Sharekhan by BNP PARIBAS

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Greenpanel Industries Ltd

Earnings continue to beat estimates; outlook bright

Building materials	Sharekhan code: GREENPANEL		
Reco/View: Buy ↔	CMP: Rs. 570	Price Target: Rs. 700 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

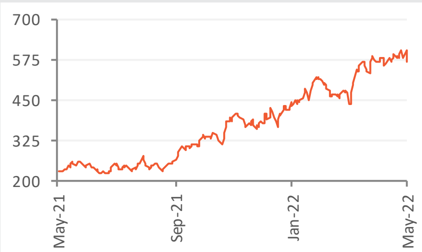
Company details

Market cap:	Rs. 6,990 cr
52-week high/low:	Rs. 625/213
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	5.8
DII	21.2
Others	19.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	11.9	39.9	145.5
Relative to Sensex	7.5	16.7	49.3	134.1

Sharekhan Research, Bloomberg

Summary

- Consolidated OPM positively surprised in Q4FY2022 led by pricing actions undertaken during 9MFY2022 and a favourable product mix. Operating and net profit were up 42% y-o-y and 43% y-o-y, respectively, for Q4FY2022.
- The management expects MDF and Plywood volumes to rise by 15-18% y-o-y and 6-8% y-o-y for FY2023 with gross and operating margins sustaining at FY2022 levels.
- Greenpanel would announce the next round of capacity expansion by May-June 2022 which is likely to be a brownfield one, at its Southern plant.
- We retain a Buy on Greenpanel Industries Limited (Greenpanel) with a revised PT of Rs. 700, factoring in upwardly revised estimates and considering a strong earnings growth outlook.

Greenpanel Industries Limited (Greenpanel) reported saw net earnings strongly beat estimates in Q4FY2022 led by better-than-expected operating margins in the MDF division. Consolidated revenues grew by 20.9% y-o-y to Rs. 470 crore led by a 45% y-o-y jump in MDF realisations while MDF volumes declined by 10.7% y-o-y (impact of COVID-19, election in some states and price rise). Plywood volumes declined by 19.3% y-o-y, while realisations improved by 5.6% y-o-y. Consolidated OPM at 29.3% (up 437 bps y-o-y, up 314bps q-o-q) was aided by MDF division's OPM (34.6% Vs 28.6%/30.5% in Q4FY2021/Q3FY2022) on account of pricing actions (17% price increase cumulatively during FY2022) and product mix (lower share of OEM sales). Consolidated operating profit/net profit was up 42.1%/42.8% y-o-y. The management expects MDF and plywood volumes to grow at 15-18% y-o-y and 6-8% with OPM levels for both segments to sustain in FY2023. It would announce capacity expansion plans by May-June 2022 which is likely to be brownfield expansion at its Andhra Pradesh plant.

Key positives

- Both domestic and export MDF realisations rose by 43% y-o-y and 53% y-o-y respectively.
- Gross margins and OPM improved 700 bps y-o-y (up 341bps q-o-q) and 437 bps, y-o-y (up 314bps q-o-q), respectively.
- Net debt reduces by Rs. 84 crores q-o-q to Rs. 60 crore. Net working capital days remained under control at 16 days.

Key negatives

- MDF and plywood volumes declined by 10.7% y-o-y and 19.3% y-o-y affected by covid, elections in few states and price inflation.
- Capacity expansion announcement has been delayed to May-June 2022 from earlier by FY2022 end.

Management Commentary

- Demand was reasonably good in April 2022. The MDF and Plywood volumes are targeted to grow at 15-18% y-o-y and 6-8% y-o-y for FY2023. MDF export volumes eyed at 120000 to 125000 cubic metres.
- The MDF's GM and OPM at 58% and 31% respectively achieved in FY2022 is expected to sustain in FY2023. It expects Plywood OPM at 11% for FY2023.
- Share of imports which was 35% during pre-covid has shrunk to 8-9% due to higher global MDF prices, increased ocean freight rates and countries like Vietnam and Indonesia taking China's share of exports to US and Europe.
- Greenpanel expects to be net debt free for existing operations by June 2022.

