

Strong growth on depressed base...

About the stock: Greenply Industries (GIL) is one of the leading players in the plywood business in India. It has a distribution network of 2,300+ dealers/authorised stockists pan-India.

- It is foraying into the MDF boards business with greenfield manufacturing set-up at Vadodara, Gujarat of 800 CBM/day (capex of ~₹ 555 crore) with revenue potential of ~₹ 600-650 crore per annum at its peak utilisation

Q2FY22 Results: GIL reported a strong Q2FY22 performance on favourable base.

- Topline at ₹ 432.4 crore, was up 46.3% YoY on a benign base (Q2FY21 had ~ 22% YoY decline). It was driven by 57.8% growth in plywood revenues at ₹ 376.2 crore with volumes up ~43% YoY at 15.9 MSM
- EBITDA margins expanded 60 bps YoY to 11.5%, owing to operating leverage benefits
- PAT came in at ₹ 31.9 crore, up 72% YoY

What should investors do? GIL's share price has declined by 14% over the past five years given the challenging growth trajectory.

- We maintain our HOLD rating on the company

Target Price and Valuation: We value GIL at ₹ 250/share (at 24x FY23E P/E).

Key triggers for future price performance:

- Planned capex in plywood and MDF business to provide additional revenue in the medium to long term
- Recovery in plywood growth momentum, which has lagged peers
- Strong brand presence, well established distribution network and product portfolio offering at varied price points; improving dealer's network and healthy momentum in real estate to support sales growth

Alternate Stock Idea: Besides Greenply, we like Mahindra Lifespace in the realty/building material segment.

- Play on expanding residential real estate portfolio
- BUY with a target price of ₹ 335



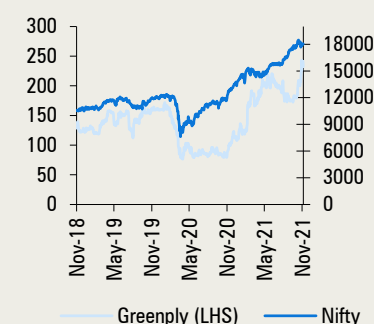
Particulars

Particulars	(₹ crore)
Market Capitalization	2,857.3
Total Debt (FY21)	191.7
Cash (FY21)	128.0
EV	2,921.0
52 week H/L (₹)	255 / 90
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	52.2	52.2	52.2	52.3
DII	26.1	28.2	31.5	29.8
FII	1.5	2.0	1.8	2.7
Other	20.2	17.7	14.5	15.3

Price Chart



Key Risks

Key Risk: (i) Weaker than peer growth; (ii) Sharper expansion in margins

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	3 yr CAGR (FY18-21E)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	1412.2	1420.4	1165.3	8.5%	1527.5	1674.3	19.9%
EBITDA	144.0	155.6	116.7	20.7%	187.1	226.6	39.3%
Net Profit	79.7	47.3	60.9		110.1	128.1	
EPS (₹)- Diluted	6.5	3.9	5.0	43.3%	9.0	10.4	45.0%
P/E (x)	35.8	60.3	46.8		25.9	22.2	
Price/book (x)	8.5	7.5	6.5		5.2	4.2	
EV/EBITDA (x)	21.4	20.0	25.0		17.8	15.0	
RoCE (%)	21.9	21.1	16.4		16.5	16.1	
RoE (%)	23.8	12.5	13.9		20.1	19.0	

