

26 July 2023

India | Equity Research | Q1FY24 Result Review

Greenply Industries

Wood Panel

Muted quarter; MDF performance holds the key for future

Greenply Industries (MTLM) reported consolidated revenue growth of 5.0% YoY in Q1FY24, with India plywood business growing 4.4% YoY while plywood volume grew 1.6% YoY (4-year CAGR of 4.7%) and realisation was up 2.9% YoY. Consolidated EBITDA margin contracted 258bps YoY to 6.3% due to EBITDA loss of INR 73mn in MDF segment (which commenced operations in May'23), while India plywood EBITDA margin was flat YoY (due to higher A&P spend despite gross margin expansion of 320bps YoY). Gabon operations margin shrank 710bps YoY due to high raw material costs (gross margins fell 10.6ppt YoY). For FY24, management has maintained its guidance for 10% YoY volume growth and double-digit margin (supported by likely price hikes in Q2) for India plywood segment. We cut our PAT estimates by ~4% each year for FY24E/FY25E. Maintain **BUY** due to inexpensive valuations and roll over the target price to INR 239 (earlier: INR 229) for Sept'24E. We continue to prefer Century Plyboard and Greenpanel Industries over MTLM.

Revenue growth of 5% YoY aided by entry into MDF

MTLM reported consolidated revenue growth of 5.0% YoY with India plywood operations growing 4.4% YoY and Gabon operations down ~22% YoY. India plywood volume was up 1.6% YoY (-4.5% QoQ; 4-year CAGR of 4.7%) while realisation increased 2.9% YoY. MDF segment (launched under Greenply MDF brand in May'23) had sales volume of 6,062cbm and revenue of INR 181mn in Q1. Management indicated that India plywood demand remains subdued and Gabon operations continue to face demand headwinds. Management has guided for 10% YoY India plywood volume growth in FY24 enabled by demand recovery and benefit of A&P activities. For the MDF segment, it has guided for sales volume of ~0.1mn-CBM and revenue of INR 2.8bn-3.0bn in FY24. Consolidated working capital days rose by 12 QoQ to 63 in Q1, primarily due to higher inventory days. Net debt increased by INR 970mn QoQ to INR 7.3bn.

India plywood margin flat YoY; MDF reports EBITDA loss

MTLM's consolidated EBITDA margin decreased by 258bps YoY to 6.3% (-388bps QoQ) primarily due to EBITDA loss of INR 73mn in the MDF segment (which started operations in May'23). India plywood margin was flat YoY / -243bps QoQ (adjusted for ESOP expenses) due to higher A&P spend (+110bps YoY). For Gabon operations, profitability fell 710bps YoY to 6.1% in Q1 primarily due to higher RM costs (gross margin down 10.6ppt YoY). Management guided for: 1) a price hike in plywood during Q2 to negate the impact of rising timber prices, and 2) double-digit plywood margin for FY24.

Financial summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	18,456	23,255	26,678	29,292
EBITDA	1,691	2,471	2,996	3,304
EBITDA %	9.2	10.6	11.2	11.3
Net Profit	1,008	1,107	1,492	1,777
EPS (Rs)	8.2	9.0	12.1	14.5
EPS % Chg YoY	4.9	9.8	34.8	19.1
P/E (x)	20.8	18.9	14.0	11.8
EV/EBITDA (x)	16.1	10.5	8.2	7.0
RoCE (%)	10.5	11.2	13.5	14.4
RoE (%)	17.1	15.9	18.3	18.4

Arun Baid

arun.baid@icicisecurities.com
+91 22 6807 7235

Sohil Kaura

sohil.kaura@icicisecurities.com

Market Data

Market Cap (INR)	21bn
Market Cap (USD)	257mn
Bloomberg Code	MTLM IN
Reuters Code	GRPL.BO
52-week Range (INR)	207 /134
Free Float (%)	48.0
ADTV-3M (mn) (USD)	1

Price Performance (%)	3m	6m	12m
Absolute	20.5	20.8	(3.4)
Relative to Sensex	11.1	11.2	20.5