Revision in estimates – We have raised our estimates for FY2023-FY2024 factoring higher OPM in MDF.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 700: Greenpanel has strong structural growth drivers and a favourable demand environment led by weak imports owing to multiple issues. Strong demand helped company pass on a steep rise in raw material costs, which along with product mix has led to margin expansion in the MDF division. The company's brownfield expansion and another anticipated round of capacity expansions would lead to healthy growth going forward. The company's strong operating cash flow generation, tight working capital management and reducing leverage would propel its return ratios over FY2022-FY2024E. The stock trades at a P/E of 17x its FY2024E earnings, which we believe leaves room for upside considering over 30% CAGR in net earnings expected over FY2022-FY2024E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 700 led by an upward revision in estimates.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,020.8	1,625.0	1,899.6	2,204.3
OPM (%)	19.9	26.5	28.0	28.2
Adjusted PAT	68.8	240.5	307.2	403.4
% Y-o-Y growth	172.0	249.5	27.7	31.3
Adjusted EPS (Rs.)	5.6	19.6	25.0	32.9
P/E (x)	101.6	29.1	22.8	17.3
P/B (x)	9.4	7.3	5.7	4.4
EV/EBIDTA (x)	36.2	17.1	13.8	11.8
RoNW (%)	9.9	28.6	28.3	28.7
RoCE (%)	8.2	21.1	24.0	26.1

Source: Company; Sharekhan estimates

Strong operational performance led by MDF margin expansion

Greenpanel Industries reported 20.9% y-o-y rise (+10.8% q-o-q) in consolidated revenues at Rs. 470.1 crore for Q4FY2022 which was 5% higher than our estimates. MDF segment's revenues which comprise 85% of overall revenues, grew by 29.2% y-o-y at Rs. 390 crore while plywood revenues (15% of overall revenues) declined 14.8% y-o-y at Rs. 70 crore. MDF volumes declined by 10.7% y-o-y (+3.2% q-o-q) while realizations were up 44.8% y-o-y. Plywood volumes declined 19.3% y-o-y (-0.4% q-o-q) while realizations were up 5.6% y-o-y. Consolidated OPM at 29.3% (+437 bps y-o-y, up 314 bps q-o-q) came in much higher than our estimate of 26.8%. MDF OPM were up 600bps y-o-y (+410bps q-o-q) at 34.6% while plywood segment's OPMs were down 630bps y-o-y (-70bps q-o-q) at 9.2%. Strong OPM expansion in MDF led to overall consolidated operating profit growth of 42.1% to Rs. 137.8 crore, which was 15% higher than our estimate. Strong operational performance percolated to the bottomline, with consolidated net profit growth of 42.8% y-o-y at Rs. 80.6 crore which was 19% higher than our estimate. The company reduced net debt by Rs. 84 crore to Rs. 60 crores and is targeting net debt free for existing business by June 2022.

FY2023 guidance and capacity expansion plan

As per the management, the demand environment was reasonably good in April 2022. It expects the MDF and Plywood volumes to grow at 15-18% y-o-y and 6-8% y-o-y for FY2023. The MDF exports volumes are targeted at 120000 to 125000 cubic metres. MDF capacity utilization is expected at 85-90% although internal targets are higher. Gross and operating margins of the MDF division stood at 58% and 31%, respectively achieved in FY2022 is expected to sustain in FY2023. It expects Plywood OPM at 11% for FY2023. The company's new capex is expected to get finalised by May-June 2022. It has been facing supply challenges for parts for setting up new plant due to the Russia-Ukraine war. The deliveries of plant equipment can start from one year after zeroing on a supplier. Thereafter, it would take 12-18 months for installation. However, land availability is not a challenge in its existing plant in Andhra Pradesh for addition of one or two lines. It is highly likely that it would undertake expansion at its A.P. facility.

