

Forays into MDF with greenfield capacity...

About the stock: Greenply Industries (GIL) enjoys a leadership position in the plywood business with 26% of the organised plywood market in India. It has a distribution network of 2,300+dealers/authorised stockists and a retail network exceeding 6,000 and 50+ physical and virtual branches pan-India.

- It is foraying into the MDF boards business with greenfield manufacturing set-up at Vadodara, Gujarat of 800 CBM/day (capex of ~₹ 548 crore) with revenue potential of ~₹ 600 crore per annum at its peak utilisation

Q1FY22 Results: GIL reported weak Q1FY22 sequential results.

- The topline at ₹ 396.7 crore was up 96.5% YoY, down 34.3% QoQ with 98.3% YoY growth, 41% QoQ decline in plywood revenues at ₹ 213.3 crore with volume, up 88.6% YoY but down 44% QoQ) at 8.9 million square metre
- EBITDA margins were down 640 bps QoQ at 5.1%
- PAT came in at ₹ 4 crore vs. loss in the base quarter and down 86% QoQ owing to weak revenues and margins

What should investors do? GIL's share price has declined by 24% 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 ₹ 215/share (at 22x 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 Century Ply in the ply sector

- A play on superior growth compared to peers in plywood/MDF
- BUY with a target price of ₹ 490



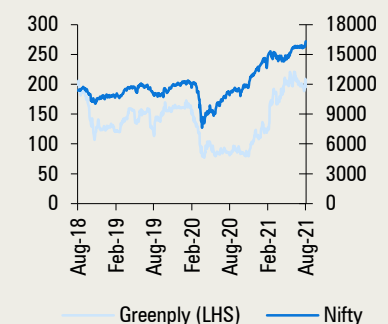
Particulars

Particulars	(₹ crore)
Market Capitalization	2,376.4
Total Debt (FY21)	191.7
Cash (FY21)	128.0
EV	2,440.1
52 week H/L (₹)	225 / 73
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	52.0	52.2	52.2	52.2
DII	23.8	26.1	28.2	31.5
FII	7.3	1.5	2.0	1.8
Other	16.9	20.2	17.7	14.5

Price Chart



Key Risks

Key Risk: (i) Weaker than peer growth; (ii) Faster recovery of industry

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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%	1331.0	1572.8	16.2%
EBITDA	144.0	155.6	116.7	20.7%	161.9	212.9	35.1%
Net Profit	79.7	47.3	60.9		93.9	120.6	
EPS (₹)- Diluted	6.5	3.9	5.0	43.3%	7.7	9.8	40.7%
P/E (x)	29.7	50.1	38.9		25.2	19.6	
Price/book (x)	7.1	6.3	5.4		4.5	3.6	
EV/EBITDA (x)	18.1	16.9	20.9		17.5	13.8	
RoCE (%)	21.9	21.1	16.4		14.3	15.3	
RoE (%)	23.8	12.5	13.9		17.7	18.5	

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

Key business highlight and outlook

- **Covid impact:** The demand momentum for GIL's product portfolio has temporarily been disrupted due to the second-wave of the Covid-19 pandemic. However, the company has been witnessing a decent demand recovery from July 2021 backed by a) gradual unlocking of economies, b) pent-up demand, c) improved momentum in the real estate sector and d) preference for organised players. Going forward, the management has refrained from giving any concrete guidance for FY22 given prevailing uncertainty arise due to Covid-19 pandemic and continuing supply chain issues
- **Realisation and utilisation:** Average realisation during Q1FY22 improved to ₹ 235/sq m (vs. ₹ 224/sq m in Q1FY21), possibly mix led. Also, GIL's utilisation during Q1FY22 was at 69% (vs. ~36% in Q1FY21) and 145% in Q4
- **RM Prices:** Prices for majority of raw material including timber and chemicals continued to remain volatile during Q1FY22. Consequently, the company has taken a price hike of 2-2.5% in Q1 and expects to take another hike in the near term to partly offset the increase in costs
- **Plywood capex:** Considering the proximity of principle raw material, availability of workers, growing demand in northern and central markets of India and to secure seamless supply, GIL had planned to setup a new unit of 13.5 MSM capacity in Sandila Industrial Area (Uttar Pradesh) for manufacturing plywood and its allied products during FY21. The construction activities are currently on track. It has incurred a capex of ~₹ 5 crore in Q1FY22. The management expects to spend another ~₹ 85 crore by FY22-end and are hopeful of commencing production from March 2022
- **MDF Foray:** GIL plans to strategically foray into the MDF boards business with a greenfield manufacturing set-up at Vadodara, Gujarat. According to the management, this would be the first MDF plant in the western region, which is likely to provide great competitive advantage with pricing and logistics benefit, abundance of required raw material, and robust demand arising from the western market. The estimated capex of ₹ 548 crore is likely to be funded by a mix of debt and equity in the ratio 65:35
- **Rationale for MDF foray and outlook:** As per the management, the MDF plant with an installed capacity of 800 CBM/day would have the revenue potential of ₹ 600-650 crore per annum at its peak utilisation. The plant is expected to commence operations by Q4FY23. The company expects capacity to reach optimum level by FY26E while its RoCE in a steady state would be 18-19%. Breakeven for the plant would be at ~40-50% capacity expected to be reached during FY24E
- **Gabon:** The Gabon plant is facing challenges regarding shipment of finished goods with freight rates (have gone up drastically) and unavailability of desired level of vessels. The management expects supply chain issues to remain over the next six months, which is likely to impact the plant operations and margin profile in the near term
- **Capex:** The company guided at incurring ~₹ 20 crore of maintenance capex for FY22. In addition, GIL is likely to incur a significant portion of the proposed ~₹ 90 crore of capex for expansion during FY22
- **Net debt:** GIL is a net debt free at the standalone level (gross debt: ₹ 54 crore, cash: ₹ 97.2 crore). However, its gross debt at the consolidated level was at ₹ 186.8 crore. With higher capital requirement required to build MDF plant, GIL's debt is likely to increase in the medium term
- **Working Capital:** GIL has strong focus on improvement of working capital days and is providing cautious credits to its dealers and tightening its supply chain. This has translated into improved debtor days and, in turn, better working capital days for GIL at the consolidated level (63 days at June 2021-end)

