Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Greenpanel Industries Ltd

Favourable demand environment despite near-term headwinds

Building materials	Sharekhan code: GREENPANEL
Reco/View: Buy ↔	CMP: **Rs. 514**
	Price Target: **Rs. 620** ↓

↑ 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		↔	

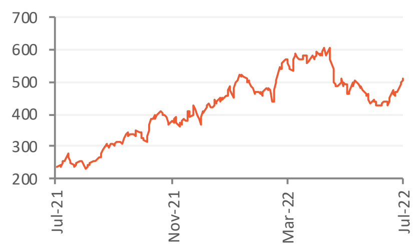
Company details

Market cap:	Rs. 6,301 cr
52-week high/low:	Rs. 625/222
NSE volume: (No of shares)	4.7 lakh
BSE code:	542857
NSE code:	GREENPANEL
Free float: (No of shares)	5.8 cr

Shareholding (%)

Promoters	53.1
FII	6.3
DII	21.5
Others	19.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.5	-11.7	13.8	118.7
Relative to Sensex	10.2	-10.8	16.2	112.8

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Greenpanel Industries Limited (Greenpanel) with a revised PT of Rs. 620, lowering our valuation multiple to factor in near term cost inflation and capacity addition headwinds.
- Greenpanel reported a healthy beat on consolidated revenues and operating margins for Q1FY2023. Consolidated revenues/operating profits/net profits were up 50.5%/91.9%/160.9% y-o-y.
- The management lowered volume growth guidance for MDF to 10-11% for FY2023 from 15-18% y-o-y while it trimmed down MDF OPM estimate at 26-27% for balance fiscal year from 33.3% in Q1FY2023 anticipating rise in chemical prices.
- The company announced 231,000cbm brownfield MDF capacity expansion at Andhra Pradesh at a capex outlay of Rs. 600 crores. The unit is expected to commence production from Q2FY2025.

Greenpanel Industries Limited (Greenpanel) reported healthy beat on consolidated revenues and operating margins for Q1FY2023. Consolidated revenues grew by 50.5% y-o-y to Rs. 464 crore led by a 35% y-o-y jump in MDF realisations while MDF volumes grew by 11% y-o-y (almost flat q-o-q). Plywood volumes rose by 43% y-o-y, while realisations improved by 9% y-o-y. Consolidated OPM at 28.3% (up 612 bps y-o-y, down 97bps q-o-q) was aided by MDF division's OPM (33.3% Vs 25.3% in Q1FY2022). Consolidated operating profit/net profit was up 92%/161% y-o-y at Rs. 131.5 crore/Rs. 77.6 crore. The management lowered its MDF volume growth guidance for FY2023 to 10-11% y-o-y (earlier 15-18% y-o-y) while conservatively trimmed down MDF OPM estimate to 26-27% for balance quarters in FY2023 assuming a rise in chemical prices along with the inability to pass on the rise in costs. It announced its brownfield MDF capacity expansion plan of 231,000cbm at Andhra Pradesh with a capex outlay of Rs. 600 crores (overseas debt funding of Rs. 225-230 crore) which is expected to be onstream in Q2FY2025.

Key positives

- Domestic MDF revenues grew by 64% y-o-y to Rs. 328 crores led by a 26% y-o-y rise in volumes and 30% y-o-y rise in realisations.
- Net debt reduced by Rs. 77 crores q-o-q leading to a net cash surplus of Rs. 17 crore. Net working capital days reduced by 18 days to 16 days.

Key negatives

- Export revenues grew by 18% y-o-y to Rs. 63.7 crores on account of a 23% y-o-y decline in volumes while realizations rose by 53% y-o-y.
- MDF OPM guidance for the balance fiscal year lowered to 26-27% as against 33.3% reported in Q1FY2023.

Management Commentary

- The company lowered its MDF volume growth guidance to 10-12% y-o-y from 15-18% y-o-y for FY2023. Further, it expects moderation in MDF operating margins to 26-27% for balance quarters in FY2023 anticipating an increase in chemical prices and assuming it may not be able to pass on the rise in costs. Plywood margins are expected to remain stable at 11-11.5%. It expects revenues of Rs. 1900-2000 crore and Rs. 2200-2300 crore for FY2023 and FY2024.
- The demand environment was encouraging in Q1FY2023 (generally Q1 is lower 20-24% q-o-q). The July month performance has also been encouraging.
- At current MDF prices and domestic to export mix of 80:20, the new capacity will generate Rs. 770 crore revenues at peak capacity utilization.