Key Conference call takeaways

- **Guidance:** Demand was reasonably good in April 2022. The MDF and Plywood volumes are targeted to grow at 15-18% y-o-y and 6-8% y-o-y for FY2023. MDF export volumes are targeted at 120000 to 125000 cubic metres. The MDF GM and OPM at 58% and 31% respectively achieved in FY2022 is expected to sustain in FY2023. The MDF capacity utilization is expected at 85-90% although internal targets are higher. It expects Plywood OPM at 11% for FY2023.
- **Q4FY2022 Performance:** Demand was affected by COVID-19, election in few states and price inflation.
- **Capex plan:** The company's new capex plan is expected to finalise by May-June 2022. There has been supply challenges for parts for setting up new plant due to Russia-Ukraine war. The deliveries of plant equipment can start from one year after zeroing on a supplier. Thereafter, it would take 12-18 months for installation. Land availability is not a challenge in its existing plant in A.P. for addition of one or two lines. It is highly likely that it would undertake expansion at A.P. facility. The cost of plant has gone up by 20% over last 2-3 years due to rise in steel prices.
- **Price hikes:** The company took last price hike in MDF during Q3FY2022. The aggregate price hike undertaken during Q4FY2022 stood at 17%. It is contemplating price hike in Plywood in Q1FY2023 to maintain 10-11% OPM.
- **Imports:** The share of imports which was 35% during pre-COVID times, has shrunk to 8-9% due to higher

global MDF prices, increased ocean freight rates and countries like Vietnam and Indonesia taking China's share of exports to US and Europe. The company does not expect substantial rise in imports in near to medium term due to above factors. The landed thick MDF import price is similar (versus the earlier 8-10% premium for the company) to its domestic realization (Southern plant) while its realization is 10% premium (versus earlier 25-30% premium for company) to thin MDF import price.

- **OEM mix:** The OEM sales mix is currently at 15-16% of the domestic segment compared to 30-32% in H1FY2022 which has been a key reason for higher OPMs in Q4FY2022.
- **Net Debt:** It has reduced net debt by Rs. 84 crores and Rs. 314 crores during Q4FY2022 and FY2022 respectively. It expects to be net debt free for existing operations by June 2022. The gross debt to equity ratio has reduced to 0.30x in FY2022 as against 0.61x in FY2021.
- **Raw material costs:** Earlier, wood and chemicals comprised 65% and 35% respectively which now comprise half each led by rise in chemical prices. Most of the raw materials are procured domestically.
- **VAP share:** Share of value added products stands at 48% of total domestic volumes
- **East contribution:** East and North East together comprise 8% of total revenues compared to 3-4% in FY2021.
- **Exports margins:** The export margins are currently at 15% compared to 8-10% earlier.
- **Power cost:** It has seen a Re. 1 per unit increase in power cost for its A.P. plant to Rs. 7.5/unit due to state government restriction, which has been extended till 15th May 2022 from 30th April 2022. However, 50% drawing permission is allowed while company has already 75% permission. Hence, the increased unit charge will only be applicable on balance 20-25%.

Financials (Consolidated) Rs cr

Particulars	Q4FY2022	Q4FY2021	y-o-y%	Q3FY2022	q-o-q%
Net sales	**470.1**	**388.8**	**20.9%**	**424.4**	**10.8%**
other income	3.7	2.0	83.6%	2.3	61.1%
Total income	473.7	390.8	21.2%	426.7	11.0%
Total expenses	332.3	291.8	13.9%	313.3	6.0%
Operating profit	**137.8**	**97.0**	**42.1%**	**111.1**	**24.1%**
Depreciation	18.3	17.0	7.8%	18.4	-0.6%
Interest	3.4	-3.7	-192.4%	1.3	154.8%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**119.8**	**85.7**	**39.8%**	**93.6**	**28.0%**
Taxes	39.2	29.2	34.2%	30.5	28.4%
Minority Interest	0.0	0.0		0.0	
PAT	80.6	56.5	42.8%	63.1	27.8%
Adjusted PAT	**80.6**	**56.5**	**42.8%**	**63.1**	**27.8%**
EPS	6.6	4.6	42.8%	5.1	27.8%
Margins (%)					
OPM(%)	29.3%	24.9%	437 bps	26.2%	314 bps
NPM(%)	17.1%	14.5%	262 bps	14.9%	228 bps
Tax rate (%)	32.7%	34.1%	-138 bps	32.6%	10 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 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, a 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 levels. Most players have begun to see demand and revenue run-rates 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 net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