GIL's stricter working capital control and cost has brought about strength in the balance sheet. While plywood is expected to witness decent growth on a benign base, GIL's relative market share and traction thereafter will be key for further rerating. Foray into MDF is positive but one has to be cautious at the possibility of increased capacities bring down the economic possibilities. We maintain HOLD with a revised target price of ₹ 215/share (22x FY23E earnings at ~30% discount to Century Ply) vs. ₹ 230/share, earlier.

Exhibit 1: Variance Analysis

Particular	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	260.8	132.7	96.5	396.7	-34.3	There was 98.6% YoY growth/41% QoQ decline in Plywood revenues at ₹ 212.7 crore with volumes up 88.6%YoY but down 44% QoQ at 8.9 mn sqm
Other Income	2.1	0.2	1,179.5	3.9	-46.4	
Material Consumed	123.4	51.0	142.1	144.6	-14.6	
Purchase of Stock in Trade	47.5	27.1	75.2	104.3	-54.4	
Changes in Inventories of WIP	-23.1	-7.3	216.2	-10.7	117.2	
Employee Benefit Expenses	44.6	31.8	40.4	44.1	1.2	
Other Expenses	55.2	33.0	67.2	68.9	-20.0	
EBITDA	13.2	-2.8	-565.8	45.5	-71.0	
EBITDA Margin (%)	5.1	-2.1	720 bps	11.5	-640 bps	
Depreciation	6.1	5.1	20.0	6.4	-3.9	
Interest	3.4	5.5	-38.5	3.7	-9.9	
PBT	5.8	-13.3	-143.7	39.2	-85.2	
Taxes	1.6	-3.2	NM	10.5	-85.2	
PAT	4.0	-11.3	NM	28.6	-85.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,279.7	1,331.0	4.0	1,546.1	1,572.8	1.7	Realign estimates
EBITDA	159.4	161.9	1.5	209.0	212.9	1.8	
EBITDA Margin (%)	12.5	12.2	-30 bps	13.5	13.5	2 bps	
PAT	95.8	93.9	-1.9	129.2	120.6	-6.7	
EPS (₹)	7.8	7.7	-1.9	10.5	9.8	-6.7	

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	1,331.0	1,572.8
Gross Profit	584.9	481.3	561.0	659.9
Employee benefit expenses	162.9	149.5	159.7	180.9
Other Expenses	266.4	215.1	231.6	258.0
EBITDA	155.6	116.7	161.9	212.9
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	125.6	161.2
Taxes	13.4	20.5	31.6	40.6
PAT	47.3	60.9	93.9	120.6
EPS (Diluted)	3.9	5.0	7.7	9.8

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	47.3	60.9	93.9	120.6
Depreciation	25.7	23.1	25.9	33.3
Interest	20.8	16.6	18.2	26.6
Taxes	13.4	20.5	31.6	40.6
Cash Flow before wc changes	93.0	117.9	161.9	212.9
Cash generated from operations	50.5	245.7	120.2	167.3
Income Tax paid	13.4	20.5	31.6	40.6
Net CF from operating activities	37.1	225.2	88.5	126.6
Others	2.0	6.8	7.8	8.2
(Purchase)/Sale of Fixed Assets (N	(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	(95.6)	3.0
Opening Cash	20.6	10.3	128.0	32.3
Closing Cash/ Cash Equivalent	10.3	128.0	32.3	35.4

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	518.4	639.0
Total Shareholders funds	377.9	436.7	530.6	651.2
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	1,024.6	1,245.1
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	204.7	241.8
Sundry Debtors	356.5	193.9	218.8	258.5
Loans & Advances	3.2	8.4	8.4	8.4
Cash & Bank Balances	10.3	128.0	32.3	35.4
Other Current Assets	75.71	78.02	83.21	90.80
Total Current Assets	622.8	587.5	547.4	634.9
Trade Payable	231.7	204.3	218.8	258.5
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	246.2	294.0
Total Assets	643.9	630.6	1,024.6	1,245.1

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	3.9	5.0	7.7	9.8
Cash EPS	6.0	6.8	9.8	12.5
Book Value	30.8	35.6	43.3	53.1
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	11.0	10.0	12.2	13.5
PAT / Net Sales	3.3	5.2	7.1	7.7
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	17.7	18.5
RoCE	21.1	16.4	14.3	15.3
RoIC	20.7	18.9	21.9	15.1
Valuation Ratios (x)				
EV / EBITDA	16.9	20.9	17.5	13.8
P/E (Diluted)	50.1	38.9	25.2	19.6
EV / Net Sales	1.9	2.1	2.1	1.9
Market Cap / Sales	1.7	2.0	1.8	1.5
Price to Book Value	6.3	5.4	4.5	3.6
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.1	0.9	0.9
Debt / EBITDA	1.7	1.6	3.0	2.8
Current Ratio	1.9	1.5	1.6	1.7
Quick Ratio	1.3	0.8	0.9	0.9

Source: Company, ICICI Direct Research

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