

Plywood recovers; logistic issues impact Gabon...

Greenply Industries (GIL) reported robust growth, albeit on a benign base (~12% YoY decline in Q4FY20). The topline at ₹ 396.7 crore was up 15.1% YoY driven by 20.9% growth in plywood revenues at ₹ 359.4 crore. EBITDA margins expanded 279 bps YoY to 11.5%, owing to cost rationalisation and operating leverage benefits. PAT was at ₹ 28.6 crore vs. loss in the base quarter owing to one-time exceptional hit of ~₹ 50 crore (reversal of excise duty benefit on retrospective basis due to Supreme Court ruling).

Plywood segment capex planned...

Plywood sales volumes grew 18.9% YoY at 15.9 million sq mt (MSM) in Q4FY21 while realisations were up 1.9% YoY at ₹ 222/sq mt. GIL's own manufacturing facility is running at 145% utilisation as of Q4FY21 (vs. 128% utilisations in Q3). The management has indicated that the demand momentum has temporarily been disrupted due to the second-wave and recovery is likely from Q2FY22. GIL also planned to set up a greenfield plywood unit in Uttar Pradesh with 13.5 MSM capacity (likely to be added by Q4FY22) with estimated cost of ₹ 75 crore (excluding cost of land and license of ~ ₹ 40 crore). The management expects revenue of ₹ 250 crore from the proposed expansion on a full-operational basis. We note that notwithstanding proximity to raw material site and availability of labour, own manufacturing RoCEs at 13-14% vs. sharply lower than 25%+ for outsourced product. This is a clear shift from asset light model that the company earlier had guided. GIL has guided for double digit growth in FY22E and 10-12% growth thereafter. Overall, we expect plywood revenues to witness 15% CAGR to ₹ 1348 crore in FY21-23E, on a benign base.

Gabon continues to be impacted by logistics issues

Gabon revenues at ₹ 37.3 crore were down 21.5% YoY as operations were impacted by non-availability of required levels of containers and higher freight rates. Overall, we expect Gabon revenues to witness -15% CAGR to ₹ 199 crore in FY21-23E. Driven by cost rationalisation and operating leverage, we expect consolidated margins to expand to 13.5% in FY23 (vs. 10% in FY21).

Valuation & Outlook

GIL's stricter working capital control and cost has brought about a strength in balance sheet. The continued demand from Europe and newer areas will hold the key for Gabon, going ahead, albeit the management has guided for muted H1FY22 given logistic issues. Furthermore, while plywood will witness decent growth on a benign base, GIL's relative market share and traction thereafter will be key for further rerating after sharp run up in share price. We maintain **HOLD** with a revised target price of ₹ 230/share (22x FY23E earnings at ~30% discount to Century Ply) vs. ₹ 180/share, earlier.



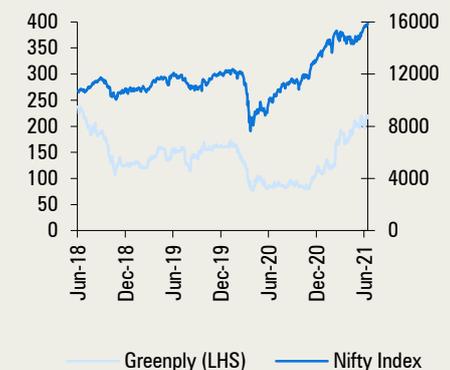
Particulars

Particulars	(₹ crore)
Market Capitalization	2,650.7
Total Debt (FY21)	191.7
Cash (FY21)	128.0
EV	2,714.4
52 week H/L (₹)	225 / 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



Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh.kashikar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	1412.2	1420.4	1165.3	1279.7	1546.1	15.2%
EBITDA	144.0	155.6	116.7	159.4	209.0	33.8%
Net Profit	79.7	47.3	60.9	95.8	129.2	
EPS (₹)- Diluted	6.5	3.9	5.0	7.8	10.5	45.7%
P/E (x)	33.2	55.9	43.4	27.6	20.4	
Price/book (x)	7.9	7.0	6.1	5.0	4.0	
EV/EBITDA (x)	20.0	18.7	23.3	17.4	12.8	
RoCE (%)	21.9	21.1	16.4	21.2	23.4	
RoE (%)	23.8	12.5	13.9	18.0	19.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	396.7	344.7	15.1	340.4	16.5	Plywood sales volumes grew 18.9% YoY at 15.9 million sq.mt. (MSM) in Q4FY21, while realisations were up 1.9% YoY at ₹ 222/sq mt. This resulted in 20.9% growth in Plywood revenues at ₹ 359.4 crore
Other Income	3.9	1.3	199.9	1.6	145.5	
Material Consumed	144.6	137.3	5.3	120.3	20.2	
Purchase of Stock in Trade	104.3	74.1	40.7	78.0	33.7	
Changes in Inventories of WIP	-10.7	-1.2	754.8	-1.0	949.3	
Employee Benefit Expenses	44.1	38.6	14.4	38.5	14.6	
Other Expenses	68.9	66.1	4.4	63.0	9.5	
EBITDA	45.5	29.9	52.1	41.7	9.0	
EBITDA Margin (%)	11.5	8.7	279 bps	12.3	-79 bps	
Depreciation	6.4	6.6	-3.5	5.9	7.9	
Interest	3.7	5.5	-32.0	3.6	2.5	
PBT	39.2	19.1	105.6	33.7	16.3	
Taxes	10.5	-8.8	NM	8.7	21.4	
PAT	28.6	-21.5	NM	25.0	14.6	

Source: Company, ICICI Direct Research

Exhibit 1: Change in Estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,452.8	1,279.7	-11.9	1,642.0	1,546.1	-5.8	Realign numbers post Q4 and build in second wave impact
EBITDA	182.0	159.4	-12.4	220.9	209.0	-5.4	
EBITDA Margin (%)	12.5	12.5	-7 bps	13.5	13.5	7 bps	
PAT	108.0	95.8	-11.3	136.8	129.2	-5.5	
EPS (₹)	8.8	7.8	-11.3	11.2	10.5	-5.5	

Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** GIL attributed the growth to a) pent-up demand, b) improved momentum in the real estate sector and c) preference to organised players. Going forward, while the demand momentum has temporarily been disrupted by the second-wave of the Covid-19 pandemic, the management expects demand recovery from Q2FY22 and has guided for double digit volume growth in FY22, ~10-12% volume growth in FY23. At the operating level, the management expects some impact on margins given the current uncertain situation and volatility in raw material prices. However, the management expects margins at healthy levels of 12-12.5% on the normalised situation - which are likely to be driven by better sales, improved product mix and enhancement in efficiency levels
- **Revenue distribution:** Premium segment contributed 70% to the Q4FY21 topline while the balance was contributed by the mid-and-lower products. In volume terms, premium category in Q4FY21 contributed 64%. Going forward, the management expects a better product mix with improved economic and construction activities in metro cities
- **Expansion rationale:** The management attributed proximity of principal raw material i.e. agro forestry timber, availability of workers, growing demand in northern and central markets of India along with willingness to secure seamless supply as the reason for capacity expansion vs. outsourcing that fetches superior return ratios. Given expected uptick in demand, the management expects plant capacity utilisation to reach 85% by Q3FY23
- **Gabon operation:** The management expects supply chain issues to remain over next six to nine months, which is likely to impact the plant operations and margin profile in the near term
- **Debt:** GIL has become net debt free at standalone level (gross debt: ₹ 58.5 crore, cash: ₹ 124 crore). However, its gross at the consolidated level was at ₹ 191.7 crore. 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 providing cautious credit to its dealers and tightening its supply chain. This has translated into improved debtor days and, in turn, better working capital days for the company at the consolidated level (at 53 days at FY21-end vs. 78 days at FY20-end). Going forward, the management expects a further improvement of ~4-5 days in working capital days
- **Capex:** The company has incurred capex of ₹ 23 crore during FY21 and has guided for ₹ 20-25 crore of maintenance capex for FY22. In addition, the company is likely to incur significant portion of proposed ~₹ 90 crore of capex for expansion during FY22

Other highlights

- Prices for majority of raw material including timber and chemicals have increased during Q4FY21 by ~40-50% YoY. Consequently, the company has taken multiple price hikes over the period to partly offset the increase in costs
- GIL's utilisation during FY21 was at 107% (vs. ~142% in FY20)

Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	1,420.4	1,165.3	1,279.7	1,546.1
Gross Profit	584.9	481.3	537.4	649.1
Employee benefit expenses	162.9	149.5	153.6	177.8
Other Expenses	266.4	215.1	216.9	254.0
EBITDA	155.6	116.7	159.4	209.0
Interest	20.8	16.6	12.0	12.0
Depreciation	25.7	23.1	26.8	32.4
Other income	2.0	6.8	7.4	8.2
PBT	111.2	83.7	128.0	172.8
Taxes	13.4	20.5	32.3	43.5
PAT	47.3	60.9	95.8	129.2
EPS (Diluted)	3.9	5.0	7.8	10.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	47.3	60.9	95.8	129.2
Depreciation	25.7	23.1	26.8	32.4
Interest	20.8	16.6	12.0	12.0
Taxes	13.4	20.5	32.3	43.5
Cash Flow before wc changes	93.0	117.9	159.4	209.0
Cash generated from operations	50.5	245.7	109.9	155.1
Income Tax paid	13.4	20.5	32.3	43.5
Net CF from operating activities	37.1	225.2	77.6	111.6
Others	11.6	4.1	1.1	-
(Purchase)/Sale of Fixed Assets (N	53.1	23.9	130.0	20.0
Net CF from Investing activities	(39.5)	(13.0)	(121.5)	(11.8)
Others	(4.6)	(2.1)	-	-
Interest paid	(20.8)	(16.6)	(12.0)	(12.0)
Inc / (Dec) in Loans	17.4	(75.7)	(50.0)	-
Net CF from Financing activities	(8.0)	(94.5)	(62.0)	(12.0)
Net Cash flow	(10.3)	117.7	(105.9)	87.7
Opening Cash	20.6	10.3	128.0	22.1
Closing Cash/ Cash Equivalent	10.3	128.0	22.1	109.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	365.7	424.4	520.2	649.4
Total Shareholders funds	377.9	436.7	532.5	661.7
Total Debt	267.4	191.7	141.7	141.7
Deferred Tax Liability	(10.5)	(6.4)	(6.4)	(6.4)
Total Liabilities	643.9	630.6	676.4	805.6
Assets				
Gross Block	404.9	428.8	558.8	578.8
Less Acc. Dep	126.5	149.6	176.4	208.8
Net Block	278.4	279.2	382.4	370.0
Net Intangibles Assets	6.7	1.5	1.5	1.5
Capital WIP	5.2	6.2	5.2	5.2
Total Fixed Assets	290.3	287.0	389.1	376.7
Investments	23.8	22.5	22.5	22.5
Inventory	177.1	179.2	196.8	237.7
Sundry Debtors	356.5	193.9	227.9	275.3
Loans & Advances	3.2	8.4	8.4	8.4
Cash & Bank Balances	10.3	128.0	22.1	109.8
Other Current Assets	75.71	78.02	81.61	89.96
Total Current Assets	622.8	587.5	536.8	721.2
Trade Payable	231.7	204.3	210.4	254.1
Other Current Liabilities	50.4	61.2	61.2	61.2
Provisions	34.8	21.2	21.2	21.2
Net Current Assets	305.9	300.8	244.0	384.7
Total Assets	643.9	630.6	676.4	805.6

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	3.9	5.0	7.8	10.5
Cash EPS	6.0	6.8	10.0	13.2
Book Value	30.8	35.6	43.4	54.0
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	11.0	10.0	12.5	13.5
PAT / Net Sales	3.3	5.2	7.5	8.4
Inventory Days	51	44	46	56
Debtor Days	92	80	93	63
Creditor Days	79	76	79	87
Return Ratios (%)				
RoE	12.5	13.9	18.0	19.5
RoCE	21.1	16.4	21.2	23.4
RoIC	20.7	18.9	20.5	26.1
Valuation Ratios (x)				
EV / EBITDA	18.7	23.3	17.4	12.8
P/E (Diluted)	55.9	43.4	27.6	20.4
EV / Net Sales	2.0	2.3	2.2	1.7
Market Cap / Sales	1.9	2.3	2.1	1.7
Price to Book Value	7.0	6.1	5.0	4.0
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.7	0.1	0.2	0.0
Debt / EBITDA	1.7	1.6	0.9	0.7
Current Ratio	1.9	1.5	1.7	1.7
Quick Ratio	1.3	0.8	1.0	1.0

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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