Revision in estimates – We have fine-tuned our estimates for FY2023-FY2024.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 620: Greenpanel has strong structural growth drivers and a favourable demand environment led by weak imports owing to multiple issues. Strong demand helped the 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 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. We retain a Buy rating with a revised price target (PT) of Rs. 620 lowering our valuation multiple to factor in near-term cost inflation and capacity addition headwinds.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,020.8	1,625.0	1,949.2	2,209.1
OPM (%)	19.9	26.5	28.1	28.2
Adjusted PAT	68.8	240.5	325.5	406.9
% Y-o-Y growth	172.0	249.5	35.4	25.0
Adjusted EPS (Rs.)	5.6	19.6	26.5	33.2
P/E (x)	91.6	26.2	19.4	15.5
P/B (x)	8.5	6.5	5.0	3.9
EV/EBIDTA (x)	31.3	14.8	11.6	10.2
RoNW (%)	9.9	28.6	29.7	28.6
RoCE (%)	8.2	21.1	24.8	24.3

Source: Company; Sharekhan estimates

Strong operational performance

Greenpanel Industries reported a 50.5% y-o-y rise (-1.3% q-o-q) in consolidated revenues at Rs. 464 crore for Q1FY2023 which was 14% higher than our estimates. MDF segment's revenues which comprise 85% of overall revenues, grew by 49.5% y-o-y at Rs. 393 crore while plywood revenues (15% of overall revenues) grew 56.4% y-o-y at Rs. 71 crores. MDF volumes rose by 10.9% y-o-y (+0.4% q-o-q) while realizations were up 34.8% y-o-y. Plywood volumes grew by 43.4% y-o-y (+2.0% q-o-q) while realizations were up 9% y-o-y. Consolidated OPM at 28.3% (+612 bps y-o-y, down 97 bps q-o-q) came in much higher than our estimate of 26.9%. MDF OPM were up 800bps y-o-y (-130bps q-o-q) at 33.3% while plywood segment's OPMs were up 50bps y-o-y (+230bps q-o-q) at 11.5%. Strong OPM expansion in MDF led to overall consolidated operating profit growth of 91.9% to Rs. 131.5 crore, which was 20% higher than our estimate. Strong operational performance percolated to the bottom line, with consolidated net profit growth of 160.9% y-o-y at Rs. 77.6 crore which was 27% higher than our estimate. The company reduced net debt by Rs. 77 crores turning net cash surplus of Rs. 17 crore.

Key Conference call takeaways

- **Capacity expansion:** The company announced brownfield MDF capacity expansion at its existing unit in Chittoor, Andhra Pradesh by 231,000cbm per annum at a capex of Rs. 600 crores. The new unit will be producing thin panels (which comprise 30-40% of industry) at a faster pace. The capex will be funded by availing Rs. 225-230 crore external commercial borrowings and balances through internal accruals. The commercial production of the new unit is expected in Q2FY2025. At current MDF prices and domestic to export mix of 80:20, the new capacity will generate Rs. 770 crore revenues at peak capacity utilization.
- **Guidance:** The company lowered its MDF volume growth guidance to 10-12% y-o-y from 15-18% y-o-y for FY2023. Further, it expects moderation in MDF operating margins to 26-27% for balance quarters in FY2023 anticipating increase in chemical prices (due to rise in crude prices) and assuming it may not be able to pass on the rise in costs. Plywood margins are expected to remain stable at 11-11.5%. It expects revenues of Rs. 1900-2000 crore and Rs. 2200-2300 crore for FY2023 and FY2024.
- **Demand environment:** The demand environment was encouraging in Q1FY2023 (generally Q1 is lower 20-24% q-o-q). The July month performance has also been encouraging.
- **Debt:** The company reduced net debt by Rs. 77 crores and has cash surplus of Rs. 17 crores. The gross debt stands at Rs. 208 crores.
- **Working capital:** The working capital days were reduced by 18 days to 16 days as on Q1FY2023.
- **Industry:** The three new capacities coming up in MDF over the next 12-15 months would have short-term impact on realizations. The industry will be adding 25-30% new capacities while the domestic MDF industry is growing at 15% CAGR which would help in consuming upcoming capacities.
- **Exports:** The freight rates increased by 10% q-o-q in Q1FY2023 while the company took a 6% hike although not uniform across customers.
- **Imports:** Imports have not increased in Q1FY2023. Imports stood on an average of 5000cbm per month. Before rupee depreciation, thick MDF import prices were similar to domestic prices while thin MDF imports were 10% discount to domestic prices.
- **Cash flows:** The company expects to generate Rs. 70-75 crore of free cash flows per quarter.

- **Unorganised market:** Most unorganized players are north based while there is one plant in South. The unorganized market share is 18-20%. The unorganized market has been a threat to organized players and has gained import share due to malpractices.
- **Timber prices:** The timber prices increased 4-5% q-o-q in the North while they are up 20% y-o-y. In the South, the timber prices remained flat q-o-q while they are up ~4% y-o-y.
- **Chemical prices:** The chemical prices remained flat q-o-q while they are up 30-35% y-o-y for Q1FY2023.