ESG Disclosure	2021	2022	Change
ESG score	33.1	33.7	0.5
Environment	3.3	3.3	0.0
Social	17.4	19.0	1.6
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(2.6)	(2.1)
EBITDA	(4.5)	(3.1)
EPS	(4.3)	(4.5)

Previous Reports

01-06-2023: [Q4FY23 results review](#)

14-02-2023: [Q3FY23 results review](#)

Valuations and View

MTLM's plywood operations were largely in line with our expectations, but the newly commissioned MDF plant's operating loss created a drag on consolidated operational performance in Q1FY24. Company faces near-term margin headwinds in plywood segment due to cost pressures whereas in MDF segment it has demand challenges due to increased imports and new capacities coming up in the domestic market. Maintain **BUY** on inexpensive valuations with a rolled over Sep'24 target price of INR 239 (earlier: INR 229).

Exhibit 1: Q1FY24 consolidated result review

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Revenue	4,761	4,535	5.0%	4,692	1.5%
Raw Material	2,784	2,780	0.1%	2,886	(3.5%)
% of sales	58.5%	61.3%	-283 bps	61.5%	-304 bps
Employee expenses	710	561	26.4%	629	12.8%
% of sales	14.9%	12.4%	252 bps	13.4%	150 bps
Other Expenses	969	793	22.3%	701	38.3%
% of sales	20.4%	17.5%	288 bps	14.9%	542 bps
Total Expenditure	4,463	4,134	8.0%	4,216	5.9%
% of sales	93.7%	91.2%	258 bps	89.9%	388 bps
EBITDA	298	401	(25.6%)	476	(37.3%)
EBITDA Margin	6.3%	8.8%	-258 bps	10.1%	-388 bps
Depreciation/Amortisation	133	76	74.7%	103	29.1%
EBIT	165	325	(49.2%)	373	(55.7%)
EBIT Margin	3.5%	7.2%	-369 bps	7.9%	-448 bps
Interest Expense	130	51	153.9%	76	70.7%
Other Income	14	16	(9.9%)	93	(84.9%)
PBT	49	289	(82.9%)	390	(87.3%)
Tax Expenses	38	76	(50.3%)	113	(66.4%)
PAT before extraordinary items	11	213	(94.6%)	277	(95.8%)
Extraordinary items	0	0	NM	-166	NM
Share of profit/(loss) from JV	-3	-6	NM	0	NM
Reported PAT	8	207	(96.1%)	111	(92.6%)
Adjusted PAT	8	207	(96.1%)	229	(96.4%)

Source: Company data, I-Sec research

Exhibit 2: Q1FY24 standalone result review

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Revenue	4,048	3,946	2.6%	4,175	(3.0%)
Raw Material	2,587	2,515	2.9%	2,737	(5.5%)
% of sales	63.9%	63.7%	20 bps	65.6%	-164 bps
Employee expenses	519	486	6.6%	507	2.2%
% of sales	12.8%	12.3%	49 bps	12.2%	66 bps
Other Expenses	679	613	10.7%	572	18.7%
% of sales	16.8%	15.5%	123 bps	13.7%	307 bps
Total Expenditure	3,785	3,614	4.7%	3,817	(0.8%)
% of sales	93.5%	91.6%	192 bps	91.4%	209 bps
EBITDA	263	332	(20.8%)	358	(26.7%)
EBITDA Margin (%)	6.5%	8.4%	-192 bps	8.6%	-209 bps
Depreciation/Amortisation	53	50	4.5%	54	(2.4%)
EBIT	210	282	(25.4%)	304	(31.0%)
EBIT Margin	5.2%	7.1%	-194 bps	7.3%	-210 bps
Interest Expense	17	13	34.0%	22	(22.6%)
Other Income	64	26	149.1%	128	(50.1%)
PBT	257	294	(12.8%)	410	(37.4%)
Tax Expenses	65	76	(13.9%)	106	(38.2%)
PAT before extraordinary items	192	219	(12.4%)	305	(37.2%)
Extraordinary items	0	0	nm	-164	nm
Reported PAT	192	219	(12.4%)	141	36.0%
Adjusted PAT	192	219	(12.4%)	263	(27.1%)

