



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

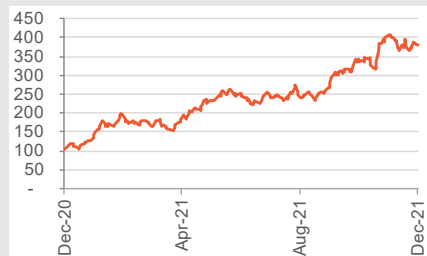
Company details

Market cap:	Rs. 4,664 cr
52-week high/low:	Rs. 422 / 93
NSE volume: (No of shares)	4.70 lakh
BSE code:	542857
NSE code:	GREENPANEL
Free float: (No of shares)	5.8 cr

Shareholding (%)

Promoters	53.1
FII	2.9
DII	22.7
Others	21.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.7	36.4	50.4	272.0
Relative to Sensex	-1.9	37.4	40.1	245.6

Sharekhan Research, Bloomberg

Greenpanel Industries Ltd

Demand to remain upbeat; Reiterate Buy

Building materials	Sharekhan code: GREENPANEL		
Reco/View: Buy	↔	CMP: Rs. 380	Price Target: Rs. 510 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Pan-India residential launches and sales grew strongly y-o-y and q-o-q in Q3CY2021, while inventory fell sequentially. We expect residential segment to drive MDF/plywood demand going ahead.
- Brownfield expansions coming on-stream in Q4FY2022 along with full capacity utilization in existing capacity would drive up volumes by 20-25% y-o-y for FY2023.
- Company's Rudrapur unit is facing delays in resuming operations due to delays in imports of component, which would lead to a Rs. 4-crore loss on fixed overheads.
- We retain a Buy on Greenpanel Industries Limited with an unchanged PT of Rs. 510, considering its strong earnings growth outlook and favourable valuation.

Greenpanel Industries Limited (Greenpanel) is expected to benefit from continued growth momentum being witnessed in the residential real estate market. Top seven cities saw strong y-o-y and q-o-q growth in launches and sales in Q3CY2021 apart from dip in inventory q-o-q. Demand momentum is expected to sustain led by low interest rates and peak affordability ratio which would aid in healthy domestic demand for MDF and Plywood for the company. The company's 20% incremental brownfield expansion along full capacity utilization at existing capacity would provide 20-25% y-o-y volume growth for FY2023. It would further chalk out next phase of expansion by Q4FY2022 end. In the near term, the company is expected to incur a Rs. 4 crore loss on account of delay in commencement of Rudrapur plant due to delay in import of components.

- Residential market demand to drive MDF/Plywood growth:** The pan-India residential market rebounded strongly during Q3CY2021 after Q2CY2021 getting hit by covid second wave. The top seven cities (NCR, MMR, Bengaluru, Pune, Hyderabad, Chennai and Kolkata) saw 98% y-o-y rise and 78% q-o-q rise in new launches in Q3CY2021. Sales saw a robust 113% y-o-y jump (156% q-o-q) during Q3CY2021. Despite the strong sales, the inventory reduced by 8 months q-o-q. The average property prices have risen by 2% q-o-q (up 3% y-o-y) due to an increase in price of construction raw materials. We expect the MDF and Plywood demand to remain strong driven by strong pick-up in launches and sales since Q3CY2020.
- Brownfield expansion to lead to FY2023 growth:** Greenpanel is expanding its capacity from 540,000 cubic meters to 660,000 cubic meters which will be available from Q4FY2022. It expects capacity utilisation to be at 90-95% during Q4FY2022 on the expanded capacity. The company expects full capacity utilisation on expanded capacity during H2FY2023. As per the management, its existing capacity can be run at 110-112% which along with a 20% addition would provide for 20-25% y-o-y volume growth in FY2023. Further, by end of Q4FY2022, it would also chalk out its next phase of expansion plans. The management expects to achieve Rs. 1500 crore by FY2023.
- Delay in Rudrapur plant to cost Rs. 4 crore on overheads:** Normal operations at the company's MDF plant at Rudrapur is expected to resume from December 16, 2021 which had been closed since November 11, 2021 due to a delay in import of refiner component from Sweden. The company has an insurance policy which covers loss of profits beyond 14 days from the date of breakdown but would have to incur Rs. 4 crore on account of fixed overheads.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 510: Greenpanel has strong structural growth drivers along with favourable environment led by weak imports affected by logistics issues. Brownfield expansion along with anticipated another round of capacity expansion would provide healthy growth going forward. The company's limited capex requirement towards brownfield expansions, strong operating cash flow generation, tight working capital management and reducing leverage would propel its return ratios over FY2021-FY2024E. The company is currently trading at a P/E of 15x its FY2024E earnings, which we believe is quite attractive considering over 60% CAGR in net earnings expected over FY2021-FY2024E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 510.

