Greenply Industries (GREIN)

ICICI direct Research

CMP: ₹ 182 | Target: ₹ 200 (10%) | Target Period: 12 months | **HOLD**

May 17, 2022

Result Update

ICICI Securities – Retail Equity Research

Decent revenue growth; margin disappoints…

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 greenfield manufacturing set-up at Vadodara, Gujarat of 800 CBM/day (capex of ~₹ 580-85 crore) with revenue potential of ~₹ 700-750 crore per annum at its peak utilisation

Q4FY22 Results: GIL reported a mixed bag performance.

- The topline at ₹ 421.1 crore, was up 13.1% YoY driven by 15.3% growth in plywood revenues at ₹ 414,3 crore with volumes up ~8% YoY
- EBITDA margins declined 150 bps YoY to 9.9%, owing to higher marketing expenses and some pressure on input prices
- PAT came in at ₹ 29 crore, up 1.2% YoY as lower margins offset the robust topline growth benefits

What should investors do? GIL's share price has declined by 35% over the past five years given the challenging growth trajectory.

- We maintain our **HOLD** rating on the company

Target Price and Valuation: We value GIL at ₹ 200/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 Mahindra Lifespace in realty/building material segment

- A play on expanding residential real estate portfolio
- BUY with a target price of ₹ 430

Greenply Industries Limited

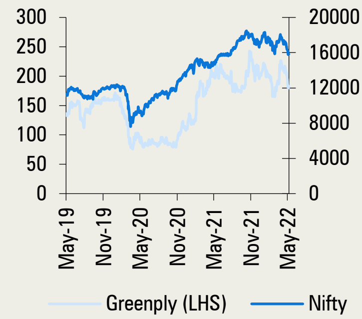
Particulars

Particulars	(₹ crore)
Market Capitalization	2,244.1
Total Debt (FY22)	291.9
Cash (FY22)	72.6
EV	2,463.4
52 week H/L (₹)	255 / 161
Equity capital	12.3
Face value (₹)	1.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	52.2	52.3	52.3	52.3
DII	31.5	29.8	31.3	32.0
FIIs	1.8	2.7	3.6	3.6
Other	14.5	15.3	13.0	12.2

Price Chart



Key Risks

Key Risk: (i) Sustained growth momentum (ii) weaker margins

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh kashikar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	4 yr CAGR (FY18-22E)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	1420.4	1165.3	1562.8	19.7%	1791.8	2158.7	17.5%
EBITDA	155.6	116.7	150.3	31.3%	197.1	258.9	31.3%
Net Profit	47.3	60.9	94.7		113.0	122.2	
EPS (₹)- Diluted	3.9	5.0	7.7	66.0%	9.2	10.0	13.6%
P/E (x)	47.4	36.7	23.6		19.8	18.3	
Price/book (x)	5.9	5.1	4.2		3.4	2.9	
EV/EBITDA (x)	16.1	19.8	16.4		14.4	10.6	
RoCE (%)	21.1	16.4	16.6		13.3	15.7	
RoE (%)	12.5	13.9	17.6		17.4	15.8	