Source: Company data, I-Sec research

Exhibit 3: Q1FY24 Gabon operational performance

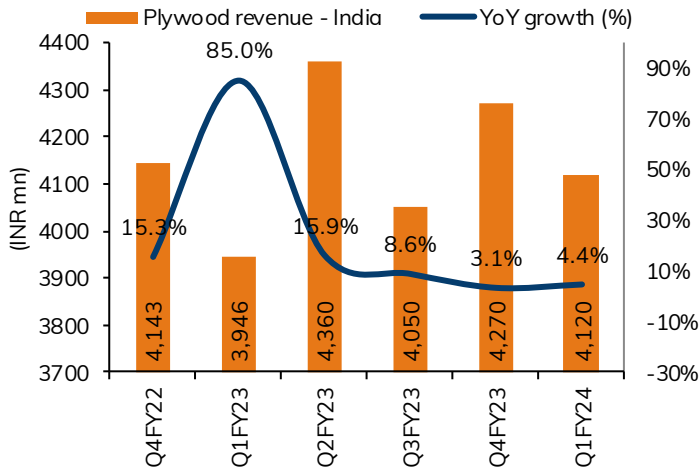
INR mn	Q1FY24E	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	460	590	(22.1%)	420	9.1%
EBIDTA	28	77	(63.8%)	23	19.3%
EBITDA Margin (%)	6.1%	13.2%	-710 bps	5.6%	50 bps
Sales Volume (CBM)	9,024	13,204	(31.7%)	8,861	1.8%

Source: Company data, I-Sec research

Key takeaways from Q1FY24 earnings conference call

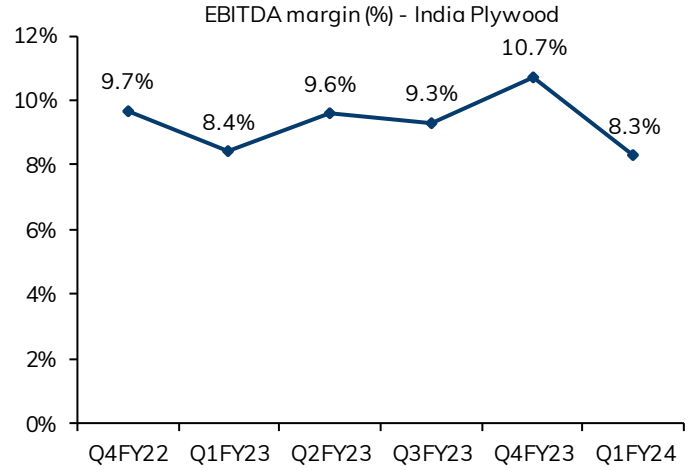
- **Demand:** Management indicated that **plywood demand was subdued in Q1** as trade partners indicated liquidity issues in the market. But management **expects demand to rebound going forward** and believes the company has done adequate branding activities to enable 10% YoY plywood volume growth in FY24.
- **Gabon operations continue to face demand headwinds** and management persists with its focus on turning PAT breakeven.
- **MDF segment:** MTLM has launched MDF **under Greenply brand** with primary sales focus in western and northern regions (but has started supplying in south and east as well). **The segment generated revenue of INR 181mn and net loss of INR 148mn** (EBITDA loss of INR 73mn) in Q1. **Realisation is largely at par with competitors**, except in highly competitive regions where MTLM's realisation is 1-2% lower (which the management hopes to reduce in FY25). Management estimates **sales volume of 0.1mn-cbm in FY24 and 0.16-0.18mn-cbm in FY25 and expects the plant to run at optimum utilisation in FY26**. Currently, MTLM has **250 active dealers and targets to reach a network of 800-900 dealers**.
- **RM prices:** Management indicated that **timber prices continue to be on an upward trend** and expects **10% further inflation in Q2FY24**, due to supply-side constraints. Prices are expected to come down after 5-6 quarters when timber supply is adequate.
- **Pricing:** Management expects to take **price hikes in Q2** to negate the expected timber price inflation. The full impact of price hike will be reflected in Q3FY24.
- **Guidance:** Management has maintained its guidance for **10% YoY India plywood volume growth** and expects **double-digit plywood margin** in FY24. For MDF segment, it expects **sales volume of 0.1mn-cbm and revenue of INR 2.8-3.0bn** in FY24.
- **Working Capital:** Management indicated that working capital days (for India plywood operations) were **higher due to higher inventory days and expects working capital days to remain in the range of 38-40** going forward. India operations receivables days were also higher by 5 days QoQ due to higher share of institutional business.
- **Debt:** Net debt increased by INR 970mn QoQ due to investment in MDF plant and higher working capital requirements. **Interest cost for FY24 is expected to be INR 520mn-530mn** (including INR 390mn for debt raised against MDF plant). Management indicated **debt repayment schedule of INR 420mn, INR 560mn and INR 640mn for FY24, FY25 and FY26** respectively.
- Management has indicated **depreciation cost of INR 600mn-620mn for FY24**.

