Greenply Industries (GREIN)

ICICI direct Research

CMP: ₹ 180 | Target: ₹ 200 (11%) | Target Period: 12 months | HOLD

August 8, 2022

Result Update

Modest growth likely in near term…

About the stock: Greenply Industries (GIL) is one of the leading players in the plywood business in India. It has a distribution network of 2,350+dealers/authorised stockists pan-India.

- It is foraying into the MDF boards business with greenfield manufacturing at Vadodara, Gujarat of 800 CBM/day (capex of ~₹ 585-590 crore) with revenue potential of ~₹ 700-750 crore per annum, to be commissioned by Q4FY23

Q1FY23 Results: GIL reported a soft performance on the margins front.

- The topline at ₹ 453.5 crore, was up 73.9% YoY driven by 85% growth in plywood revenues at ₹ 394.6 crore (three year CAGR of ~8.9%) with volumes up ~80% YoY at 16 MSM on a depressed base of Q1FY22 (Covid second wave), with three year CAGR of ~5.6%
- EBITDA margins were at 8.8%, down 110 bps QoQ, due to higher input cost
- PAT came in at ₹ 20.7 crore, down 28.7% QoQ

What should investors do? GIL's share price has declined 33% over the past five years given the challenging growth trajectory.

- We maintain our **HOLD** rating on the company, given modest plywood growth likely in the near term. We also await how the key growth trigger of MDF plays out amid risk of supply glut

Target Price and Valuation: We value GIL at ₹ 200/share (at 20x 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 the realty/building material segment

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 475

Greenply Industries Limited

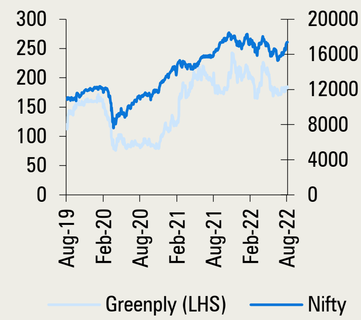
Particulars

Particulars	(₹ crore)
Market Capitalization	2,244.1
Total Debt (FY22)	291.9
Cash (FY22)	72.6
EV	2,463.4
52 week H/L (₹)	255 / 161
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	52.3	52.3	52.3	52.3
DII	29.8	31.3	32.0	33.2
FIIs	2.7	3.6	3.6	3.4
Other	15.3	13.0	12.1	11.1

Price Chart



Key Risks

Key Risk: (i) Sustained growth momentum (ii) Weaker margins

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ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	4 yr CAGR (FY18-22E)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	1420.4	1165.3	1562.8	19.7%	1804.1	2194.1	18.5%
EBITDA	155.6	116.7	150.3	31.3%	194.4	262.5	32.2%
Net Profit	47.3	60.9	94.7		109.0	123.3	
EPS (₹)- Diluted	3.9	5.0	7.7	66.0%	8.9	10.1	14.1%
P/E (x)	46.6	36.1	23.2		20.2	17.8	
Price/book (x)	5.8	5.0	4.1		3.4	2.9	
EV/EBITDA (x)	15.8	19.5	16.2		14.4	10.4	
RoCE (%)	21.1	16.4	16.6		13.0	15.9	
RoE (%)	12.5	13.9	17.6		16.8	16.0	

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

Key business highlight and outlook

- **Volume/revenue guidance**: GIL has achieved volume growth of 79.5% YoY during Q1FY23 largely aided by healthy product demand with decent growth being witnessed in the real estate and commercial industry driven by a) better affordability, b) conducive government policies, c) shifting to nuclear families, d) financially stable developers, and e) re-opening of offices. As per the management, the growth would have been better in Q1FY23 given strong product demand but had some capacity constraint. Going forward, despite increase in input cost and interest rate hikes, the **management has retained their guidance for 10-12% YoY volume growth for plywood in FY23. With 3-4% improvement in realisation, the company expects 15%+ plywood revenue growth in FY23**. However, **near term growth guidance was cautious owing to likely challenges from outsourcing partners amid higher input prices**

- **Margin outlook:** GIL has **faced pressure on operating margin - declining 110 bps QoQ (to 8.8%) on a consolidated basis during Q1FY23, mainly due to a) increase in prices of key raw material prices such as timber and chemicals,** b) **change in product mix, c) elevated level of marketing spends and d) Esops provision.** The margin is likely to remain at a moderated level during Q2FY23 with timber and wood prices staying elevated. However, the **management expects margin to improve 100 bps (to ~11-11.3%) on a YoY basis from H2FY23 to be aided by a) better realisation arising from price hikes and healthier product mix, b) expected stabilisation in raw material prices and c) higher contribution from own manufacturing with commencement of (premium product) plywood production from its Uttar Pradesh plant**

- **Price hikes**: GIL has **undertaken ~2% price hike (effective from June 2022) to partially offset the increase in input prices.** Going forward, the company **may undertake additional price hikes in September (mainly in the value segment) with ongoing volatility in timber and chemical prices**