Financials (Consolidated) Rs cr

Result table	Q1FY2023	Q1FY2022	y-o-y%	Q4FY2022	q-o-q%
Net sales	**464.0**	**308.3**	**50.5%**	**470.1**	**-1.3%**
other income	7.2	0.7	964.9%	3.7	97.5%
Total income	471.3	309.0	52.5%	473.7	-0.5%
Total expenses	332.5	239.8	38.7%	332.3	0.1%
Operating profit	**131.5**	**68.5**	**91.9%**	**137.8**	**-4.6%**
Depreciation	18.2	17.3	5.8%	18.3	-0.4%
Interest	2.6	10.6	-75.3%	3.4	-22.4%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**117.9**	**41.3**	**185.2%**	**119.8**	**-1.6%**
Taxes	40.3	11.6	247.6%	39.2	2.9%
Minority Interest	0.0	0.0		0.0	
PAT	77.6	29.7	160.9%	80.6	-3.7%
Adjusted PAT	**77.6**	**29.7**	**160.9%**	**80.6**	**-3.7%**
EPS	6.3	2.4	160.9%	6.6	-3.7%
Margins (%)					
OPM(%)	28.3%	22.2%	612 bps	29.3%	-97 bps
NPM(%)	16.7%	9.6%	708 bps	17.1%	-42 bps
Tax rate (%)	34.2%	28.1%	613 bps	32.7%	147 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 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 a 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.

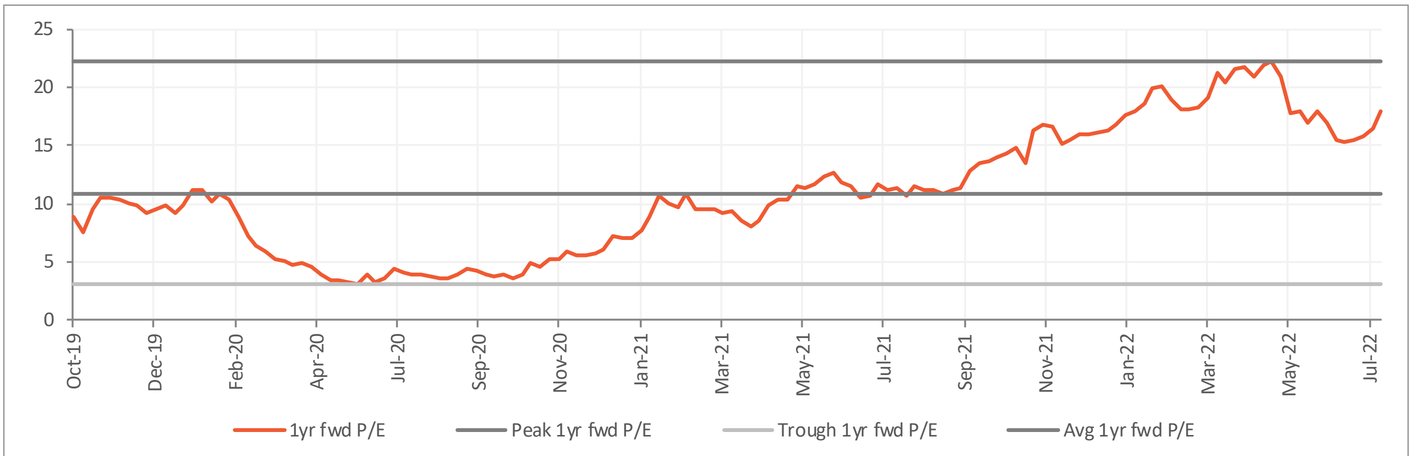
Company Outlook – Structural triggers to drive growth

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 announce its capacity expansion plan in May-June 2022 which would provide the next leg of growth.

Valuation – Maintain Buy with a revised PT of Rs. 620

Greenpanel has strong structural growth drivers and a favourable demand environment led by weak imports owing to multiple issues. Strong demand helped the 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 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. We retain a Buy rating with a revised price target (PT) of Rs. 620 lowering our valuation multiple to factor in near-term cost inflation and capacity addition headwinds.

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	41.2	26.7	19.8	13.7	5.8	4.8	15.1	20.0
Greenpanel Industries	19.4	15.5	11.6	10.2	5.0	3.9	29.7	28.6
Century Plyboards	31.4	27.5	20.5	17.7	6.6	5.4	23.2	21.5

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. The company is also the 3rd largest MDF manufacturer in Asia and 5th largest MDF manufacturer in the world. It has 1400 Distributors, and 7,000 Retailers and is serviced by 15 branches for pan-India distribution.

Investment theme

Greenpanel has strong structural growth drivers along with the 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 for 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 the weak realty market.
- High concentration in the 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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