

## Challenging outlook!

**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 manufacturing at Vadodara, Gujarat of 800 CBM/day (capex of ~₹ 595 crore) with revenue potential of ~₹ 600-650 crore per annum, to be commissioned by May, 2023

**Q3FY23 Results:** GIL reported a muted performance.

- The topline at ₹ 428.2 crore, was up 1.7% YoY led by 8.7% growth in plywood revenues at ₹ 405 crore with volumes up ~2.4% YoY and realisation growth of 6% YoY
- The consolidated EBITDA margin was at 7.6%, down 257 bps YoY, owing to high timber costs and weak Gabon performance
- The PBT (before exceptional items) at ₹ 19.8 crore, was down 46% YoY, given the weak operating performance

**What should investors do?** GIL's share price has declined by 62% over the past five years given the lagging growth trajectory vis-à-vis peers.

- We maintain our **HOLD** rating. GIL's relative market share in plywood, margin trajectory (given high timber prices) needs to be monitored. Furthermore, while foray into MDF is positive one needs to be cautious at the possibility of increased capacities impacting pricing in the interim

**Target Price and Valuation:** We value GIL at ₹ 155/share (at 18x 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 Brigade in the real estate space.

- A play on strong demand in its key markets
- BUY with a target price of ₹ 620

### 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%	1827.8	2319.4	2627.0	18.9%
EBITDA	116.7	150.3	31.3%	173.0	244.9	302.4	26.2%
Net Profit	60.9	94.7		104.9	104.0	142.9	
EPS (₹)- Diluted	5.0	7.7	66.0%	8.6	8.5	11.7	14.7%
P/E (x)	28.0	18.0		16.3	16.4	11.9	
Price/book (x)	3.9	3.2		2.7	2.3	1.9	
EV/EBITDA (x)	15.2	12.9		13.6	9.4	7.2	
RoCE (%)	16.4	16.6		11.2	14.4	17.3	
RoE (%)	13.9	17.6		16.3	13.9	16.1	

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



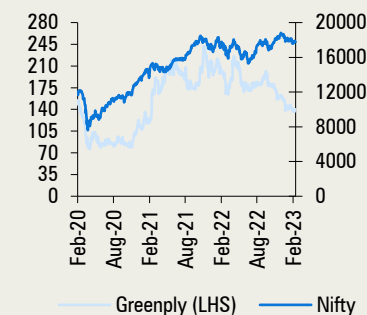
### Particulars

Particulars	(₹ crore)
Market Capitalization	1,712
Total Debt (FY22)	292
Cash (FY22)	73
EV	1,931
52 week H/L (₹)	232 / 135
Equity capital	12.3
Face value (₹)	1.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	52.3	52.3	52.3	52.3
DII	32.0	33.2	33.4	33.6
FII	3.6	3.4	3.2	2.3
Other	12.1	11.1	11.1	11.7

### Price Chart



### Key Risks

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

### Research Analyst

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## Key business highlight and outlook

- Volume/revenue guidance:** GIL has achieved muted volume growth of 2.4% YoY as demand was muted in Q3 due to festivities in October, 2022, while there was also lower-than-expected pick-up in demand post the festivities. We note that volumes in Q3FY23 were partly aided by commissioning of Sandilla unit. The management indicated that demand has been sluggish in Q4 also, till date. **Going forward, the management has revised their volume guidance to 15% YoY vs. 16-17% earlier, for plywood in FY23, with revenue growth of 20%. For FY24, the company expects ~10% volume growth**
- Margin outlook:** The plywood margins on standalone basis were down 250 bps YoY at 7.7%, owing to high timber prices and Esop costs. On a consolidated basis, (adjusted core – excluding Esop costs) operating margin - declined 240 bps YoY (to 8.5%) during Q3, mainly impacted by a) increase in prices of key raw material prices such as timber and Gabon weakness. **Going forward, the management expects plywood margins of ~10%**
- Realisation, utilisation update:** Average realisation during Q3FY23 was at ₹ 229/sq m (vs. ₹ 248/sq m, ₹ 235/sq m in Q2FY23, Q3FY22, respectively) largely aided by better product mix, The premium component was at 57% vs. 53%, earlier. Also, **GIL's utilisation during the quarter was at 73.5%**
- 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 the past couple of years. Timber prices continued to remain elevated while chemical prices have softened during YTD FY23 level
- Gabon:** Sales from the **Gabon plant were at ₹ 23 crore, down 52.2% YoY. Gabon operations in Q3 were impacted by persistent energy crises in the European region amid Russia-Ukraine war. While the management have observed a pick-up in the Gabon business, it remained non-committal on future demand outlook**
- Plywood plant status:** The greenfield **plywood manufacturing unit of 13.5 MSM/annum at Sandilla Uttar Pradesh (made at an overall capex of ₹ 113.5 crore) reached average utilisation of 60% in December, 2022 vs. September 2022 utilisation of 40-45%**). Furthermore, on the outsourcing front, the company has signed up with another player for manufacturing allied products (unit capacity; 7.5 MSM/annum) at Hapur, Uttar Pradesh. The trial run is expected in Q4FY23
- MDF expansion status:** The greenfield MDF board manufacturing unit with capacity of 800 CBM/day at district Vadodara, Gujarat has revenue potential of ~₹ 600-650 crore per annum at its peak utilisation. The machinery installation and civil construction work is complete. With these, **the company expects trial run in Q4FY23 and commercial operation from May, 2023. 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 with first year revenues of ₹ 300 crore and EBITDA margins of 14-15%. The estimated capex is now ₹ 595 crore (up ~7% from original plan 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**
- Working capital:** Working capital days inched to 37 days, 51 days at Q3FY23-end on standalone + Sandilla, consolidated basis (vs. 33 days, 46 days at Q2FY23-end), respectively. This was led by lower payable days
- Net debt:** At the consolidated level, net debt has increased to ₹ 557 crore at Q3FY23-end (vs. ₹ 480 crore at Q2FY23-end) mainly due to infusion of capital towards MDF units. **The management expects GIL's debt to increase by FY23-end with peak debt reaching ~₹ 650 crore owing to higher capital requirement required to build MDF plant**