- **Realisation, utilisation update**: Average realisation during Q1FY23 was at ₹ 242/sq m (vs. ₹ 238/sq m and ₹ 235/sq m in Q4FY22 and Q1FY22, respectively) largely aided by price hikes and better product mix. Also, GIL's utilisation during Q1FY23 was at 90%+

- **Raw material prices**: **Prices for key raw materials such as timber and chemicals (including melamine and Phenol) required to manufacture wood panel and related products have significantly increased over past couple of years. While chemical prices have softened in Q2FY23, timber prices continue to remain elevated.** The management **expects input costs to soften only from Q3FY23 onwards.** Also, timber prices at its northern plant would be higher (by ~10-15%) compared with the south based plant, primarily due to availability issues

- **Gabon**: The **sales from Gabon plant were at ₹ 58.8 crore (up 24% YoY) in Q1FY23 aided by strong product demand and improvement in supply chain and logistics. Operating margin improved to 13.2% (up 453 bps YoY) despite fuel crisis (timber prices remained stable in Q1FY23).** Going forward, the management expects operational improvement with healthy demand arising from European and South-East Asian markets, improving raw material availability and resolving logistical challenges. **Revenue run-rate (of Q1FY23) is likely to continue for rest of FY23.** In normalised situations, the plant has potential to reach ₹ 350-375 crore of topline

- **Product launch**: GIL has **launched a new product namely "Green Platinum" in the premium segment providing 2x fire resistance and 2x waterproof solution**. As per the management, the initial response for the product has been good and expects decent traction in the product segment, going ahead

- **Plywood capex status**: GIL has **achieved commercial operation of 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. At expected full capacity, the plant will have revenue potential of ~₹ 250 crore**

- **MDF expansion status**: GIL is **setting up a greenfield MDF board manufacturing unit with capacity of 800 CBM/day at district Vadodara, Gujarat with revenue potential of ~₹ 600-650 crore per annum at its peak utilisation.** The civil construction and first phase of machinery dispatches and installation is ongoing currently. However, the company is expecting delays in getting dispatches of additional machineries due to issues in international ocean fright movement and port congestions. Despite these, **the company expects CoD of the plant to be during Q4FY23. The estimated capex of ₹ 555 crore (likely to go up ~7% 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 management expects capacity utilisation from the MDF plant to be ~40-45% in FY24E, which would increase to 100% by FY26E. The margin would be ~20-25% in a normalised operational state**

- **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 plant is running at 100% capacity. Partial production from its second partner's plant has recently commenced in Q3FY22 and balance is likely to begin soon. Also, the **company has signed-up with another player for manufacturing of allied products (unit capacity; 7.5 MSM/annum) located at Hapur, Uttar Pradesh. The plant is likely to get operational by Q4 FY23**

- **Working capital: Working capital days remained steady at 29 days, 48 days at Q1FY23-end on standalone, consolidated basis (vs. 29 days, 46 days at FY22-end), respectively**. Going forward, the management expects working capital to remain healthy at current levels

- **Net debt**: At the consolidated level, **net debt has increased to ₹ 349.4 crore at Q1FY23-end (vs. ₹ 219.3 crore QoQ) 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 ~₹ 600-625 crore owing to higher capital requirement required to build MDF plant

GIL's relative market share in plywood and traction thereafter will be one of the factors to been monitored. Furthermore, while foray into MDF is positive one has to be cautious at the possibility of increased capacities impacting the economics. We would also monitor input prices for interim margins impact. We maintain HOLD with a target price of ₹ 200/share (20x FY24E P/E).

Variance Analysis

Particular	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	453.5	260.8	73.9	448.6	1.1	
Other Income	1.6	2.1	-25.3	3.1	-49.9	
Material Consumed	176.6	123.4	43.1	144.7	22.1	
Purchase of Stock in Trade	120.9	47.5	154.6	131.2	-7.8	
Changes in Inventories of WIP	-19.5	-23.1	-15.5	-6.6	198.3	
Employee Benefit Expenses	56.1	44.6	25.8	50.4	11.5	
Other Expenses	79.3	55.2	43.7	84.3	-6.0	
EBITDA	40.1	13.2	203.5	44.5	-10.0	
EBITDA Margin (%)	8.8	5.1	377 bps	9.9	-109 bps	
Depreciation	7.6	6.1	24.3	6.7	13.3	
Interest	5.1	3.4	51.7	2.5	105.6	
PBT	28.9	5.8	399.1	38.4	-24.7	
Taxes	7.6	1.6	387.2	9.5	-20.0	
PAT	20.7	4.0	415.0	29.0	-28.4	
Plywood Volume (MSM)	16.0	8.9	79.8	17.1	-6.4	

Source: Company, ICICI Direct Research

Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,791.8	1,804.1	0.7	2,158.7	2,194.1	1.6	Realign estimates
EBITDA	197.1	194.4	-1.4	258.9	262.5	1.4	
EBITDA Margin (%)	11.0	10.8	-22 bps	12.0	12.0	-3 bps	
PAT	113.0	109.0	-3.6	122.2	123.3	0.9	
EPS (₹)	9.2	8.9	-3.6	10.0	10.1	0.9	