Key Risks

Weak macroeconomic environment leading to a lull in industry growth trend.

Valuation (Consolidated)

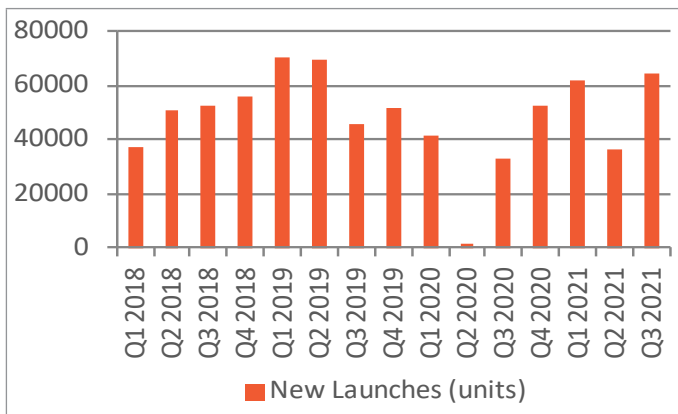
Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
Revenue	1,020.8	1,643.9	1,810.7	2,068.9
OPM (%)	19.9	24.3	23.7	24.3
Adjusted PAT	68.8	219.0	249.2	303.7
% Y-o-Y growth	172.0	218.3	13.8	21.9
Adjusted EPS (Rs.)	5.6	17.9	20.3	24.8
P/E (x)	67.8	21.3	18.7	15.4
P/B (x)	6.3	4.9	4.0	3.3
EV/EBIDTA (x)	24.4	12.4	11.6	9.9
RoNW (%)	9.9	26.3	23.9	23.7
RoCE (%)	8.5	21.2	21.0	22.0

Source: Company Data; Sharekhan estimates

Strong Residential demand to maintain MDF/Plywood demand growth

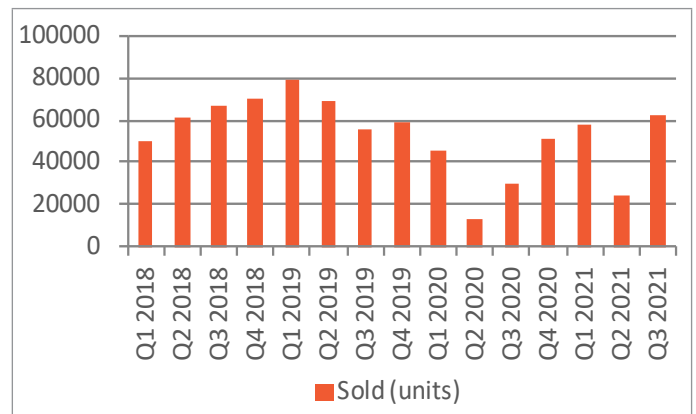
The pan-India residential market rebounded strongly during Q3CY2021 after Q2CY2021 got hit by COVID-19 second wave. The top seven cities (NCR, MMR, Bengaluru, Pune, Hyderabad, Chennai and Kolkata) saw 98% y-o-y rise and 78% q-o-q rise in new launches in Q3CY2021. NCR, MMR, Pune and Kolkata witnessed more than 100% q-o-q jump in new launches. Sales during Q3CY2021 saw a robust 113% y-o-y jump (up 156% q-o-q) led by rising vaccination, low home loan interest rates, increased hiring in IT/ITeS sector, etc. The strong rise in sales is broad based across the top seven cities. Despite the strong sales, the inventory reduced by eight months q-o-q. Average property prices have risen by 2% q-o-q (up 3% y-o-y) due to an increase in price of construction raw materials. The residential market is expected to maintain the growth momentum in terms of new launches and sales driven by structural growth drivers like prevailing low interest regime and all-time best affordability ratio. We expect the MDF and Plywood demand to remain strong driven by a strong pick-up in launches and sales since Q3CY2020.

