

CMP: ₹ 171

Target: ₹ 195 (14%)

Target Period: 12 months

HOLD

November 8, 2022

Margins disappoint...

About the stock: Greenply Industries (GIL) is one 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 ~₹ 555 crore) with revenue potential of ~₹ 600-650 crore per annum, to be commissioned by Q4FY23

Q2FY23 Results: GIL reported a soft performance on margins front.

- The topline at ₹ 494.7 crore, was up 14.4% YoY with 14.8% growth in plywood revenues at ₹ 431.8 crore (three-year average of ~7.7%) with volumes up ~7.2% YoY at 17 MSM and ~6.4% realisation growth
- EBITDA margins were at 9.9%, down 161 bps YoY, due to higher input cost
- PAT came in at ₹ 23.6 crore, down 26.1% YoY

What should investors do? GIL's share price has declined by 45% over the past five years given the lagging growth trajectory vis-à-vis peers.

- We maintain our **HOLD** rating on the company. GIL's relative market share in plywood and traction thereafter will be one of the factors to be monitored. We would also monitor input prices for interim margins impact. Furthermore, while foray into MDF is positive, one has to be cautious at the possibility of increased capacities impacting the economics

Target Price and Valuation: We value GIL at ₹ 195/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 Century Ply in woodpanel segment

- A play on superior growth among peers
- BUY with a target price of ₹ 675



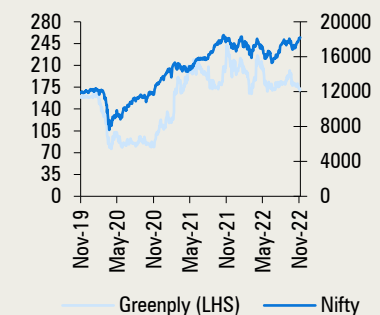
Particulars

Particulars	(₹ crore)
Market Capitalization	2,105.1
Total Debt (FY22)	291.9
Cash (FY22)	72.6
EV	2,324.4
52 week H/L (₹)	255 / 161
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	52.3	52.3	52.3	52.3
DII	31.3	32.0	33.2	33.4
FII	3.6	3.6	3.4	3.2
Other	13.0	12.1	11.1	11.1

Price Chart



Key Risks

Key Risk: (i) Better than expected growth momentum (ii) Weaker margins

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Key Financial Summary

(₹ Crore)	FY21	FY22	4 yr CAGR (FY18-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales	1165.3	1562.8	19.7%	1855.4	2288.5	2627.0	18.9%
EBITDA	116.7	150.3	31.3%	178.8	262.3	315.0	28.0%
Net Profit	60.9	94.7		95.4	119.3	158.7	
EPS (₹)- Diluted	5.0	7.7	66.0%	7.8	9.7	12.9	18.8%
P/E (x)	34.5	22.2		22.0	17.6	13.2	
Price/book (x)	4.8	3.9		3.3	2.8	2.3	
EV/EBITDA (x)	18.6	15.5		15.3	10.2	8.0	
RoCE (%)	16.4	16.6		12.0	16.1	18.4	
RoE (%)	13.9	17.6		15.1	15.8	17.4	