Source: Company, ICICI Direct Research * Post demerger historical growth CAGR

Key business highlight and outlook

- **Guidance:** The company guided for ~10-11% volume growth in FY23 in the plywood segment. It indicated that since there were enough price hikes, this year, it does not expect RM prices to move up any further. Realisation growth would be maximum ~1-2%. It expects margins to reach 13-14% by Q4FY23 from current levels of 11.5% and sustain at those levels from then onwards
- **Realisation, utilisation:** Average realisation during Q2FY22 was at ₹ 233/sq m (vs. ₹ 211/sq m and ₹ 235/sq m in Q2FY21 and Q1FY22, respectively), up 10.4% YoY and QoQ decline due to higher share of traded goods (economy segment). Also, GIL's utilisation during Q2FY22 was at 100% (vs. ~76% in Q2FY21) and 69% in Q1
- **Plywood capex status:** Construction activities are in full swing. The management expects to spend another ~₹ 70 crore by FY22-end and are hopeful of commencing production from March 2022. Recall, GIL had planned to set up a new unit of 13.5 MSM capacity in Sandila Industrial Area (Uttar Pradesh) for manufacturing plywood and its allied products during FY21 at an overall capex of ₹ 113.5 crore (₹ 80 crore excl. land). The plant will have revenue potential of ~₹ 250 crore
- **MDF expansion status:** GIL indicated that for the MDF plant, it has acquired land, ordered major plant & machinery while preliminary construction activities have started. The plant is expected to commence operations by Q4FY23. Recall, it is setting up an MDF plant in Vadodara with an installed capacity of 800 CBM/day with revenue potential of ₹ 600-650 crore per annum at its peak utilisation. The estimated capex of ₹ 555 crore is likely to be funded by a mix of debt and equity in the ratio 65:35. The company expects capacity to reach optimum level by FY26E while its RoCE in a steady state would be 18-19%. PBT breakeven for the plant would be at ~50-60% capacity expected to be reached during FY24E assuming margins of ~22-23% and quicker if margins stay at current elevated levels of ~30%+)
- **Gabon:** The Gabon plant continues to face challenges on shipment of finished goods with freight rates and unavailability of desired level of vessels. The management expects a flattish H2 topline (compared to H1FY22) for Gabon operations with marginally better margins
- **Capex:** Over the next 18 months, the company guided for capex of ~₹ 650 crore (with ~₹ 150-160 crore in the form of equity) with ~₹ 500 capex for MDF, ₹ 70 crore remaining capex for plywood expansion and ₹ 20-30 crore for maintenance capex
- **Net debt:** GIL is net debt free at the standalone level with net cash of ₹ 74.1 crore. However, at the consolidated level, net debt was at ₹ 56.1 crore. With higher capital requirement required to build MDF plant, GIL's debt is likely to increase in the medium term. It expects debt of ~₹ 500 crore by FY23 end

GIL's stricter strong working capital management has provided strength to the balance sheet. While plywood is expected to witness decent double digit growth ahead, GIL's relative market share and traction thereafter will be key for further erating as key player Century expects to record superior growth. Foray into MDF is positive but one has to be cautious at the possibility of increased capacities impacting the economics. We maintain HOLD recommendation with a revised target price of ₹ 250/share (24x FY23E earnings at ~30% discount to Century Ply) vs. ₹ 215/share, earlier.

Exhibit 1: Variance Analysis

Particular	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Net Sales	432.4	295.5	46.3	260.8	65.8	
Other Income	2.0	1.1	77.5	2.1	-3.7	
Material Consumed	146.2	113.1	29.2	123.4	18.4	
Purchase of Stock in Trade	102.0	51.1	99.7	47.5	114.7	
Changes in Inventories of WIP	12.0	13.7	-12.5	-23.1	-152.0	
Employee Benefit Expenses	50.6	35.1	44.3	44.6	13.3	
Other Expenses	72.0	50.2	43.4	55.2	30.4	
EBITDA	49.7	32.3	53.6	13.2	276.2	
EBITDA Margin (%)	11.5	10.9	55 bps	5.1	643 bps	
Depreciation	6.4	5.7	13.7	6.1	5.0	
Interest	3.5	3.8	-8.5	3.4	3.0	
PBT	41.8	24.0	74.0	5.8	621.1	
Taxes	10.0	4.5	124.6	1.6	541.8	
PAT	31.9	18.6	72.0	4.0	692.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,331.0	1,527.5	14.8	1,572.8	1,674.3	6.5	Realign estimates
EBITDA	161.9	187.1	15.5	212.9	226.6	6.4	
EBITDA Margin (%)	12.2	12.2	8 bps	13.5	13.5	0 bps	
PAT	93.9	110.1	17.3	120.6	128.1	6.2	
EPS (₹)	7.7	9.0	17.3	9.8	10.4	6.2	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	1,420.4	1,165.3	1,527.5	1,674.3
Gross Profit	584.9	481.3	637.6	701.7
Employee benefit expenses	162.9	149.5	183.3	192.5
Other Expenses	266.4	215.1	259.4	274.4
EBITDA	155.6	116.7	187.1	226.6
Interest	20.8	16.6	18.2	26.6
Depreciation	25.7	23.1	25.9	33.3
Other income	2.0	6.8	7.8	8.2
PBT	111.2	83.7	150.8	174.9
Taxes	13.4	20.5	38.3	44.4
PAT	47.3	60.9	110.1	128.1
EPS (Diluted)	3.9	5.0	9.0	10.4

