

Balance sheet strengthened; growth key ahead...

Greenply Industries' (GIL) Q3FY21 performance was again about balance sheet than P&L as it focussed on credit correction while revenues were muted. The company has reduced its consolidated net debt by ~₹ 113 crore in Q3FY21 to ₹ 82 crore driven by strong receivables collection and moving to stricter working capital control (at 60 days vs. 66 days in Q2 and 80 days in Q3FY20). GIL's Q3 consolidated topline at ₹ 340 crore was down 1.6% YoY owing to 3% YoY decline in plywood revenues at ₹ 310 crore (volumes, down 2.4%). EBITDA margins expanded 77 bps to 12.3%, owing to cost rationalisation. PAT at ₹ 25 crore was up 17% YoY, led by robust margins and lower interest costs on account of debt reduction.

Plywood segment to recover strongly in FY22E

Plywood sales volumes declined 2.4% YoY at 14 million sq.mt. (MSM) in Q3FY21 (up 17.6% QoQ), while realisations were flattish YoY at ₹ 219/sq mt. GIL's own manufacturing facility is running at 128% utilisation as of Q3FY21 (vs. 107% utilisations in Q2). With a benign base and credit correction largely done, plywood volumes may recover sharply. GIL is also strengthening its sales penetration via addition of dealer's network in rural areas, which should aid overall volume recovery, going forward. The company has also guided for a healthy double digit growth in FY22E. Overall, we expect plywood revenues to witness 20% CAGR to ₹ 1426 crore in FY20-23E.

Europe lockdown, logistics issues impact Gabon

Gabon revenues at ₹ 30.3 crore were up 14.3% YoY but down ~47% QoQ as operations were impacted by the lockdown in Europe and non-availability of containers. Going ahead, GIL is focussing more on increasing supply to South Asian & European markets as well as breaking some ground in US markets to drive Gabon revenues. Overall, we expect Gabon revenues to witness -20% CAGR to ₹ 216 crore in FY21-23E. Driven by cost rationalisation and revenues recovery, we expect consolidated margins to expand to 13.5% in FY23 (vs. 11% in FY20). The management is targeting margin expansion of ~400 bps (from FY20 levels) in the medium term driven by operating leverage and cost rationalisation.

Valuation & Outlook

GIL's stricter working capital control and cost has imparted strength to the balance sheet. We raise our FY21, FY22 earnings by 6%, 26%, respectively. The continued demand from Europe and newer areas will hold the key for Gabon, going ahead. Furthermore, while plywood is expected to grow handsomely on a benign base, GIL's relative market share, traction thereafter will be key for further rerating after sharp run up in share price of ~72% in last three months. We roll over to FY23 and maintain **HOLD** with a revised target price of ₹ 180 (16x FY23E earnings) vs. ₹ 95 earlier.



Particulars

Particulars	(₹ crore)
Market Capitalization	1,943.4
Total Debt (FY20)	267.4
Cash (FY20)	10.3
EV	2,200.6
52 week H/L (₹)	160 / 73
Equity capital	12.3
Face value (₹)	1.0

Key Risk to our Call

- Faster than anticipated volumes growth
- Continued relative lower plywood growth than peer