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

Key business highlight and outlook

- **Volume/revenue guidance:** GIL has achieved **Ply volume growth of 8% on a YoY basis during Q4FY22 (~26% YoY for FY22 on washout base of 19% decline in FY21), largely aided by healthy product demand** with decent growth being witnessed in real estate and commercial industry driven by a) better affordability, b) conducive government policies, c) shifting to nuclear families, d) financially stable developers, e) higher acceptability of work-from-home concept and f) reopening of offices with decline in Covid-19 cases and increased vaccinations. **Going forward, the management has guided for 10-11% YoY volume growth in FY23 to be aided by a) strong product demand, b) incremental capacity coming on-stream, and c) transition of demand from unorganised to organised players. With ~4% improvement in realisation, Greenply expects ~15% revenue growth in FY23**
- **Margin outlook:** GIL has **faced pressure on operating margin - declining 150 bps YoY (to 9.9%) on a consolidated basis during Q4FY22 mainly due to a) increase in raw material prices (that got partially compensated by softening chemical prices) and b) higher marketing expenditure (was at 5.2% of overall sales in Q4FY22 vs. ~3.5% on normal basis). Going forward, the management expects margin to improve ~100 bps, on a YoY basis during FY23** to be aided by a) reasonable volume growth, b) better realization arising from multiple price hikes, c) expected stabilisation in raw material prices, and d) higher contribution from own manufacturing with commencement of (premium product) plywood production from its Uttar Pradesh plant. Over a longer period, the management is targeting ~14% of margin over medium to longer term
- **Raw material prices: Prices for the key raw material required to manufacture wood panel and related products have risen significantly during FY22**. As per the management, timber prices have increased ~25% on a YoY basis while prices for some chemicals such as melamine have jumped ~2x during FY22 (currently came down to previous levels). Similarly, prices of phenol have increased 30-35% on a YoY basis during FY22
- **Price hikes**: **GIL has undertaken ~10% price hikes during FY22, to offset the increase in input prices. Out of the same ~7% has reflected in FY22. It has further taken ~1-1.25% hike in Q1. Thus, it expects 4% realisation growth in FY23.** Going forward, it may undertake additional price hikes in FY23 with ongoing volatility in timber and chemical prices
- **Realisation, utilisation update**: Average realisation during Q4FY22 was at ₹ 238/sq m (vs. ₹ 222/sq m and ₹ 235/sq m in Q4FY21 and Q3FY22, respectively), largely aided by price hikes undertaken during the quarter. Also, GIL's utilisation during Q4FY22 was at 93% (vs. 96% in Q3FY22)
- **Plywood capex status**: GIL is setting up a greenfield plywood manufacturing unit with the capacity of 13.5 MSM/annum at Lucknow, Uttar Pradesh at an overall capex of ₹ 113.5 crore (most of the capex has been incurred till now). The financial closure for the project and the construction activity is now complete. **The company expects the commercial operations to commence during Q1FY23. Revenue from the plant is likely to reach ~₹ 125 crore, ₹ 220-240 crore during FY23, FY24, respectively.** 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 the capacity of 800 CBM/day in Vadodara district, Gujarat with revenue potential of ~₹ 750 crore per annum at its peak utilisation**. The estimated capex of ₹ 555 crore (likely to go up by 5-7% with uncertainty on equipment price and logistical cost) is likely to be funded by a mix of debt and equity in the ratio 65:35.** Currently, all plant & machineries have been ordered and construction activities are under full swing. The expected COD of the plant is Q4FY23. **The management expects revenue from the MDF product segment to be ~₹ 300-350 crore, ~₹ 650 crore during FY24E, FY25E, respectively. Additionally, margin would be ~20-25% in 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 Q3 FY22 and balance is likely to begin in Q1FY23**. Also, the company has **signed-up with another player for manufacturing of allied products (unit capacity; 7.5MSM/annum) located at Hapur, Uttar Pradesh. The plant is likely to get operational by Q4FY23**