- **Capex:** The management has guided for ~₹ 630 crore of overall capex during FY23 mainly towards MDF plant and ₹ 25-30 crore in FY24
- **Exceptional items:** Exceptional gains of ₹ 9.6 crore were reported due to reversal of provisions with respect to liability of availing of area-based exemption under central excise and tax refunds pertaining to earlier years of ₹ 18.4 crore in Q3FY23

GIL's relative market share in plywood and traction thereafter will be one of the factors to be monitored. Furthermore, while the 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 ₹ 155/share (18x FY24E P/E) vs. 20x earlier. We lower the target multiple on account of input price concerns and MDF volume offtake uncertainty.

**Exhibit 1: Variance Analysis**

Particular	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	428.2	421.1	1.7	494.7	-13.5	
Other Income	3.1	2.7	13.8	1.4	115.2	
Material Consumed	164.6	145.7	13.0	165.6	-0.6	
Purchase of Stock in Trade	100.8	115.7	-12.9	152.9	-34.1	
Changes in Inventories of WIP	-4.5	-3.4	31.8	-19.5	-77.0	
Employee Benefit Expenses	60.4	47.7	26.6	63.7	-5.1	
Other Expenses	74.3	72.5	2.5	83.1	-10.7	
EBITDA	32.6	42.8	-24.0	48.9	-33.4	
EBITDA Margin (%)	7.6	10.2	-257 bps	9.9	-228 bps	
Depreciation	9.6	6.5	47.4	8.9	8.5	
Interest	6.2	2.6	137.6	7.3	-15.3	
PBT	19.8	36.4	-45.6	34.1	-42.0	
Taxes	-8.8	9.2	-196.4	9.1	-196.6	
PAT	36.0	29.8	20.9	23.6	52.8	
Plywood Volume (MSM)	16.0	16.0	0.0	17.0	-5.9	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,288.5	2,319.4	1.3	2,627.0	2,627.0	0.0	Realign estimates
EBITDA	262.6	244.9	-6.7	315.0	302.4	-4.0	
EBITDA Margin (%)	11.5	10.6	-92 bps	12.0	11.5	-48 bps	
PAT	119.3	104.0	-12.8	158.7	142.9	-10.0	
EPS (₹)	9.7	8.5	-12.8	12.9	11.7	-10.0	

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
<b>Net Sales</b>	<b>1,562.8</b>	<b>1,827.8</b>	<b>2,319.4</b>	<b>2,627.0</b>	
<b>Gross Profit</b>	<b>627.5</b>	<b>735.3</b>	<b>946.9</b>	<b>1,077.9</b>	
Employee benefit expenses	193.3	237.6	289.9	315.2	
Other Expenses	283.9	315.8	402.1	448.3	
<b>EBITDA</b>	<b>150.3</b>	<b>173.0</b>	<b>244.9</b>	<b>302.4</b>	
Interest	11.9	26.5	48.1	48.8	
Depreciation	25.8	37.7	63.7	70.1	
Other income	9.9	9.0	10.0	12.0	
<b>PBT</b>	<b>122.4</b>	<b>117.8</b>	<b>143.0</b>	<b>195.5</b>	
Taxes	30.3	16.5	37.0	50.6	
<b>PAT</b>	<b>94.7</b>	<b>104.9</b>	<b>104.0</b>	<b>142.9</b>	
<b>EPS (Diluted)</b>	<b>7.7</b>	<b>8.6</b>	<b>8.5</b>	<b>11.7</b>	