Price Performance



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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	1412.2	1420.4	1136.8	1452.8	1642.0	5.0%
EBITDA	144.0	155.6	116.0	182.0	220.9	12.4%
Net Profit	79.7	47.3	59.6	108.0	136.8	
EPS (₹)- Diluted	6.5	3.9	4.9	8.8	11.2	42.5%
P/E (x)	24.3	41.0	32.5	17.9	14.2	
Price/book (x)	5.8	5.1	4.4	3.6	2.8	
EV/EBITDA (x)	15.1	14.1	17.6	11.0	8.6	
RoCE (%)	21.9	21.1	15.2	22.9	25.0	
RoE (%)	23.8	12.5	13.6	19.8	20.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	340.4	346.0	-1.6	295.5	15.2	Plywood sales volumes declined 2.4% YoY at 14 million sq.mt. (MSM) in Q3FY21 (up 17.6% QoQ), while realizations were flattish YoY at ₹ 219/sq mt. This resulted in 3% YoY decline in Plywood revenues at ₹ 310 crore
Other Income	1.6	0.2	706.0	1.1	40.0	
Material Consumed	120.3	130.8	-8.1	113.1	6.3	
Purchase of Stock in Trade	78.0	80.5	-3.1	51.1	52.7	
Changes in Inventories of WIP	-1.0	-7.6	-86.7	13.7	-107.4	
Employee Benefit Expenses	38.5	40.6	-5.1	35.1	9.8	
Other Expenses	63.0	62.0	1.6	50.2	25.5	
EBITDA	41.7	39.7	5.0	32.3	29.0	
EBITDA Margin (%)	12.3	11.5	77 bps	10.9	131 bps	
Depreciation	5.9	6.4	-7.0	5.7	4.4	
Interest	3.6	4.9	-24.8	3.8	-3.8	
PBT	33.7	28.7	17.5	24.0	NM	
Taxes	8.7	7.3	18.4	4.5	NM	
PAT	25.0	21.3	17.2	18.6	NM	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY21E			FY22E			FY23E Introduced	Comments
	Old	New	% Change	Old	New	% Change		
Revenue	1,115.1	1,136.8	1.9	1,341.0	1,452.8	8.3	1,642.0	Raise growth on the back of improved guidance
EBITDA	116.0	116.0	0.0	155.9	182.0	16.8	220.9	
EBITDA Margin (%)	10.4	10.2	-20 bps	11.6	12.5	90 bps	13.5	
PAT	56.5	59.6	5.6	85.3	108.0	26.6	136.8	
EPS (₹)	4.6	4.9	5.6	7.0	8.8	25.6	11.2	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** GIL's performance during H1FY21 was largely impacted by disruptions caused by the Covid-19 pandemic. However, as per the management, the company has been witnessing demand uptick from October 2020 onwards and has gained momentum since then. With these, GIL's performance during H2FY21 is likely to be better than H2FY20. Additionally, the management expects healthy double digit growth in FY22E. At the operating level, its margin is likely to be healthy at double digit for FY21E to be backed by higher sales, better product mix and improved efficiency levels. On a medium-to-longer term basis, the management is targeting margin expansion of ~400 bps (from FY20 levels) driven by operating leverage & cost rationalisation
- **Revenue distribution:** Premium segment contributed 70% to the Q3FY21 topline (vs. 69% in Q2) while the balance was contributed by the mid-and-lower products. In volume terms, premium category contributed 60% in Q3FY21 (similar to Q2). Going forward, the management expects a better product mix with improved economic and construction activities in metro cities
- **Capacity utilisation, strengthening of distribution network:** GIL's utilisation during Q3FY21 has improved to ~128%. The management has also indicated towards its market share improvement in the metro/urban areas by ~500-600 bps on a QoQ basis (from 35-36% to 42-23%). Additionally, the company is looking to mark their presence in rural areas and has added ~100 dealers during Q3FY21 (total dealers: 200+ at the end of December 2020). This is likely to keep its capacity utilisation at the elevated levels
- **Debt:** GIL has become net debt free at standalone level. However, its gross, net debt at the consolidated level is at ₹ 188.8 crore, ₹ 82 crore, respectively, with net debt down by ₹ 113 crore QoQ. The management endeavours to achieve net debt free status at the consolidated level by FY23-end
- **Working capital:** The company has strong focus on improvement of working capital days and is currently providing cautious credits to its dealers and tightening its supply chain. This has translated into improved working capital days for the company at the consolidated level (at 60 days vs. 66 days in Q2 and 80 days in Q3FY20). Debtor days was at 72 days vs. 89 days in FY20. Going forward, the company expects a further improvement in working capital days
- **Capex:** The company incurred capex of ₹ 16 crore during 9MFY21 and has guided for ~₹ 4 crore of capex for Q4FY21. For FY22, capex is likely to be at ₹ 18-20 crore
- **Others**
 - RM prices have increased from Q4. Consequently, the company has taken a price hike in February to offset the increase in costs

Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	1,420.4	1,136.8	1,452.8	1,642.0
Gross Profit	584.9	471.9	602.3	681.4
Employee benefit expenses	162.9	145.5	167.1	188.8
Other Expenses	266.4	206.9	249.7	268.1
EBITDA	155.6	116.0	182.0	220.9
Interest	20.8	16.7	12.7	10.0
Depreciation	25.7	22.7	26.5	29.0
Other income	2.0	3.5	3.5	3.5
PBT	111.2	80.1	146.3	185.4
Taxes	13.4	20.4	38.3	48.6
PAT	47.3	59.6	108.0	136.8
EPS (Diluted)	3.9	4.9	8.8	11.2

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	47.3	59.6	108.0	136.8
Depreciation	25.7	22.7	26.5	29.0
Interest	20.8	16.7	12.7	10.0
Taxes	13.4	20.4	38.3	48.6
Cash Flow before wc changes	93.0	116.0	182.0	220.9
Cash generated from operations	50.5	202.7	111.7	178.9
Income Tax paid	13.4	20.4	38.3	48.6
Net CF from operating activities	37.1	182.3	73.4	130.3
Capital Work-in-progress	11.6	-	-	-
(Purchase)/Sale of Fixed Assets (N	53.1	16.0	20.0	20.0
Net CF from Investing activities	(39.5)	(12.5)	(16.5)	(16.5)
Others	(4.6)	-	-	-
Interest paid	(20.8)	(16.7)	(12.7)	(10.0)
Inc / (Dec) in Loans	17.4	(50.0)	(50.0)	(50.0)
Net CF from Financing activities	(8.0)	(66.7)	(62.7)	(60.0)
Net Cash flow	(10.3)	103.1	(5.8)	53.8
Opening Cash	20.6	10.3	113.3	107.5
Closing Cash/ Cash Equivalent	10.3	113.3	107.5	161.3

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	365.7	425.3	533.3	670.1
Total Shareholders funds	377.9	437.6	545.6	682.4
Total Debt	267.4	217.4	167.4	117.4
Deferred Tax Liability	(10.5)	(10.5)	(10.5)	(10.5)
Total Liabilities	643.9	653.6	711.6	798.4
Assets				
Gross Block	404.9	420.9	440.9	460.9
Less Acc. Dep	126.5	149.2	175.7	204.7
Net Block	278.4	271.7	265.2	256.2
Net Intangibles Assets	6.7	6.7	6.7	6.7
Capital WIP	5.2	5.2	5.2	5.2
Total Fixed Assets	290.3	283.6	277.1	268.1
Investments	23.8	23.8	23.8	23.8
Inventory	177.1	141.7	181.1	204.7
Sundry Debtors	356.5	249.2	318.4	359.9
Loans & Advances	3.2	3.2	3.2	3.2
Cash & Bank Balances	10.3	113.3	107.5	161.3
Other Current Assets	75.71	68.85	76.49	81.06
Total Current Assets	622.8	576.3	686.8	810.2
Trade Payable	231.7	168.2	214.9	242.9
Other Current Liabilities	50.4	50.4	50.4	50.4
Provisions	34.8	34.8	34.8	34.8
Net Current Assets	305.9	323.0	386.7	482.1
Total Assets	643.9	653.6	711.6	798.4

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	3.9	4.9	8.8	11.2
Cash EPS	6.0	6.7	11.0	13.5
Book Value	30.8	35.7	44.5	55.6
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	11.0	10.2	12.5	13.5
PAT / Net Sales	3.3	5.2	7.4	8.3
Inventory Days	51	44	46	46
Debtor Days	92	80	93	81
Creditor Days	79	76	79	74
Return Ratios (%)				
RoE	12.5	13.6	19.8	20.1
RoCE	21.1	15.2	22.9	25.0
RoIC	20.7	17.7	26.3	31.3
Valuation Ratios (x)				
EV / EBITDA	14.1	17.6	11.0	8.6
P/E (Diluted)	41.0	32.5	17.9	14.2
EV / Net Sales	1.5	1.8	1.4	1.2
Market Cap / Sales	1.4	1.7	1.3	1.2
Price to Book Value	5.1	4.4	3.6	2.8
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.2	0.1	(0.1)
Debt / EBITDA	1.7	1.9	0.9	0.5
Current Ratio	1.9	1.7	1.8	1.9
Quick Ratio	1.3	1.1	1.2	1.3

Source: Company, ICICI Direct Research

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