manufacturing facility is operating at 107% utilisation as of Q2FY21 (much improved from 50% utilisations in Q1). With reopening of economy and traction in metro cities, we expect the overall plywood segment to recover gradually. Additionally, it is strengthening its sales penetration via addition of dealers' network in the rural areas, which should aid overall volume recovery going forward. Overall, we expect plywood revenues to witness -4% CAGR to ₹ 1170 crore in FY20-22E with ~24% decline in FY21 followed by ~22% growth in FY22 on a depressed base.

Gabon remains resilient

Revenues from the Gabon plant of face veneer have been resilient owing to increased capacity (by 1.7x to 96,000 CBM from November, 2019) and traction in exports to Europe. The Gabon revenues were up 64.4% YoY at ₹ 57.2 crore (up 4.4% YoY at ₹ 82.3 crore in H1). GIL is focussing more on increasing supply to South Asian & European markets as well as breaking some ground in US markets drive Gabon revenues. Overall, we expect Gabon revenues to witness -6% CAGR to ₹ 171 crore in FY20-22E with flattish sales in FY21 followed by ~11% growth in FY22. Driven by cost rationalisation and revenues recovery, we expect consolidated margins to expand to 11.6% in FY22 (vs. 11% in FY20)

Valuation & Outlook

GIL initiative on stricter working capital control and cost rationalisation are praiseworthy amid challenging plywood demand. Gabon traction also looks healthy, albeit continued demand from Europe and newer areas will hold key. We await recovery in plywood segment (lion share of revenues) before turning constructive on the company. Hence, we maintain **HOLD** rating on the stock with a revised target price of ₹ 95/share (14x FY22E earnings).

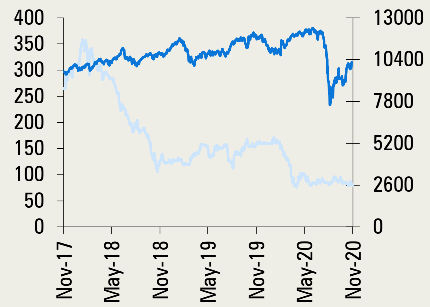
Particulars

Particulars	(₹ crore)
Market Capitalization	1,032.6
Total Debt (FY20)	267.4
Cash (FY20)	10.3
EV	1,289.7
52 week H/L (₹)	178 / 70
Equity capital	12.3
Face value (₹)	1.0

Key Highlights

- GIL has reduced its consolidated debt by ~73 crore in H1FY21 to ₹ 195 crore driven by strong receivables collection and moving to stricter working capital control
- Maintain HOLD with target price of ₹ 95/share

Price Chart



Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	1412.2	1420.4	1115.1	1341.0	-2.8%
EBITDA	144.0	155.6	116.0	155.9	0.1%
Net Profit	79.7	47.3	56.5	85.3	
EPS (₹)- Diluted	6.5	3.9	4.6	7.0	34.4%
P/E (x)	12.9	21.8	18.2	12.1	
Price/book (x)	3.1	2.7	2.4	2.0	
EV/EBITDA (x)	8.8	8.3	10.1	7.3	
RoCE (%)	21.9	21.1	15.2	19.8	
RoE (%)	23.8	12.5	13.0	16.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	295.5	380.3	-22.3	132.7	122.7	The plywood volumes were down 27.2% YoY at 11.1 million sqm, while realisations were down 5.8% YoY at ₹ 211/sqm. The solace was Gabon face veneer external sales volumes which were up 53%, restricting the overall revenues decline due to plywood.
Other Income	1.1	0.1	753.1	0.2	594.5	
Material Consumed	113.1	140.8	-19.6	51.0	122.0	
Purchase of Stock in Trade	51.1	64.6	-20.9	27.1	88.3	
Changes in Inventories of WIP	13.7	13.9	-1.1	-7.3	-287.8	
Employee Benefit Expenses	35.1	45.3	-22.7	31.8	10.3	
Other Expenses	50.2	70.9	-29.2	33.0	52.0	
EBITDA	32.3	44.9	-27.9	-2.8	-1,240.6	
EBITDA Margin (%)	10.9	11.8	-85 bps	-2.1	1308 bps	
Depreciation	5.7	6.4	-12.0	5.1	10.8	
Interest	3.8	5.4	-29.9	5.5	-30.7	
PBT	24.0	33.1	-27.5	-13.3	NM	
Taxes	4.5	6.4	-30.5	-3.2	NM	
PAT	18.6	26.4	-29.7	-11.3	NM	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** H1FY21 was largely marred by disruptions caused by Covid-19 pandemic. However, the company is witnessing decent volume pickup from August 2020 and the gained momentum is likely to continue, going forward. The management, on a conservative basis, has guided for flat YoY volume growth during H2FY21. Average realisation during Q2FY21 has fallen to ₹ 211/sq mt (from ₹ 224/sq mt in Q2FY20) with change in product mix (mainly towards low and mid-range products with increased penetration in rural areas). However, an improvement in realisations is expected with a pick-up in premium product demand arising from metro cities