Launches in top seven cities



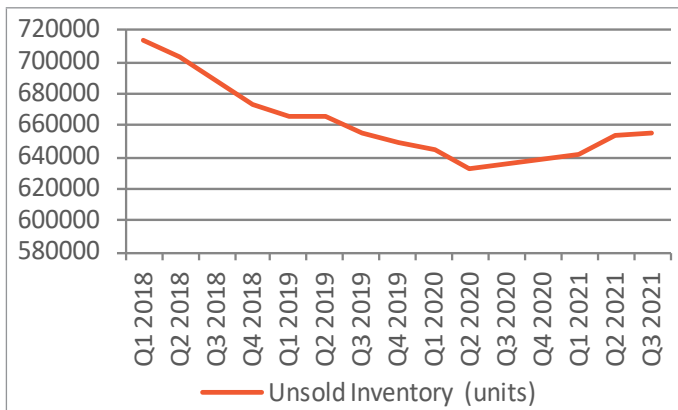
SOURCE: INDUSTRY, SHAREKHAN RESEARCH

Sales in top seven cities



SOURCE: INDUSTRY, SHAREKHAN RESEARCH

Top 7 cities Inventory trend



SOURCE: INDUSTRY, SHAREKHAN RESEARCH

Top 7 cities average price trend

Average Base Selling Price (Rs/sft)			
Cities	Q3 2021	YoY (%)	QoQ (%)
NCR	4720	3.1	1.5
MMR	10950	3.2	1.9
Bengaluru	5150	3.5	1.8
Pune	5665	2.8	1.5
Hyderabad	4320	3.0	1.9
Chennai	5070	2.7	1.6
Kolkata	4450	1.5	1.1

SOURCE: INDUSTRY, SHAREKHAN RESEARCH

Expect strong Q4 with post festive demand and expanded capacity

The company expects strong demand in Q4FY2022 post an impact of festive season during Q3FY2022. The company is expanding its capacity from 540,000 cubic meters to 660,000 cubic meters, which will be available from Q4FY2022. It expects capacity utilization to be at 90-95% during Q4FY2022 on the expanded capacity. Company expects full capacity utilization on expanded capacity during H2FY2023. As per the management, its existing capacity can be run at 110-112%, which along with 20% addition through new addition would provide for 20-25% y-o-y volume growth in FY2023. Further, by the end of Q4FY2022, it would also chalk out its next phase of expansion plans. The management expects to achieve Rs. 1,500 crore by FY2023.

Outlook and Valuation

■ Sector outlook – Expect faster recovery in operations

The building materials industry was severely affected by COVID-19 led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed-cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has been one of the fastest to recover, with the easing of lockdowns domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see demand and revenue run-rate reaching 80-90% as compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding a net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

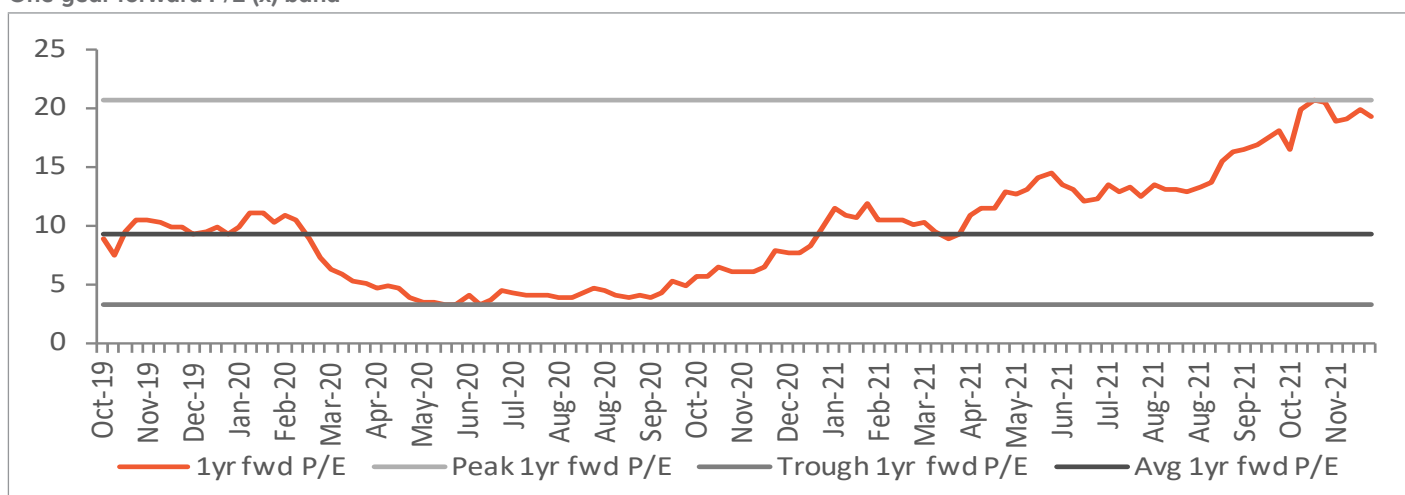
■ Company outlook – Expect growth to be driven by structural triggers