Source: Company, ICICI Direct Research

Cash flow statement		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
<b>Profit after Tax</b>	<b>94.7</b>	<b>104.9</b>	<b>104.0</b>	<b>142.9</b>	
Depreciation	25.8	37.7	63.7	70.1	
Interest	11.9	26.5	48.1	48.8	
Taxes	30.3	16.5	37.0	50.6	
Cash Flow before wc changes	156.5	176.6	242.9	300.4	
Cash generated from operations	37.6	125.2	157.8	247.1	
Income Tax paid	30.3	16.5	37.0	50.6	
<b>Net CF from operating activities</b>	<b>7.3</b>	<b>108.7</b>	<b>120.8</b>	<b>196.5</b>	
Others	9.9	9.0	10.0	12.0	
(Purchase)/Sale of Fixed Assets (In	(167.6)	(520.4)	(30.0)	(30.0)	
<b>Net CF from Investing activities</b>	<b>(157.7)</b>	<b>(511.4)</b>	<b>(20.0)</b>	<b>(18.0)</b>	
Others	6.7	-	-	-	
Interest paid	(11.9)	(26.5)	(48.1)	(48.8)	
Inc / (Dec) in Loans	100.2	370.0	(60.0)	(60.0)	
<b>Net CF from Financing activities</b>	<b>95.0</b>	<b>343.5</b>	<b>(108.1)</b>	<b>(108.8)</b>	
Net Cash flow	(55.4)	(59.2)	(7.4)	69.7	
Opening Cash	128.0	72.6	13.4	6.0	
<b>Closing Cash/ Cash Equivalent</b>	<b>72.6</b>	<b>13.4</b>	<b>6.0</b>	<b>75.7</b>	

Source: Company, ICICI Direct Research

Balance sheet		₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	12.3	12.3	12.3	12.3	
Reserve and Surplus	525.9	630.8	734.8	877.7	
Total Shareholders funds	538.2	643.1	747.1	890.0	
Total Debt	291.9	661.9	601.9	541.9	
Deferred Tax Liability	(7.3)	(7.3)	(7.3)	(7.3)	
<b>Total Liabilities</b>	<b>835.9</b>	<b>1,310.9</b>	<b>1,354.8</b>	<b>1,437.7</b>	
<b>Assets</b>					
Gross Block	478.0	1,108.0	1,138.0	1,168.0	
Less Acc. Dep	169.4	207.1	270.8	340.9	
Net Block	308.6	900.9	867.2	827.1	
Net Intangibles Assets	10.5	10.5	10.5	10.5	
Capital WIP	109.6	-	-	-	
Total Fixed Assets	428.7	911.4	877.7	837.6	
Investments	16.8	16.8	16.8	16.8	
Inventory	225.6	260.4	330.4	374.3	
Sundry Debtors	186.4	225.3	286.0	323.9	
Loans & Advances	16.8	16.8	16.8	16.8	
Cash & Bank Balances	72.6	13.4	6.0	75.7	
Other Current Assets	181.79	191.05	208.24	218.99	
Total Current Assets	683.2	707.0	847.4	1,009.7	
Trade Payable	216.4	250.4	317.7	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	348.2	421.3	541.4	
<b>Total Assets</b>	<b>835.9</b>	<b>1,310.9</b>	<b>1,354.8</b>	<b>1,437.7</b>	

Source: Company, ICICI Direct Research

Key ratios		FY22	FY23E	FY24E	FY25E
<b>Per Share Data (₹)</b>					
EPS - Diluted		7.7	8.6	8.5	11.7
Cash EPS		9.8	11.6	13.7	17.4
Book Value		43.9	52.4	60.9	72.6
Dividend per share		-	-	-	-
<b>Operating Ratios (%)</b>					
EBITDA / Net Sales		9.6	9.5	10.6	11.5
PAT / Net Sales		6.1	5.7	4.5	5.4
Inventory Days		53	52	52	52
Debtor Days		49	50	50	50
Creditor Days		73	69	69	69
<b>Return Ratios (%)</b>					
RoE		17.6	16.3	13.9	16.1
RoCE		16.6	11.2	14.4	17.3
RoIC		19.3	10.5	13.5	17.3
<b>Valuation Ratios (x)</b>					
EV / EBITDA		12.9	13.6	9.4	7.2
P/E (Diluted)		18.0	16.3	16.4	11.9
EV / Net Sales		1.2	1.3	1.0	0.8
Market Cap / Sales		1.1	0.9	0.7	0.7
Price to Book Value		3.2	2.7	2.3	1.9
Dividend Yield		-	-	-	-
<b>Solvency Ratios (x)</b>					
Net Debt / Equity		0.4	1.0	0.8	0.5
Debt / EBITDA		1.9	3.8	2.5	1.8
Current Ratio		1.5	1.6	1.7	1.8
<b>Quick Ratio</b>		<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>

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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