Exhibit 4: Quarterly India plywood revenue



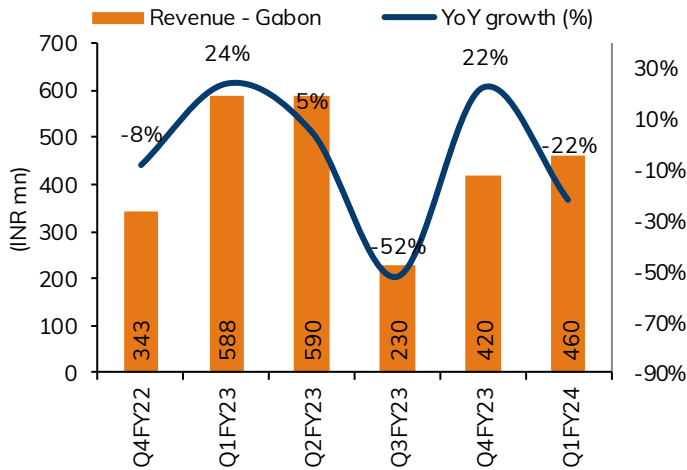
Source: Company data, I-Sec research

Exhibit 5: Quarterly India plywood EBITDA margin



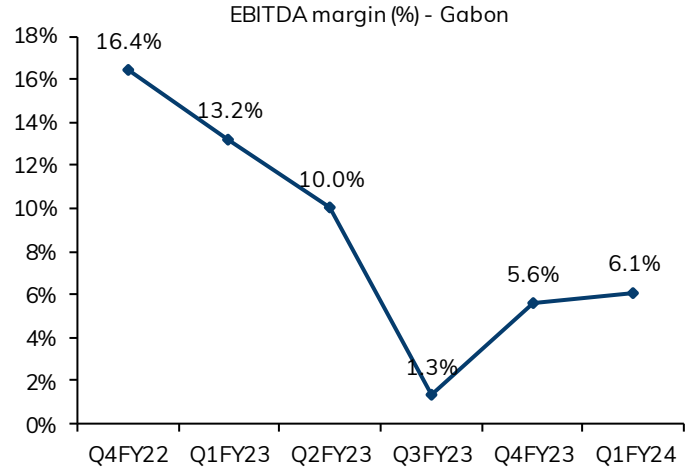
Source: Company data, I-Sec research

Exhibit 6: Quarterly Gabon revenue growth



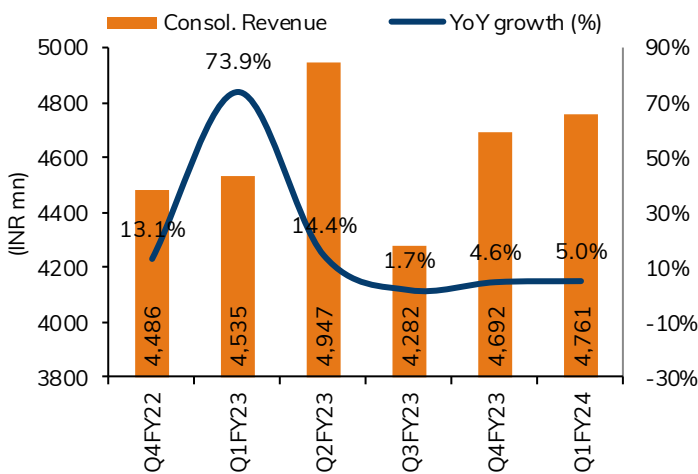