- **Revenue distribution:** Premium segment contributed 69% to the Q2FY21 topline (vis-à-vis 72% in Q2FY20) while the balance was contributed by the mid-and-lower products. In volume terms, premium category contributed 60% in Q2FY21 (vis-à-vis 64% in Q2FY20). Going forward, the management expects a better product mix with improved economic and construction activities in metro cities

- **Capacity utilisation, strengthening of distribution network:** GIL's utilisation across its India's facility has improved to ~107% utilisation (as of Q2FY21). The management has also indicated works encouraging operations at Gabon having order book visibility of ~1.5 months. Additionally, the company is strengthening its sales penetration via addition of dealers' network in the rural areas. This is likely to keep its capacity utilisation at the elevated levels

- **Margin:** EBITDA margin during Q2FY21 improved sharply to 10.6% on a QoQ basis largely aided by better operating efficiencies and lowering of spends such as travel and office expenses. Also, its employee cost has remained benign with no major increment and incentives provided to workforces. However, the management has indicated towards some increase in employee and marketing expenses going forward. Nevertheless, it has guided for ~10% margins for FY21 to be backed by higher sales and better product mix. On the medium-to-longer term basis, the management is aiming for 14-15% EBITDA margin

- **Debt:** GIL has managed to bring down its net debt at standalone, consolidated level to ₹ 15.5 crore, ₹ 194.7 crore, respectively. Concurrently, at the end of September 2020, its D/E ratio on a standalone, consolidated basis has improved to 0.2x, 0.5x, respectively, (from 0.5x/0.8x at the end of September 2019). The management endeavours to achieve net debt free status at the consolidated level by FY23 end

- **Working capital:** The company has strong focus on improvement of working capital days and is currently providing cautious credits to its dealers' and tightening its supply chain. This has translated into improved working capital days for the company (66 days at the end of September 2020 vis-à-vis 68 days a year back). Going forward, the company expects a further improvement in working capital days with a sharp reduction expected in debtors (currently at 90 days; likely to come down to 45-60 days by FY22-end)

- **Capex:** The company incurred capex of ₹ 8.3 crore during H1FY21 and has guided for similar level of capex in H2FY21

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(₹ Crore)	FY19	FY20	FY21E	FY22E
Net Sales	**1,412.2**	**1,420.4**	**1,115.1**	**1,341.0**
Gross Profit	**559.1**	**584.9**	**464.1**	**555.4**
Employee benefit expenses	151.5	162.9	122.7	147.5
Other Expenses	263.6	266.4	222.4	249.0
EBITDA	**144.0**	**155.6**	**116.0**	**155.9**
Interest	**18.6**	**20.8**	**17.4**	**13.4**
Depreciation	22.4	25.7	23.1	27.0
Other income	3.3	2.0	3.0	3.0
PBT	**106.2**	**111.2**	**78.5**	**118.5**
Taxes	31.5	13.4	22.0	33.2
PAT	**79.7**	**47.3**	**56.5**	**85.3**
EPS (Diluted)	**1.7**	**3.9**	**4.6**	**7.0**

