April 7, 2021

Company Update | Sector: Building materials

Greenpanel Industries Ltd

BUY	CMP Rs 185	Target Rs 268	Upside 45%

Robust demand scenario persists in MDF segment; upgrade TP to Rs 268.

As per our latest channel checks, demand scenario of domestic MDF industry continues to be robust on the back of (1) rapid displacement of low end plywood by MDF, (2) drying up of imports due to ocean freight bottlenecks (15-20% of domestic demand was met by imports) and (3) aggressive product penetration strategies by larger players. Further, pick-up of online sales in furniture segment combined with expansion phase of organized players like IKEA provides long term growth visibility for domestic MDF industry.

Greenpanel being the market leader of MDF segment in India would turn out to be the biggest beneficiary of buoyant demand scenario. Further, optimization of geographical mix at Andhra plant with higher percentage of domestic sales would aid margin expansion for the company over next two years. **On the back of better than expected demand and pricing scenario, we upgrade our EPS estimates for Greenpanel by 39%/14% for FY22E/FY23E respectively. Assigning a DCF derived implied P/E multiple of 18.5x on FY23E EPS of Rs 14.5, we arrive at a target price of Rs 268, translating into an upside of 45%. We maintain our BUY rating.**

Key Risk: Aggressive capacity addition by industry leaders translating to overcapacity scenario.

KTAs from interactions with industry experts

- ✓ Dispatches for domestic manufacturers has grown on account of reduction in imports due to high shipping cost coupled with pent-up demand. Sharp rise in demand has led to excess capacity getting fully absorbed and optimum utilization levels for all industry players.
- ✓ Equilibrium in supply-demand scenario combined with higher raw material costs has led to increase in prices over Q4FY21 with cumulative price hike of ~4-6% sequentially depending upon the region.
- ✓ Huge capital expenditure by Government towards healthcare infrastructure, railways, warehousing combined with pick-up in tier 1 real estate market would generate growth in immediate future. MDF industry should maintain 20% growth trajectory over next 5 years.

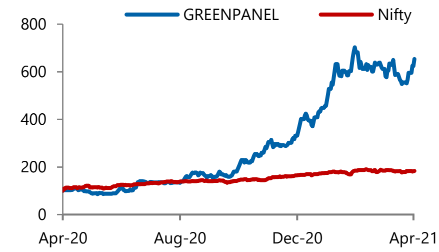
KTAs from management interview of Greenpanel

- ✓ In the recent media interview by Greenpanel, management expects strong demand momentum of MDF industry to sustain on account of (1) radical changes in furniture industry with market share gains for organized segment and (2) displacement of low end plywood by MDF due to better product prospects. Further management expects that over next five to seven years, large portion of mid segment plywood (50% of plywood industry) would also get converted into MDF.
- ✓ Existing plants of Uttrakhand & Andhra Pradesh with cumulative capacity of 0.54 mn cbm can operate at ~110% utilization levels. However, to cater the expected growth in coming years, company plans to expand its manufacturing capacities by 20% from 5,40,000 cbm to 6,60,000 cbm over FY22-23.

Stock data (as on April 7, 2021)

Nifty	14,819
52 Week h/l (Rs)	203 / 24
Market cap (Rs/USD mn)	22631 / 304
Outstanding Shares (mn)	123
6m Avg t/o (Rs mn):	55
Div yield (%):	-
Bloomberg code:	GREENP IN
NSE code:	GREENPANEL

Stock performance



	1M	3M	1Y
Absolute return	6.9%	29.9%	523.5%

Shareholding pattern (As of Dec'20 end)

Promoter	53.10%
FII+DII	29.29%
Others	17.61%

Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	4.3	10.0	14.5
EPS (Old)	3.7	7.2	12.7
% change	17%	39%	14%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	268	230

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- ✓ Currently company has a strong presence in North & South and they are in process of expanding their footprints by foraying into West, East and North East markets as well. Company with 1400+ dealers is targeting addition of another 600 dealers over next two years.
- ✓ For FY22, Greenpanel expects its top line to grow by 40% coupled with significant improvement in operating and post-tax margins.

KTAs from interaction with peers

- ✓ Demand has been strong with all peers operating capacity at optimum utilization levels during Q4FY21.
- ✓ Raw material prices have been on the rise; however, companies have mitigated the same by increasing prices across all product categories translating into margin sustainability.
- ✓ Imports have completely dried up due to rise in shipment costs and the scenario is likely to persist during H1FY22E.
- ✓ Newly commissioned capacities in the market should operate at ~80% during FY22E. Importantly, healthy pricing scenario should sustain in the medium term on account of favorable supply-demand scenario.