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ crore		
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	**1,165.3**	**1,562.8**	**1,804.1**	**2,194.1**
Gross Profit	**481.3**	**627.5**	**744.8**	**912.7**
Employee benefit expenses	149.5	193.3	216.5	241.4
Other Expenses	215.1	283.9	325.9	399.9
EBITDA	**116.7**	**150.3**	**194.4**	**262.5**
Interest	16.6	11.9	22.5	50.6
Depreciation	23.1	25.8	37.2	59.1
Other income	6.8	9.9	8.0	9.0
PBT	**83.7**	**122.4**	**142.7**	**161.7**
Taxes	20.5	30.3	36.5	41.4
PAT	**60.9**	**94.7**	**109.0**	**123.3**
EPS (Diluted)	**5.0**	**7.7**	**8.9**	**10.1**

Source: Company, ICICI Direct Research

Cash flow statement		₹ crore		
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	**60.9**	**94.7**	**109.0**	**123.3**
Depreciation	23.1	25.8	37.2	59.1
Interest	16.6	11.9	22.5	50.6
Taxes	20.5	30.3	36.5	41.4
Cash Flow before wc changes	111.9	156.5	197.2	265.5
Cash generated from operations	239.7	37.6	149.9	198.0
Income Tax paid	20.5	30.3	36.5	41.4
Net CF from operating activities	**219.2**	**7.3**	**113.3**	**156.6**
Others	6.8	9.9	8.0	9.0
(Purchase)/Sale of Fixed Assets (N	(13.8)	(167.6)	(475.4)	(30.0)
Net CF from Investing activities	**(7.0)**	**(157.7)**	**(467.4)**	**(21.0)**
Others	(2.1)	6.7	-	-
Interest paid	(16.6)	(11.9)	(22.5)	(50.6)
Inc / (Dec) in Loans	(75.7)	100.2	350.0	(60.0)
Net CF from Financing activities	**(94.5)**	**95.0**	**327.5**	**(110.6)**
Net Cash flow	117.7	(55.4)	(26.5)	24.9
Opening Cash	10.3	128.0	72.6	46.0
Closing Cash/ Cash Equivalent	**128.0**	**72.6**	**46.0**	**71.0**

Source: Company, ICICI Direct Research

Balance sheet		₹ crore		
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	424.4	525.9	634.9	758.2
Total Shareholders funds	436.7	538.2	647.1	770.5
Total Debt	191.7	291.9	641.9	581.9
Deferred Tax Liability	(6.4)	(7.3)	(7.3)	(7.3)
Total Liabilities	**630.6**	**835.9**	**1,294.9**	**1,358.2**
Assets				
Gross Block	422.8	478.0	1,063.0	1,093.0
Less Acc. Dep	143.6	169.4	206.6	265.7
Net Block	279.2	308.6	856.4	827.3
Net Intangibles Assets	1.5	10.5	10.5	10.5
Capital WIP	6.2	109.6	-	-
Total Fixed Assets	287.0	428.7	866.9	837.8
Investments	22.5	16.8	16.8	16.8
Inventory	179.2	225.6	257.0	312.6
Sundry Debtors	193.9	186.4	222.4	270.5
Loans & Advances	8.4	16.8	16.8	16.8
Cash & Bank Balances	128.0	72.6	46.0	71.0
Other Current Assets	78.02	181.79	190.23	203.86
Total Current Assets	587.5	683.2	732.5	874.7
Trade Payable	204.3	216.4	247.1	300.6
Other Current Liabilities	61.2	85.9	85.9	85.9
Provisions	21.2	22.5	22.5	22.5
Net Current Assets	300.8	358.4	377.0	465.7
Total Assets	**630.6**	**835.9**	**1,294.9**	**1,358.2**

Source: Company, ICICI Direct Research

Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	5.0	7.7	8.9	10.1
Cash EPS	6.8	9.8	11.9	14.9
Book Value	35.6	43.9	52.8	62.8
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	10.0	9.6	10.8	12.0
PAT / Net Sales	5.2	6.1	6.0	5.6
Inventory Days	44	46	56	53
Debtor Days	80	93	63	49
Creditor Days	76	79	87	73
Return Ratios (%)				
RoE	13.9	17.6	16.8	16.0
RoCE	16.4	16.6	13.0	15.9
RoIC	18.8	19.3	12.7	16.1
Valuation Ratios (x)				
EV / EBITDA	19.5	16.2	14.4	10.4
P/E (Diluted)	36.1	23.2	20.2	17.8
EV / Net Sales	1.9	1.6	1.6	1.2
Market Cap / Sales	1.9	1.4	1.2	1.0
Price to Book Value	5.0	4.1	3.4	2.9
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.4	0.9	0.7
Debt / EBITDA	1.6	1.9	3.3	2.2
Current Ratio	1.5	1.5	1.6	1.7
Quick Ratio	**0.8**	**0.8**	**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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