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(₹ Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	**79.7**	**47.3**	**56.5**	**85.3**
Depreciation	22.4	25.7	23.1	27.0
Interest	18.6	20.8	17.4	13.4
Taxes	31.5	13.4	22.0	33.2
Cash Flow before wc changes	150.0	93.0	116.0	155.9
Cash generated from operations	102.1	50.5	172.1	98.4
Income Tax paid	31.5	13.4	22.0	33.2
Net CF from operating activities	**70.6**	**37.1**	**150.1**	**65.3**
Capital Work-in-progress	(7.5)	11.6	-	-
(Purchase)/Sale of Fixed Assets (N	39.8	53.1	15.0	30.0
Net CF from Investing activities	**(44.0)**	**(39.5)**	**(12.0)**	**(27.0)**
Others	(11.6)	(4.6)	-	-
Interest paid	(18.6)	(20.8)	(17.4)	(13.4)
Inc / (Dec) in Loans	(3.8)	17.4	(50.0)	(50.0)
Net CF from Financing activities	**(34.0)**	**(8.0)**	**(67.4)**	**(63.4)**
Net Cash flow	(7.4)	(10.3)	70.7	(25.1)
Opening Cash	28.0	20.6	10.3	80.9
Closing Cash/ Cash Equivalent	**20.6**	**10.3**	**80.9**	**55.8**

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(₹ Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	323.0	365.7	422.2	507.5
Total Shareholders funds	335.2	377.9	434.5	519.8
Total Debt	250.0	267.4	217.4	167.4
Deferred Tax Liability	(4.1)	(10.5)	(10.5)	(10.5)
Total Liabilities	**590.8**	**643.9**	**650.5**	**685.8**
Assets				
Gross Block	351.8	404.9	419.9	449.9
Less Acc. Dep	106.1	126.5	149.6	176.6
Net Block	245.7	278.4	270.3	273.3
Net Intangibles Assets	6.2	6.7	6.7	6.7
Capital WIP	17.3	5.2	5.2	5.2
Total Fixed Assets	269.2	290.3	282.2	285.2
Investments	22.2	23.8	23.8	23.8
Inventory	169.4	177.1	139.0	167.2
Sundry Debtors	305.0	356.5	279.9	336.6
Loans & Advances	5.5	3.2	3.2	3.2
Cash & Bank Balances	20.6	10.3	80.9	55.8
Other Current Assets	89.04	75.71	71.38	77.46
Total Current Assets	589.6	622.8	574.5	640.3
Trade Payable	232.0	231.7	168.0	202.1
Other Current Liabilities	64.3	50.4	50.4	50.4
Provisions	5.5	34.8	34.8	34.8
Net Current Assets	287.8	305.9	321.3	353.1
Total Assets	**590.8**	**643.9**	**650.5**	**685.8**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

	FY19	FY20	FY21E	FY22E
Per Share Data (₹)				
EPS - Diluted	6.5	3.9	4.6	7.0
Cash EPS	8.3	6.0	6.5	9.2
Book Value	27.3	30.8	35.4	42.4
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	10.2	11.0	10.4	11.6
PAT / Net Sales	5.6	3.3	5.1	6.4
Inventory Days	51	44	46	46
Debtor Days	92	80	93	93
Creditor Days	79	76	79	75
Return Ratios (%)				
RoE	23.8	12.5	13.0	16.4
RoCE	21.9	21.1	15.2	19.8
RoIC	21.6	20.7	16.7	21.3
Valuation Ratios (x)				
EV / EBITDA	8.8	8.3	10.1	7.3
P/E (Diluted)	12.9	21.8	18.2	12.1
EV / Net Sales	0.9	0.9	1.0	0.9
Market Cap / Sales	0.7	0.7	0.9	0.8
Price to Book Value	3.1	2.7	2.4	2.0
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.7	0.3	0.2
Debt / EBITDA	1.7	1.7	1.9	1.1
Current Ratio	1.7	1.9	1.8	2.0
Quick Ratio	**1.2**	**1.3**	**1.3**	**1.4**

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, MBA, CFA Research Analysts, 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. 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 Retail 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 Institutional 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 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.