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

Key business highlight and outlook

- Volume/revenue guidance:** GIL has achieved volume growth of 7.2% YoY during Q2FY23 largely aided by decent product demand with healthy growth being witnessed in the real estate and commercial industry driven by a) better affordability, b) conducive government policies, c) shifting to nuclear families, and d) financially stable developers. **The volumes in Q2FY23 were also partly aided by commissioning of Sandila unit and improved demand momentum due to festivities. Going forward, the management has revised their volume guidance upwards to 16-17% YoY (to 67 MSM) vs. 12-13% earlier, for plywood in FY23 despite increase in input cost and interest rate hikes**
- Margin outlook:** GIL continued to face pressure on (adjusted core – excluding ESOP costs) operating margin - declining 150 bps YoY (to 10.7%) on a consolidated basis during Q2FY23, mainly impacted by a) increase in prices of key raw material prices such as timber (partially offset by ease in some chemical prices), and b) elevated level of marketing spends (3.5% of overall sales; vs 2.5% in Q2FY22). However, on QoQ basis, operating margin improved ~100 bps with better product mix. Going forward, the management expects margin to hover in the current level of ~11% during H2FY23 with a) the company's higher preference on volume growth, b) no major hike in prices and c) elevated marketing spends
- Price hikes:** GIL has undertaken ~2% price hike (effective from June 2022) to partially offset the increase in input prices. However, the company was unable to take any price hikes in Q2FY23 due to higher competitiveness (despite increase in raw material prices). At present, the company is not contemplating any increase in product prices due to volatile demand and additional supply coming on stream
- Realisation, utilisation update:** Average realisation during Q2FY23 was at ₹ 248/sq m (vs. ₹ 248/sq m and ₹ 233/sq m in Q1FY23 and Q1FY22, respectively) largely aided by better product mix. Also, **GIL's utilisation during the quarter was at 88%**
- 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. Timber prices continued to remain at an elevated level and increased 10% at YTD FY23 level. However, chemical prices have softened (Melamine, Phenol prices dropped 45-50%, 12-14%, respectively) during YTD FY23 level. Going forward, the management expects some signs of softness in timber prices (not materialistic though) during H2FY23. Chemical prices are currently stable at lower prices and likely to hover around same level
- Gabon:** The sales from Gabon plant were at ₹ 58.9 crore (up 4.8% YoY, flat QoQ) during Q2FY23 largely supported by added capacity, billing of dispatches done in previous quarters, and better mobility. Further, **operating margin declined to 10% (down 270 bps YoY) due to fuel crisis.** Going forward, the management expects a muted performance during H2FY23 (sales drop of 50-60%) due to persistent energy crises in European region amid Russia-Ukraine war (contributes 60%). In normalised situations, the plant has potential to reach ₹ 350-375 crore of topline
- Product launch:** GIL had launched a new product namely "Green Platinum" in the premium segment providing 2x fire resistance and 2x waterproof solution during Q1FY23. As per the management, the response for the product has been good and has contributed decently to the topline and bottomline. The management expects healthy traction in the product segment, going ahead. Also, the company has introduced 10ft x 4ft extra-large plywood sheets first time in India with grandness in structure and aesthetics to cater to the new age customer segment. These new introductions are likely to enhance its brand portfolio proposition
- Plywood capex status:** GIL has achieved commercial operation of a greenfield plywood manufacturing unit during Q1FY23 with the capacity of 13.5 MSM/annum at Lucknow, Uttar Pradesh at an overall capex of ₹ 113.5 crore. Average utilisation during Q2FY23 was at 15-17% (September 2022 utilisation: 40-45%). The management endeavours to reach 70-80% capacity utilisation by Q4FY23. 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 is currently undergoing at full sharing while major machinery dispatches completed, and installation is ongoing currently. With these, **the company expects CoD of the plant by Q4FY23. The estimated capex of ₹ 555 crore (likely to go up ~7% due to higher 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 ~18-20% 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 during November 2022. 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 Q4FY23
- Working capital:** Working capital days remained steady at 28 days, 46 days at Q2FY23-end on standalone, consolidated basis (vs. 29 days, 48 days at Q1FY23-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 ₹ 479.7 crore at Q2FY23-end (vs. ₹ 349.4 crore at Q1FY23-end) mainly due to infusion of capital towards plywood, Gabon, and MDF units. Rate of borrowings ranges from 8.3-8.5%. **The management expects GIL's debt to increase by FY23-end with peak debt reaching ~₹ 650-675 crore owing to higher capital requirement required to build MDF plant**
- Capex:** The company has incurred capex of ₹ 243 crore during H1FY23. The management has guided for ~₹ 600 crore of overall capex during FY23

GIL's relative market share in Plywood and traction thereafter will be one of the factors to be monitored. Furthermore, while foray into MDF is positive but 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 ₹ 195/share (20x FY24E P/E).

Variance Analysis

Particular	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Net Sales	494.7	432.4	14.4	453.5	9.1	
Other Income	1.4	2.0	-29.1	1.6	-8.5	
Material Consumed	165.6	146.2	13.3	176.6	-6.2	
Purchase of Stock in Trade	152.9	102.0	49.9	120.9	26.4	
Changes in Inventories of WIP	-19.5	12.0	-261.8	-19.5	-0.4	
Employee Benefit Expenses	63.7	50.6	25.9	56.1	13.4	
Other Expenses	83.1	72.0	15.5	79.3	4.9	
EBITDA	48.9	49.7	-1.6	40.1	21.9	
EBITDA Margin (%)	9.9	11.5	-161 bps	8.8	104 bps	
Depreciation	8.9	6.4	37.9	7.6	16.5	
Interest	7.3	3.5	111.5	5.1	43.6	
PBT	34.1	41.8	-18.4	28.9	17.9	
Taxes	9.1	10.0	-8.8	7.6	20.1	
PAT	23.6	31.9	-26.1	20.7	13.8	
Plywood Volume (MSM)	17.0	15.9	6.9	16.0	6.3	

Source: Company, ICICI Direct Research

Change in estimates

₹ Crore	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	1,804.1	1,855.4	2.8	2,194.1	2,288.5	4.3	2,627.0	Realign estimates
EBITDA	194.4	178.8	-8.0	262.5	262.3	-0.1	315.0	
EBITDA Margin (%)	10.8	9.6	-114 bps	12.0	11.5	-50 bps	12.0	Lower margins given the likley weak Gabon in H2 and muted margins expectations for Plywood in H2FY23
PAT	109.0	95.4	-12.5	123.3	119.3	-3.3	158.7	
EPS (₹)	8.9	7.8	-12.5	10.1	9.7	-3.3	12.9	