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	47.3	60.9	110.1	128.1
Depreciation	25.7	23.1	25.9	33.3
Interest	20.8	16.6	18.2	26.6
Taxes	13.4	20.5	38.3	44.4
Cash Flow before wc changes	93.0	117.9	184.7	224.2
Cash generated from operations	50.5	245.7	105.9	196.5
Income Tax paid	13.4	20.5	38.3	44.4
Net CF from operating activities	37.1	225.2	67.6	152.1
Others	2.0	6.8	7.8	8.2
(Purchase)/Sale of Fixed Assets (In)	(41.5)	(19.8)	(473.8)	(205.2)
Net CF from Investing activities	(39.5)	(13.0)	(466.0)	(197.0)
Others	(4.6)	(2.1)	-	-
Interest paid	(20.8)	(16.6)	(18.2)	(26.6)
Inc / (Dec) in Loans	17.4	(75.7)	300.0	100.0
Net CF from Financing activities	(8.0)	(94.5)	281.8	73.4
Net Cash flow	(10.3)	117.7	(116.6)	28.5
Opening Cash	20.6	10.3	128.0	11.4
Closing Cash/ Cash Equivalent	10.3	128.0	11.4	39.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	365.7	424.4	534.6	662.6
Total Shareholders funds	377.9	436.7	546.8	674.9
Total Debt	267.4	191.7	491.7	591.7
Deferred Tax Liability	(10.5)	(6.4)	(6.4)	(6.4)
Total Liabilities	643.9	630.6	1,040.7	1,268.8
Assets				
Gross Block	404.9	428.8	538.8	1,108.8
Less Acc. Dep	126.5	149.6	175.4	208.7
Net Block	278.4	279.2	363.4	900.1
Net Intangibles Assets	6.7	1.5	1.5	1.5
Capital WIP	5.2	6.2	370.0	5.2
Total Fixed Assets	290.3	287.0	734.9	906.8
Investments	23.8	22.5	22.5	22.5
Inventory	177.1	179.2	234.9	257.5
Sundry Debtors	356.5	193.9	251.1	275.2
Loans & Advances	3.2	8.4	8.4	8.4
Cash & Bank Balances	10.3	128.0	11.4	39.9
Other Current Assets	75.71	78.02	89.38	93.98
Total Current Assets	622.8	587.5	595.2	674.9
Trade Payable	231.7	204.3	251.1	275.2
Other Current Liabilities	50.4	61.2	61.2	61.2
Provisions	34.8	21.2	21.2	21.2
Net Current Assets	305.9	300.8	261.7	317.3
Total Assets	643.9	630.6	1,040.7	1,268.8

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	3.9	5.0	9.0	10.4
Cash EPS	6.0	6.8	11.1	13.2
Book Value	30.8	35.6	44.6	55.0
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	11.0	10.0	12.2	13.5
PAT / Net Sales	3.3	5.2	7.2	7.6
Inventory Days	51	44	46	56
Debtor Days	92	80	93	63
Creditor Days	79	76	79	87
Return Ratios (%)				
RoE	12.5	13.9	20.1	19.0
RoCE	21.1	16.4	16.5	16.1
RoIC	20.7	18.9	24.5	16.0
Valuation Ratios (x)				
EV / EBITDA	20.0	25.0	17.8	15.0
P/E (Diluted)	60.3	46.8	25.9	22.2
EV / Net Sales	2.2	2.5	2.2	2.0
Market Cap / Sales	2.0	2.5	1.9	1.7
Price to Book Value	7.5	6.5	5.2	4.2
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.1	0.9	0.8
Debt / EBITDA	1.7	1.6	2.6	2.6
Current Ratio	1.9	1.5	1.7	1.7
Quick Ratio	1.3	0.8	0.9	1.0

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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