Source: Company data, I-Sec research

Exhibit 7: Quarterly Gabon EBITDA margin



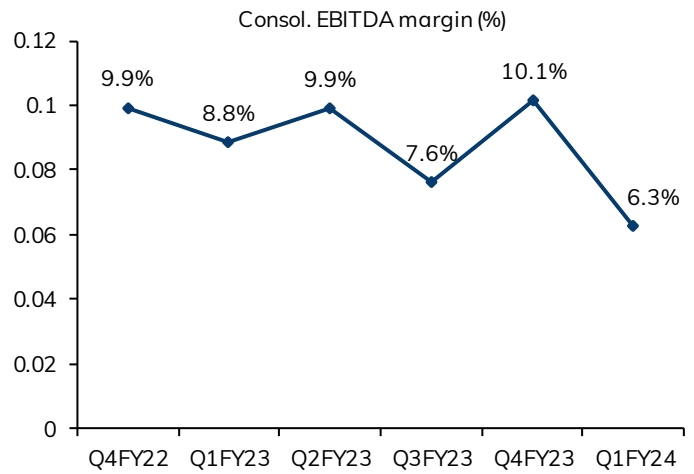
Source: Company data, I-Sec research

Exhibit 8: Quarterly consolidated revenue

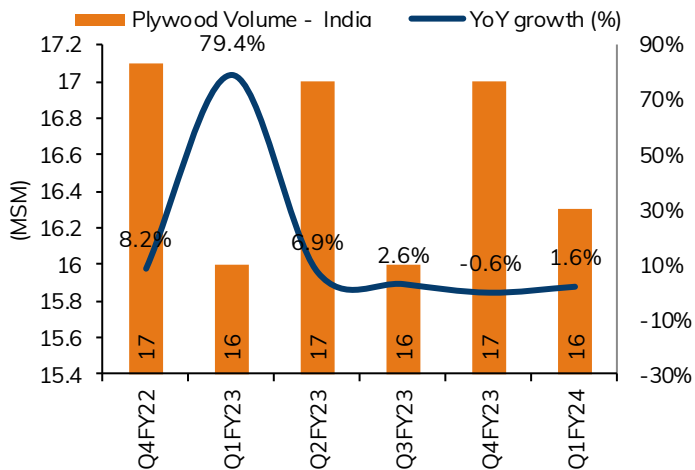


Source: Company data, I-Sec research

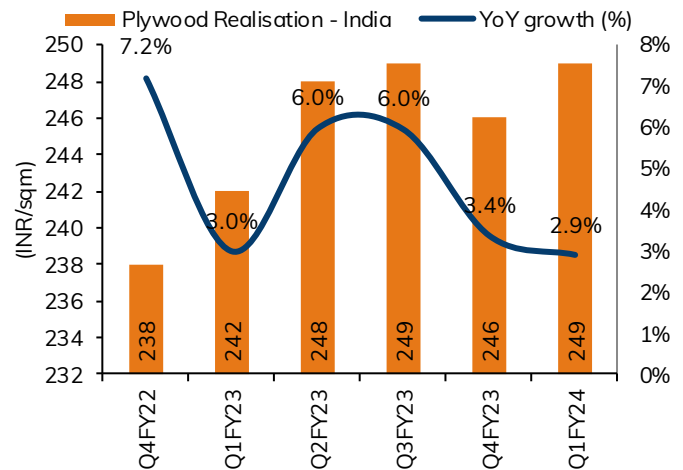
Exhibit 9: Quarterly consolidated EBITDA margin