- **Distribution channel for MDF business**: As per the management, **10% of the expected trade would come from the current distribution channel while 90% is expected from the newer planned network. The company is currently looking to build sizable sales team and related infrastructure which is likely to enable company to build robust distribution network**. With healthy demand for MDF (with no major manufacturer in Western region) and company's strong brand recall, the management expects product penetration would not be major issue for them.
- **Gabon:** The sales from Gabon plant was at ₹ 185.9 crore (up 24% YoY) during FY22 with plant achieving EBITDA margin of 11.7%. Going forward, the management **expects operational improvement with healthy demand arising from European and South-East Asian markets, improving raw material availability, and resolving logical challenges**. In normalisation situations, the plant has potential to reach ₹ 300 crore of topline. Operating margin is likely to improve 100 bps YoY with better container availability
- **A&D Spends:** GIL has ramped-up its brand building exercise with the company becoming an associate sponsor partner of 'Lucknow Super Giants' (a new IPL franchise). With these, A&D spends has reached 5.2%, 3.3% of overall sales during Q4FY22, FY22 respectively. This is likely to strengthen the overall brand recall value
- **Net debt:** GIL's net standalone debt at FY22-end was at ₹ 23.2 crore. **At the consolidated level, net debt increased to ₹ 219.3 crore (up ₹ 100.2 crore QoQ) mainly due to infusion of capital towards upcoming plywood and MDF unit.** The management **expects GIL's debt to increase in the medium term with peak debt reaching to ~₹ 600-625 crore owing to higher capital requirement required to build MDF plant.** Overall cost of debt is at ~6.5%
- **Working capital:** Working capital days has improved to 29 days, 46 days at FY22-end on standalone, consolidated basis (vs. 34 days, 53 days at FY21-end), respectively. Going forward, the management expects working capital to remain healthy at current levels
- **Capex:** GIL has guided for ~₹ 450 crore of capex in FY23 to be incurred mainly towards MDF plant expansion. Additionally, the management has guided for and ₹ 20-25 crore for maintenance capex and some residual capex for Plywood.

While plywood is expected to witness decent low double digit revenue growth ahead, GIL's relative market share and traction thereafter will be key for further rerating a sit lags behind its key competitor Century in Ply segment growth. 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 and lower our margin estimates on management commentary. We maintain HOLD with a revised target price of ₹ 200/share (20x FY24E P/E).

Exhibit 1: Variance Analysis

Particular	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	448.6	396.7	13.1	421.1	6.5	
Other Income	3.1	3.9	-20.0	2.7	15.5	
Material Consumed	144.7	144.6	0.1	145.7	-0.7	
Purchase of Stock in Trade	131.2	104.3	25.8	115.7	13.4	
Changes in Inventories of WIP	-6.6	-10.7	-38.5	-3.4	92.5	
Employee Benefit Expenses	50.4	44.1	14.2	47.7	5.5	
Other Expenses	84.3	68.9	22.3	72.5	16.3	
EBITDA	44.5	45.5	-2.1	42.8	3.9	
EBITDA Margin (%)	9.9	11.5	-154 bps	10.2	-25 bps	
Depreciation	6.7	6.4	5.5	6.5	3.0	
Interest	2.5	3.7	-33.6	2.6	-4.9	
PBT	38.4	39.2	-2.1	36.4	5.6	
Taxes	9.5	10.5	-9.6	9.2	3.9	
PAT	29.0	28.6	1.2	29.8	-2.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,731.1	1,791.8	3.5	2,051.9	2,158.7	5.2	
EBITDA	206.9	197.1	-4.8	257.2	258.9	0.6	Lower margin estimates based on management commentary
EBITDA Margin (%)	12.0	11.0	-95 bps	12.5	12.0	-54 bps	
PAT	116.1	113.0	-2.6	125.1	122.2	-2.3	
EPS (₹)	9.5	9.2	-2.6	10.2	10.0	-2.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement (₹ crore)

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	**1,165.3**	**1,562.8**	**1,791.8**	**2,158.7**
Gross Profit	**481.3**	**627.5**	**738.5**	**898.1**
Employee benefit expenses	149.5	193.3	215.0	237.5
Other Expenses	215.1	283.9	316.4	391.8
EBITDA	**116.7**	**150.3**	**197.1**	**258.9**
Interest	16.6	11.9	21.8	49.5
Depreciation	23.1	25.8	37.2	59.1
Other income	6.8	9.9	10.0	10.0
PBT	**83.7**	**122.4**	**148.0**	**160.3**
Taxes	20.5	30.3	37.6	40.7
PAT	**60.9**	**94.7**	**113.0**	**122.2**
EPS (Diluted)	**5.0**	**7.7**	**9.2**	**10.0**

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement (₹ crore)

