Greenply Industries (GREIN)

ICICI direct Research

CMP: ₹ 192 | Target: ₹ 215 (12%) | Target Period: 12 months | HOLD

February 15, 2022

Margins decline owing to higher input prices…

About the stock: Greenply Industries (GIL) is one 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

Q3FY22 Results: GIL reported a mixed bag performance.

- The topline at ₹ 421.1 crore, was up 23.7% YoY driven by 20.3% growth in plywood revenues at ₹ 373 crore with volumes up 11.4% YoY
- EBITDA margins expanded 308 bps YoY to 10.2%, owing to higher input prices
- PAT came in at ₹ 29.8 crore, up 19% YoY, aided by higher other income and lower interest expenses

What should investors do? GIL's share price has declined by 33% 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 21x FY24E 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 realty/building material segment

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 380

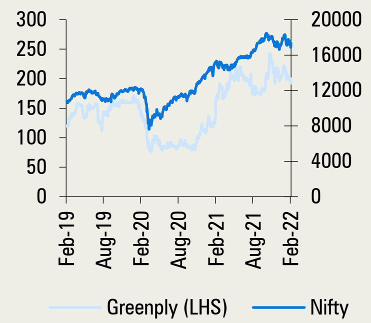
Particulars

Particulars	(₹ crore)
Market Capitalization	2,364.1
Total Debt (FY21)	191.7
Cash (FY21)	128.0
EV	2,427.8
52 week H/L (₹)	255 / 157
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	52.2	52.2	52.3	52.3
DII	28.2	31.5	29.8	31.3
FIIs	2.0	1.8	2.7	3.6
Other	17.7	14.5	15.3	13.0

Price Chart



Key Risks

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

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Key Financial Summary

(₹ Crore)	FY20	FY21	3 yr CAGR (FY18-21E)	FY22E	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	1420.4	1165.3	8.5%	1540.7	1731.1	2051.9	15.4%
EBITDA	155.6	116.7	20.7%	162.4	206.9	257.2	25.9%
Net Profit	47.3	60.9		96.5	116.1	125.1	
EPS (₹)- Diluted	3.9	5.0	43.3%	7.9	9.5	10.2	13.8%
P/E (x)	50.0	38.8		24.5	20.4	18.9	
Price/book (x)	6.3	5.4		4.4	3.6	3.1	
EV/EBITDA (x)	16.9	20.9		17.4	14.0	11.0	
RoCE (%)	21.1	16.4		14.8	14.7	16.4	
RoE (%)	12.5	13.9		18.1	17.9	16.2	

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

Company Update

ICICI Securities – Retail Equity Research

Key business highlight and outlook

- **Volume/revenue guidance**: The management expects volume growth for GIL during Q4FY22 to be better than Q3FY23. Further, the company has guided for ~5-7% higher than industry growth volumes and 15%+ revenue growth in FY23 on a YoY basis to be aided by a) strong product demand, b) incremental capacity coming on-stream, and c) transition of demand from unorganised to organised players
- **Margin outlook:** GIL has faced pressure on operating margin - declining 208 bps YoY (to 10.2%) on a consolidated basis during Q3FY22. This was mainly impacted by a) increase in input prices such as timber and chemicals, and b) change in sales mix (own manufacturing contribution declined to ~52% in Q3FY22). GIL has recognised Esop cost (non-cash) of ₹ 3 crore, ₹ 9 crore during Q3FY22, 9MFY22, respectively. The management expects Esop expense to remain elevated (~1-1.2% of sales) over the next two years. The management expects margin to sustain at current levels with ongoing volatility in raw material cost in the near term. However, margins are likely to normalise over the medium term with a) better realisation arising from multiple price hikes, b) softening in input costs and c) higher contribution from own manufacturing with commencement of (premium product) plywood production from its Uttar Pradesh plant
- **Price hikes**: GIL has undertaken ~8% price hikes during 9MFY22 to partially offset the increase in input prices. Additionally, the company has increased product prices across its portfolio by ~2.5% during February'22. The management even contemplating another price hike during Q1FY23 with ongoing volatility in timber and chemical prices
- **Realisation, utilisation update**: Average realisation during Q3FY22 was at ₹ 235/sq m (vs. ₹ 219/sq m and ₹ 233/sq m in Q3FY21 and Q2FY22, respectively), largely aided by price hikes undertaken during the quarter. Also, GIL's utilisation during Q3FY22 was at 96% (vs. ~91% in Q3FY21)
- **Plywood capex status**: GIL is setting up a greenfield plywood manufacturing unit with the capacity of 13.5 MSM/annum at Lucknow, Uttar Pradesh at an overall capex of ₹ 113.5 crore (most of the capex have been incurred till now). The plant's machinery erection work is underway, trial runs are expected in March 2022 and commercial operations will commence in Q1FY23. The management expects its utilisation by H1FY23, H2FY23 to reach ~50%, ~90%, respectively. At expected full capacity in FY24, the plant will have revenue potential of ~₹ 250 crore
- **MDF expansion status**: GIL is setting up a greenfield MDF board manufacturing unit with the capacity of 800 CBM/day at district Vadodara, Gujarat with revenue potential of ₹ 600-650 crore per annum at its peak utilisation. The estimated capex of ₹ 555 crore (likely to go up with uncertainty on equipment price and logistical cost) 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%+). Currently, all plant & machineries have been ordered and construction activities are under full swing. The expected CoD of the plant is Q4FY23
- **Update on outsourcing partners**: GIL has two manufacturing partners at present mainly for plywood and allied products. The production from plant from its first partner has commenced in FY21 and it is running at 100% capacity. Partial production from its second partner's plant has recently commenced in Q3FY22 and balance is likely to begin in Q1FY23. Also, the company has signed-up with another player for manufacturing allied products (unit capacity; 7.5MSM/annum) located at Hapur, Uttar Pradesh. The plant is likely to get operational by Q4FY23
- **Gabon**: The sales from Gabon plant was at ₹ 48 crore, up 58% YoY. The Gabon plant continues to face challenges on shipment of finished goods with freight rates and unavailability of desired level of vessels, in turn, affecting production and margins. However, demand and realisation remains strong from European countries