Source: Company data, I-Sec research

Exhibit 10: Quarterly India plywood volume

Source: Company data, I-Sec research

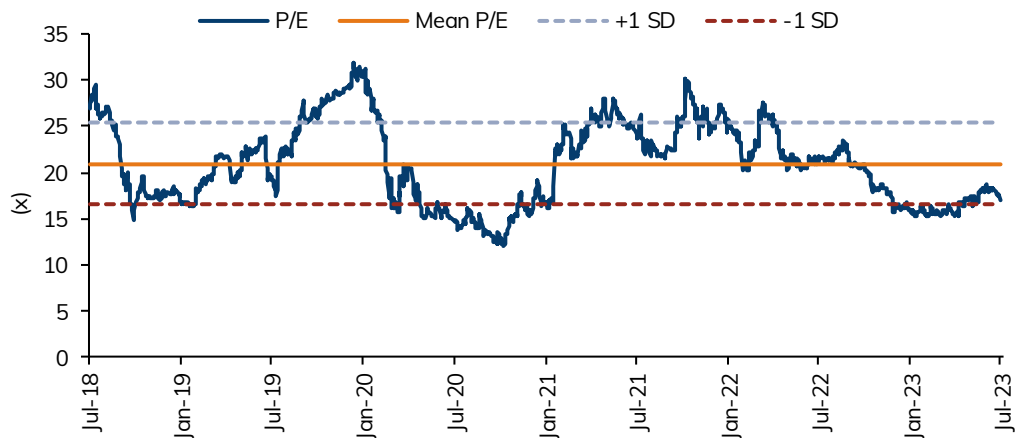
Exhibit 11: Quarterly India plywood realisation

Source: Company data, I-Sec research

Valuations and View

MTLM is one of the major plywood players in the country. It has also set up operations in Gabon for face veneer, whereby it has increased its raw material security. We believe MTLM is poised for growth in the wood panel market, enabled by its wide distribution reach, strong brand focus, diverse product portfolio and increased preference of customers towards organised players.

MTLM is likely to report revenue/EBITDA CAGRs of 16.6%/25.0%, respectively, over FY23-FY26E led by entry into MDF. Maintain **BUY**, given inexpensive valuations (14x FY25E P/E) with a rolled over Sept'24 target price of INR 239 (earlier INR 229).

Exhibit 12: 1-year forward P/E band

Source: I-Sec research, Company data, Bloomberg

Key downside risks

- **Regulatory concerns on RM sourcing:** Wood is a key raw material for plywood. Any regulatory restrictions on the sourcing of wood or face veneer will hit margins.
- **Sharp rise in raw material prices:** Higher raw material prices and inability to pass them on may hurt profitability.

- **Prolonged slowdown in housing market:** Continued slowdown in the housing market would hit growth prospects.
- **Resurgence of pandemic:** If covid pandemic resurges and prevails for a prolonged period of time, revenues will be adversely affected.

Exhibit 13: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	52.3	52.3	52.3
Institutional investors	35.9	35.4	35.1
MFs and others	32.9	32.8	32.2
FIs / Insurance Cos	0.7	0.4	0.2
FIIIs	2.3	2.2	2.7
Others	11.8	12.3	12.6

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	18,456	23,255	26,678	29,292
Operating Expenses	16,765	20,784	23,682	25,988
EBITDA	1,691	2,471	2,996	3,304
EBITDA Margin (%)	9.2	10.6	11.2	11.3
Depreciation & Amortization	365	635	704	760
EBIT	1,326	1,836	2,292	2,544
Interest expenditure	262	529	486	412
Other Non-operating Income	153	77	60	89
Recurring PBT	1,217	1,384	1,865	2,221
Less: Taxes	(192)	(277)	(373)	(444)
PAT	1,026	1,107	1,492	1,777
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(111)	-	-	-
Net Income (Reported)	914	1,107	1,492	1,777
Net Income (Adjusted)	1,008	1,107	1,492	1,777