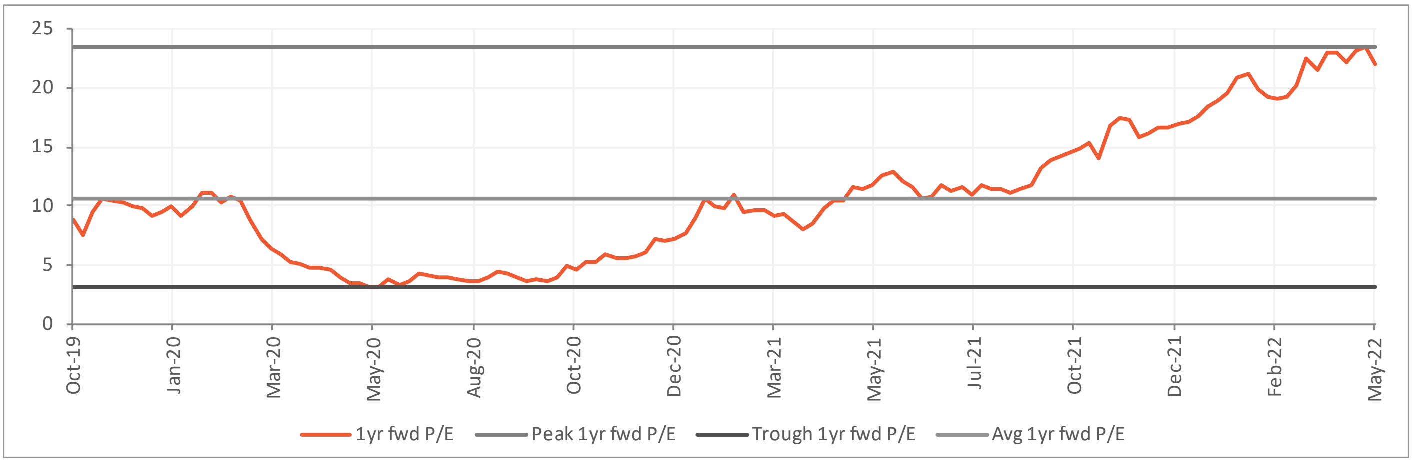
■ Company Outlook – Structural triggers to drive growth

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 over 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 in the next two years. Its plywood division too is expected to see single-digit volume growth although margins are expected to remain stable. The company is likely to announces its capacity expansion plan in May-June 2022 which would provide next leg of growth.

■ Valuation – Maintain Buy with a revised PT of Rs. 700

Greenpanel has strong structural growth drivers and a favourable demand environment led by weak imports owing to multiple issues. Strong demand helped company pass on a steep rise in raw material costs, which along with product mix has led to margin expansion in the MDF division. The company's brownfield expansion and another anticipated round of capacity expansions would lead to healthy growth going forward. The company's strong operating cash flow generation, tight working capital management and reducing leverage would propel its return ratios over FY2022-FY2024E. The stock trades at a P/E of 17x its FY2024E earnings, which we believe leaves room for upside considering over 30% CAGR in net earnings expected over FY2022-FY2024E. Hence, we retain a Buy rating with a revised price target (PT) of Rs. 700 led by an upward revision in estimates.

One-year forward P/E (x) band



Source: 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	27.2	21.1	16.2	13.4	6.2	5.4	24.7	27.8
Greenpanel Industries	22.8	17.3	13.8	11.8	5.7	4.4	28.3	28.7
Century Plyboards	28.9	24.4	19.3	16.0	6.4	5.1	24.6	23.2

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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SM Management	25.79
2	Prime Holdings	10.87
3	Mittal Shobhan	8.63
4	HDFC Asset Management Company	5.82
5	IDFC Mutual Fund	4.38
6	Tata Asset Management	4.12
7	Vanashree Properties	2.54
8	Mittal Rajesh	2.51
9	SBI Funds Management	1.41
10	Mauryan First	1.29

Source: Bloomberg

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 detoriating 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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