- **Capex**: GIL has guided for ~₹ 450-500 crore of capex in FY23 to be incurred mainly towards MDF plant expansion. Additionally, the management has guided for and ₹ 20 crore for maintenance capex
- **A&D Spends**: GIL has ramped-up its brand building exercise with A&D spends, which is likely to reach ~3% of overall sales during Q4FY22, FY23
- **Net debt**: GIL is net debt free at the standalone level with net cash of ₹ 3.1 crore. However, at the consolidated level, net debt has increased to ₹ 119.1 crore (up ₹ 63 crore on QoQ basis) mainly due to infusion of capital towards upcoming plywood and MDF unit. The management expects GIL's debt to increase in the medium term with peak debt reaching to ~₹ 600 crore owing to higher capital requirement required to build MDF plant

GIL's stricter strong working capital management has brought about strength in the balance sheet. While plywood is expected to witness decent double digit revenue growth ahead, GIL's relative market share and traction thereafter will be key for further rerating as keep player Foray into MDF is positive but one has to be cautious at the possibility of increased capacities impacting the economics. We would also monitor input prices and lower our margin estimates to account for interim pressure. We maintain HOLD with a revised target price of ₹ 215/share (21x FY21E vs. ₹ 250/share, earlier.

Exhibit 1: Variance Analysis

Particular	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Net Sales	421.1	340.4	23.7	432.4	-2.6	
Other Income	2.7	1.6	70.1	2.0	34.2	
Material Consumed	145.7	120.3	21.2	146.2	-0.3	
Purchase of Stock in Trade	115.7	78.0	48.3	102.0	13.4	
Changes in Inventories of WIP	-3.4	-1.0	235.1	12.0	-128.3	
Employee Benefit Expenses	47.7	38.5	23.9	50.6	-5.7	
Other Expenses	72.5	63.0	15.2	72.0	0.8	
EBITDA	42.8	41.7	2.7	49.7	-13.8	
EBITDA Margin (%)	10.2	12.3	-208 bps	11.5	-132 bps	
Depreciation	6.5	5.9	10.5	6.4	1.5	
Interest	2.6	3.6	-28.4	3.5	-24.7	
PBT	36.4	33.7	7.8	41.8	-12.9	
Taxes	9.2	8.7	5.5	10.0	-8.7	
PAT	29.8	25.0	19.3	31.9	-6.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			FY24E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	New	
Revenue	1,527.5	1,540.7	0.9	1,674.3	1,731.1	3.4	2,051.9	Realign estimates
EBITDA	187.1	162.4	-13.2	226.6	206.9	-8.7	257.2	Lower margin estimates owing to higher input prices
EBITDA Margin (%)	12.2	10.5	-171 bps	13.5	12.0	-158 bps	12.5	
PAT	110.1	96.5	-12.3	128.1	116.1	-9.4	125.1	
EPS (₹)	9.0	7.9	-12.3	10.4	9.5	-9.4	10.2	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22E	FY23E	FY24E
Net Sales	**1,165.3**	**1,540.7**	**1,731.1**	**2,051.9**
Gross Profit	**481.3**	**618.7**	**712.6**	**853.0**
Employee benefit expenses	149.5	184.9	199.1	236.0
Other Expenses	215.1	262.5	297.7	350.8
EBITDA	**116.7**	**162.4**	**206.9**	**257.2**
Interest	16.6	12.9	24.5	44.1
Depreciation	23.1	25.9	32.7	51.2
Other income	6.8	9.0	9.0	9.0
PBT	**83.7**	**132.6**	**158.8**	**170.8**
Taxes	20.5	33.7	40.3	43.4
PAT	**60.9**	**96.5**	**116.1**	**125.1**
EPS (Diluted)	**5.0**	**7.9**	**9.5**	**10.2**