FINANCIALS

Exhibit 1: **Income statement (Consolidated)**

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Revenues	**8,766**	**9,946**	**12,958**	**14,722**
Growth (%)	46.3%	13.5%	30.3%	13.6%
EBITDA	**1,378**	**1,925**	**2,750**	**3,346**
EBITDA margin (%)	**15.7%**	**19.4%**	**21.2%**	**22.7%**
Growth (%)	78.1%	39.7%	42.8%	21.7%
Depreciation & Amortization	692	699	714	728
Other income	22	22	22	22
EBIT	709	1,249	2,058	2,640
EBIT margin (%)	8.1%	12.6%	15.9%	17.9%
Interest	483	543	422	269
PBT	118	705	1,636	2,371
Tax	(28)	176	409	593
Net profit	**145**	**529**	**1,227**	**1,778**
Net profit margin (%)	**1.7%**	**5.3%**	**9.5%**	**12.1%**
EPS	1.2	4.3	10.0	14.5
Growth (%)	(58.1%)	264.7%	132.0%	44.9%

Source: Company, YES Sec – Research

Exhibit 2: **Balance sheet (Consolidated)**

Y/e 31 Mar (Rs mn)	**FY20**	**FY21E**	**FY22E**	**FY23E**
Equity Share Capital	123	123	123	123
Reserves	6,494	7,023	8,250	10,028
Total Shareholders' Funds	**6,616**	**7,145**	**8,372**	**10,150**
Non-current liabilities				
Long term borrowings	4,351	3,551	2,151	151
Deferred Tax liabilities	69	69	69	69
Current liabilities				
Short term borrowings	727	875	1,297	1,549
Trade payables	1,207	1,143	1,454	1,621
Other financial liabilities	1,042	906	766	566
Total equity and liabilities	**14,658**	**14,335**	**14,755**	**14,752**
Non-current assets				
PPE	10,818	10,269	9,855	9,427
CWIP	57	57	57	57
Current assets				
Inventories	1,539	1,647	2,174	2,472
Trade receivables	705	681	888	1,008
Cash and cash equivalents	113	255	355	362
Loans and advances	65	65	65	65
Other current assets	745	745	745	745
Total assets	**14,658**	**14,335**	**14,755**	**14,752**

Source: Company, YES Sec – Research

Greenpanel Industries Ltd

Exhibit 3: **Cash Flow statement (Consolidated)**

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
PBT	**226**	**705**	**1,636**	**2,371**
Depreciation & Amortization	692	699	714	728
Finance cost	302	543	422	269
(Incr)/Decr in Working Capital	(230)	(148)	(421)	(252)
Taxes	(61)	(176)	(409)	(593)
Cash from ops.	**999**	**1,623**	**1,942**	**2,523**
(Incr)/ Decr in PP&E	(242)	(150)	(300)	(300)
Cash Flow from Investing	**(223)**	**(150)**	**(300)**	**(300)**
(Decr)/Incr in Borrowings	(545)	(788)	(1,119)	(1,948)
Finance cost	(253)	(543)	(422)	(269)
Dividend	-	-	-	-
Cash Flow from Financing	**(858)**	**(1,331)**	**(1,541)**	**(2,217)**
Incr/(Decr) in cash	(83)	142	101	7
Cash and cash equivalents at beginning of year	196	113	255	355
Cash and cash equivalents at end of year	**113**	**255**	**355**	**362**

Source: Company, YES Sec – Research

Exhibit 4: **Ratios (Consolidated)**

Y/e 31 Mar	FY20	FY21E	FY22E	FY23E
Growth Matrix (%)				
Revenue growth	46.3%	13.5%	30.3%	13.6%
EBITDA growth	78.1%	39.7%	42.8%	21.7%
EBIT growth	91.4%	76.2%	64.9%	28.3%
PAT growth	-58.1%	264.7%	132.0%	44.9%
Profitability ratios (%)				
EBITDA margin	15.7%	19.4%	21.2%	22.7%
EBIT margin	8.1%	12.6%	15.9%	17.9%
PAT margin	1.7%	5.3%	9.5%	12.1%
RoCE	5.9%	10.7%	17.6%	22.9%
RoE	2.4%	7.4%	14.7%	17.5%
Leverage ratios (x)				
Net debt/Equity	0.8	0.6	0.4	0.1
Net debt/EBITDA	4.0	2.4	1.2	0.4
Int coverage	1.5	2.3	4.9	9.8
Per share values				
EPS	1.2	4.3	10.0	14.5
CEPS	7.0	10.0	15.8	20.4
BVPS	54.0	58.3	68.3	82.8
Valuation ratios (x)				
P/E	24.2	42.9	18.5	12.8
P/CEPS	4.1	18.5	11.7	9.0
P/B	0.5	3.2	2.7	2.2
EV/EBITDA	6.5	14.1	9.5	7.2
NWC days	**38**	**33**	**33**	**33**
Receivables	29	25	25	25
Inventory	68	60	60	60
Payables	60	52	52	52

Source: Company, YES Sec – Research

Greenpanel Industries Ltd

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Greenpanel Industries Ltd

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ADD: Potential return +5% to +15% over 12 months

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