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	**60.9**	**94.7**	**113.0**	**122.2**
Depreciation	23.1	25.8	37.2	59.1
Interest	16.6	11.9	21.8	49.5
Taxes	20.5	30.3	37.6	40.7
Cash Flow before wc changes	111.9	156.5	199.7	261.5
Cash generated from operations	239.7	37.6	154.5	198.0
Income Tax paid	20.5	30.3	37.6	40.7
Net CF from operating activities	**219.2**	**7.3**	**116.9**	**157.3**
Others	6.8	9.9	10.0	10.0
(Purchase)/Sale of Fixed Assets (N	(13.8)	(167.6)	(475.4)	(30.0)
Net CF from Investing activities	**(7.0)**	**(157.7)**	**(465.4)**	**(20.0)**
Others	(2.1)	6.7	-	-
Interest paid	(16.6)	(11.9)	(21.8)	(49.5)
Inc / (Dec) in Loans	(75.7)	100.2	350.0	(60.0)
Net CF from Financing activities	**(94.5)**	**95.0**	**328.2**	**(109.5)**
Net Cash flow	117.7	(55.4)	(20.3)	27.8
Opening Cash	10.3	128.0	72.6	52.2
Closing Cash/ Cash Equivalent	**128.0**	**72.6**	**52.2**	**80.0**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet (₹ crore)

(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	424.4	525.9	638.9	761.1
Total Shareholders funds	436.7	538.2	651.2	773.4
Total Debt	191.7	291.9	641.9	581.9
Deferred Tax Liability	(6.4)	(7.3)	(7.3)	(7.3)
Total Liabilities	**630.6**	**835.9**	**1,298.9**	**1,361.2**
Assets				
Gross Block	422.8	478.0	1,063.0	1,093.0
Less Acc. Dep	143.6	169.4	206.6	265.7
Net Block	279.2	308.6	856.4	827.3
Net Intangibles Assets	1.5	10.5	10.5	10.5
Capital WIP	6.2	109.6	-	-
Total Fixed Assets	287.0	428.7	866.9	837.8
Investments	22.5	16.8	16.8	16.8
Inventory	179.2	225.6	255.3	307.5
Sundry Debtors	193.9	186.4	220.9	266.1
Loans & Advances	8.4	16.8	16.8	16.8
Cash & Bank Balances	128.0	72.6	52.2	80.0
Other Current Assets	78.02	181.79	189.79	202.62
Total Current Assets	587.5	683.2	735.0	873.1
Trade Payable	204.3	216.4	245.5	295.7
Other Current Liabilities	61.2	85.9	85.9	85.9
Provisions	21.2	22.5	22.5	22.5
Net Current Assets	300.8	358.4	381.1	469.0
Total Assets	**630.6**	**835.9**	**1,298.9**	**1,361.2**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	5.0	7.7	9.2	10.0
Cash EPS	6.8	9.8	12.3	14.8
Book Value	35.6	43.9	53.1	63.1
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA / Net Sales	10.0	9.6	11.0	12.0
PAT / Net Sales	5.2	6.1	6.3	5.7
Inventory Days	44	46	56	53
Debtor Days	80	93	63	49
Creditor Days	76	79	87	73
Return Ratios (%)				
RoE	13.9	17.6	17.4	15.8
RoCE	16.4	16.6	13.3	15.7
RoIC	18.8	19.3	12.9	15.9
Valuation Ratios (x)				
EV / EBITDA	19.8	16.4	14.4	10.6
P/E (Diluted)	36.7	23.6	19.8	18.3
EV / Net Sales	2.0	1.6	1.6	1.3
Market Cap / Sales	1.9	1.4	1.3	1.0
Price to Book Value	5.1	4.2	3.4	2.9
Dividend Yield	-	-	-	-
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.4	0.9	0.6
Debt / EBITDA	1.6	1.9	3.3	2.2
Current Ratio	1.5	1.5	1.6	1.7
Quick Ratio	**0.8**	**0.8**	**0.9**	**0.9**

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA, Lokesh Kashikar, MMS, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.
ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.