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
Net Sales	1,562.8	1,855.4	2,288.5	2,627.0	
Gross Profit	627.5	747.0	934.8	1,077.9	
Employee benefit expenses	193.3	241.2	286.1	315.2	
Other Expenses	283.9	318.0	377.4	438.7	
EBITDA	150.3	178.8	262.3	315.0	
Interest	11.9	25.7	52.4	49.6	
Depreciation	25.8	36.7	59.9	63.7	
Other income	9.9	9.0	9.0	9.0	
PBT	122.4	125.5	159.0	210.7	
Taxes	30.3	32.1	40.7	53.9	
PAT	94.7	95.4	119.3	158.7	
EPS (Diluted)	7.7	7.8	9.7	12.9	

Source: Company, ICICI Direct Research

Cash flow statement		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	94.7	95.4	119.3	158.7	
Depreciation	25.8	36.7	59.9	63.7	
Interest	11.9	25.7	52.4	49.6	
Taxes	30.3	32.1	40.7	53.9	
Cash Flow before wc changes	156.5	180.8	263.3	317.0	
Cash generated from operations	37.6	124.6	188.3	258.4	
Income Tax paid	30.3	32.1	40.7	53.9	
Net CF from operating activities	7.3	92.5	147.6	204.4	
Others	9.9	9.0	9.0	9.0	
(Purchase)/Sale of Fixed Assets (In	(167.6)	(490.4)	(30.0)	(30.0)	
Net CF from Investing activities	(157.7)	(481.4)	(21.0)	(21.0)	
Others	6.7	-	-	-	
Interest paid	(11.9)	(25.7)	(52.4)	(49.6)	
Inc / (Dec) in Loans	100.2	350.0	(60.0)	(60.0)	
Net CF from Financing activities	95.0	324.3	(112.4)	(109.6)	
Net Cash flow	(55.4)	(64.6)	14.2	73.9	
Opening Cash	128.0	72.6	8.0	22.2	
Closing Cash/ Cash Equivalent	72.6	8.0	22.2	96.1	

Source: Company, ICICI Direct Research

Balance sheet		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity Capital	12.3	12.3	12.3	12.3	
Reserve and Surplus	525.9	621.3	740.6	899.3	
Total Shareholders funds	538.2	633.5	752.8	911.6	
Total Debt	291.9	641.9	581.9	521.9	
Deferred Tax Liability	(7.3)	(7.3)	(7.3)	(7.3)	
Total Liabilities	835.9	1,281.3	1,340.6	1,439.3	
Assets					
Gross Block	478.0	1,078.0	1,108.0	1,138.0	
Less Acc. Dep	169.4	206.1	266.0	329.7	
Net Block	308.6	871.9	842.0	808.3	
Net Intangibles Assets	10.5	10.5	10.5	10.5	
Capital WIP	109.6	-	-	-	
Total Fixed Assets	428.7	882.5	852.5	818.8	
Investments	16.8	16.8	16.8	16.8	
Inventory	225.6	264.3	326.0	374.3	
Sundry Debtors	186.4	228.7	282.1	323.9	
Loans & Advances	16.8	16.8	16.8	16.8	
Cash & Bank Balances	72.6	8.0	22.2	96.1	
Other Current Assets	181.79	192.02	207.16	218.99	
Total Current Assets	683.2	709.9	854.4	1,030.0	
Trade Payable	216.4	254.2	313.5	359.9	
Other Current Liabilities	85.9	85.9	85.9	85.9	
Provisions	22.5	22.5	22.5	22.5	
Net Current Assets	358.4	347.3	432.5	561.8	
Total Assets	835.9	1,281.3	1,340.6	1,439.3	

Source: Company, ICICI Direct Research

Key ratios		FY22	FY23E	FY24E	FY25E
Per Share Data (₹)					
EPS - Diluted		7.7	7.8	9.7	12.9
Cash EPS		9.8	10.8	14.6	18.1
Book Value		43.9	51.7	61.4	74.3
Dividend per share		-	-	-	-
Operating Ratios (%)					
EBITDA / Net Sales		9.6	9.6	11.5	12.0
PAT / Net Sales		6.1	5.1	5.2	6.0
Inventory Days		53	52	52	52
Debtor Days		49	50	50	50
Creditor Days		73	69	69	69
Return Ratios (%)					
RoE		17.6	15.1	15.8	17.4
RoCE		16.6	12.0	16.1	18.4
RoIC		19.3	11.3	15.5	19.0
Valuation Ratios (x)					
EV / EBITDA		15.5	15.3	10.2	8.0
P/E (Diluted)		22.2	22.0	17.6	13.2
EV / Net Sales		1.5	1.5	1.2	1.0
Market Cap / Sales		1.3	1.1	0.9	0.8
Price to Book Value		3.9	3.3	2.8	2.3
Dividend Yield		-	-	-	-
Solvency Ratios (x)					
Net Debt / Equity		0.4	1.0	0.7	0.5
Debt / EBITDA		1.9	3.6	2.2	1.7
Current Ratio		1.5	1.6	1.7	1.8
Quick Ratio		0.8	0.9	0.9	1.0

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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