GRPL holds a leadership position in the high-growth MDF segment of the wood panel industry. GRPL is expected to ride on strong growth being envisaged for the wooden furniture industry, which is expected to clock a 12% CAGR during 2020-23. Rising incomes, urbanisation, real estate development, Housing for All, etc, are key growth drivers. The company's dominant positioning in the MDF segment (a 79% revenue share in FY2021) gives it an edge in the wood panel industry as MDF demand is expected to grow at 15-20% per annum over the next two years. Its plywood division too is expected to see double digit volume growth as demand from plywood has resurrected from Q3FY2021 onwards and is expected to maintain the growth trajectory going ahead.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 510

Greenpanel has strong structural growth drivers along with favourable environment led by weak imports affected by logistics issues. Brownfield expansion along with anticipated another round of capacity expansion would provide healthy growth going forward. The company's limited capex requirement towards brownfield expansions, strong operating cash flow generation, tight working capital management and reducing leverage would propel its return ratios over FY2021-FY2024E. The company is currently trading at a P/E of 15x its FY2024E earnings, which we believe is quite attractive considering over 60% CAGR in net earnings expected over FY2021-FY2024E. Hence, we retain our Buy rating with an unchanged price target (PT) of Rs. 510.

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Greenlam Industries	28.6	21.6	16.3	13.4	4.7	3.9	17.8	19.9
Greenpanel Industries	18.7	15.4	11.6	9.9	4.0	3.3	23.9	23.7
Century Plyboards	34.7	28.4	22.9	18.6	7.2	5.8	23.1	22.7

Source: Sharekhan Research

About company

Greenpanel Industries Ltd (GREENP) is India's largest MDF manufacturer with plants at Uttarakhand and Andhra Pradesh (with a combined MDF capacity of 5,40,000 cbm/annum; plywood capacity at 10.5 mn sqm). The company's product portfolio also comprises block boards, veneers, wood floors and doors. Company is also the 3rd largest MDF manufacturer in Asia and 5th largest MDF manufacturer in the world. It has 1400 number of Distributors, 7,000 Retailers and serviced by 15 branches for pan India distribution.

Investment theme

Greenpanel has strong structural growth drivers along with government's favourable measures such as likely anti-dumping duty on thin MDF and CVD on any imported MDF which is likely to aid in strong double digit revenue growth for its MDF vertical. Further, a strong revival in demand for Plywood seen in Q3FY2021 is expected to sustain the momentum going ahead. The company's limited capex requirement towards brownfield expansions, strong operating cash flow generation, tight working capital management and reducing leverage would propel its return ratios over FY2021-FY2023E.

Key Risks

- ♦ A slowdown in macro-economy leading to weak realty market.
- ♦ High concentration in MDF industry.

Additional Data

Key management personnel

Mr. Shiv Prakash Mittal	Executive Chairman
Mr. Shobhan Mittal	Managing Director & CEO
Mr. V. Venkatramani	Chief Financial Officer
Mr. Lawkush Prasad	Company Secretary & Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SM Management	25.8
2	Prime Holdings	10.9
3	Mittal Shobhan	8.6
4	HDFC Asset Management Company	5.8
5	IDFC Mutual Fund	4.4
6	Tata Asset Management	4.1
7	Vanashree Properties	2.5
8	Mittal Rajesh	2.5
9	SBI Funds Management	1.4
10	Mauryan First	1.3

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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