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22E	FY23E	FY24E
Profit after Tax	**60.9**	**96.5**	**116.1**	**125.1**
Depreciation	23.1	25.9	32.7	51.2
Interest	16.6	12.9	24.5	44.1
Taxes	20.5	33.7	40.3	43.4
Cash Flow before wc changes	117.9	160.0	204.5	254.9
Cash generated from operations	245.7	117.3	173.4	202.3
Income Tax paid	20.5	33.7	40.3	43.4
Net CF from operating activities	**225.2**	**83.6**	**133.0**	**158.9**
Others	6.8	9.0	9.0	9.0
(Purchase)/Sale of Fixed Assets (N	(19.8)	(473.8)	(185.2)	(50.0)
Net CF from Investing activities	**(13.0)**	**(464.8)**	**(176.2)**	**(41.0)**
Others	(2.1)	-	-	-
Interest paid	(16.6)	(12.9)	(24.5)	(44.1)
Inc / (Dec) in Loans	(75.7)	270.0	150.0	(60.0)
Net CF from Financing activities	**(94.5)**	**257.1**	**125.5**	**(104.1)**
Net Cash flow	117.7	(124.1)	82.4	13.8
Opening Cash	10.3	128.0	3.9	86.3
Closing Cash/ Cash Equivalent	**128.0**	**3.9**	**86.3**	**100.1**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(₹ Crore)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	424.4	521.0	637.1	762.2
Total Shareholders funds	436.7	533.3	649.3	774.4
Total Debt	191.7	461.7	611.7	551.7
Deferred Tax Liability	(6.4)	(6.4)	(6.4)	(6.4)
Total Liabilities	**630.6**	**997.2**	**1,263.3**	**1,328.3**
Assets				
Gross Block	428.8	538.8	1,088.8	1,138.8
Less Acc. Dep	149.6	175.4	208.1	259.3
Net Block	279.2	363.4	880.7	879.5
Net Intangibles Assets	1.5	1.5	1.5	1.5
Capital WIP	6.2	370.0	5.2	5.2
Total Fixed Assets	287.0	734.9	887.4	886.1
Investments	22.5	22.5	22.5	22.5
Inventory	179.2	219.5	246.6	292.3
Sundry Debtors	193.9	189.9	213.4	253.0
Loans & Advances	8.4	8.4	8.4	8.4
Cash & Bank Balances	128.0	3.9	86.3	100.1
Other Current Assets	78.02	89.79	95.76	105.83
Total Current Assets	587.5	511.5	650.5	759.6
Trade Payable	204.3	211.0	237.1	281.1
Other Current Liabilities	61.2	61.2	61.2	61.2
Provisions	21.2	21.2	21.2	21.2
Net Current Assets	300.8	218.0	330.9	396.1
Total Assets	**630.6**	**997.2**	**1,263.3**	**1,328.3**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

	FY21	FY22E	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	5.0	7.9	9.5	10.2
Cash EPS	6.8	10.0	12.1	14.4
Book Value	35.6	43.5	53.0	63.2
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	10.0	10.5	12.0	12.5
PAT / Net Sales	5.2	6.3	6.7	6.1
Inventory Days	44	46	56	52
Debtor Days	80	93	63	48
Creditor Days	76	79	87	71
Return Ratios (%)				
RoE	13.9	18.1	17.9	16.2
RoCE	16.4	14.8	14.7	16.4
RoIC	18.9	22.0	14.9	17.0
Valuation Ratios (x)				
EV / EBITDA	20.9	17.4	14.0	11.0
P/E (Diluted)	38.8	24.5	20.4	18.9
EV / Net Sales	2.1	1.8	1.7	1.4
Market Cap / Sales	2.0	1.5	1.4	1.2
Price to Book Value	5.4	4.4	3.6	3.1
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.9	0.8	0.6
Debt / EBITDA	1.6	2.8	3.0	2.1
Current Ratio	1.5	1.6	1.7	1.7
Quick Ratio	**0.8**	**0.9**	**0.9**	**0.9**

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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