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	2,784	3,303	3,763	4,130
Cash & cash eqv.	314	687	1,266	1,721
Sundry Debtors	2,287	2,676	2,997	3,290
Other Current Assets	1,613	1,593	1,608	1,766
Trade payables	2,427	2,971	3,374	3,697
Other Current Liabilities	973	1,201	1,367	1,498
Net Current Assets	3,598	4,085	4,892	5,711
Investments	64	64	64	64
Net Fixed Assets	9,143	8,879	8,625	8,465
Other Non Current Assets	578	578	578	578
Total Assets	13,383	13,606	14,159	14,818
Liabilities				
Borrowings	6,634	5,814	4,994	4,054
Other Non Current Liabilities	311	311	311	311
Total Liabilities	6,945	6,125	5,305	4,365
Equity Share Capital	123	123	123	123
Reserves & Surplus	6,315	7,358	8,731	10,330
Total Net Worth	6,438	7,481	8,854	10,453
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	13,383	13,606	14,159	14,818

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	4,947	4,282	4,692	4,761
% growth (YOY)	14.4	1.7	4.6	5.0
EBITDA	489	326	476	298
Margin %	9.9	7.6	10.1	6.3
Other Income	14	31	93	14
Extraordinaries	0	96	-166	0
Adjusted Net Profit	236	127	229	8

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	849	1,627	1,968	2,173
Working Capital Changes	(485)	(115)	(228)	(364)
Capital Commitments	(5,327)	(370)	(450)	(600)
Free Cashflow	(4,478)	1,257	1,518	1,573
Other investing cashflow	194	-	-	-
Cashflow from Investing Activities	(5,133)	(370)	(450)	(600)
Issue of Share Capital	0	0	-	-
Inc (Dec) in Borrowings	3,716	(820)	(820)	(940)
Dividend paid	(61)	(66)	(119)	-
Others	218	2	0	(178)
Cash flow from Financing Activities	3,872	(884)	(939)	(1,118)
Chg. in Cash & Bank balance	(412)	372	579	455
Closing cash & balance	314	687	1,266	1,721

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.4	9.0	12.1	14.5
Adjusted EPS (Diluted)	8.2	9.0	12.1	14.5
Cash EPS	11.2	14.2	17.9	20.6
Dividend per share (DPS)	0.5	0.5	1.0	1.4
Book Value per share (BV)	52.4	60.9	72.0	85.0
Dividend Payout (%)	6.1	6.0	8.0	10.0
Growth (%)				
Net Sales	18.1	26.0	14.7	9.8
EBITDA	9.7	46.1	21.2	10.3
EPS (INR)	4.9	9.8	34.8	19.1
Valuation Ratios (x)				
P/E	20.8	18.9	14.0	11.8
P/CEPS	15.2	12.0	9.5	8.3
P/BV	3.3	2.8	2.4	2.0
EV / EBITDA	16.1	10.5	8.2	7.0
EV / Sales	1.5	1.1	0.9	0.8
Dividend Yield (%)	0.3	0.3	0.6	0.8
Operating Ratios				
Gross Profit Margins (%)	39.0	41.0	41.6	41.7
EBITDA Margins (%)	9.2	10.6	11.2	11.3
Effective Tax Rate (%)	15.8	20.0	20.0	20.0
Net Profit Margins (%)	5.5	4.8	5.6	6.1
NWC / Total Assets (%)	19.6	19.1	19.2	19.9
Net Debt / Equity (x)	1.0	0.7	0.4	0.2
Net Debt / EBITDA (x)	3.7	2.1	1.2	0.7
Profitability Ratios				
RoCE (%)	10.5	11.2	13.5	14.4
RoE (%)	17.1	15.9	18.3	18.4
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	55	52	51	51
Receivables Days	45	42	41	41
Payables Days	48	47	46	46

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
