

Greenply Industries

BUY

CMP Rs137

Target Rs177

Upside 29%

Healthy beat on all aspects; long term thesis remains intact; maintain TP of Rs 177

Valuation and Outlook

- ✓ Although ply volumes for Greenply at 14 msqm during Q3FY21 witnessed decline of 2.4% y/y, it was better than our estimates of 12.8 msqm (outperformance primarily in outsourced segment which grew by ~17% y/y). Further, operational margins for the company continues to inch upwards – at 12.3% during Q3FY21 (+76.5 bps y/y) and 77 bps higher than our estimates. Greenply is striving to drive the same up to 14-14.5% by FY23E. However, Gabon unit for the company faced challenges during the quarter on two fronts – (1) persistent lockdowns and (2) logistical issues due to lack of containers and absurd surge in shipping rates; translating into sharp decline of 524 bps y/y in its operating margins.
- ✓ Going ahead, we estimate sales/EBITDA/PAT CAGR of 19%/34%/49% over FY21E-FY23E. Further, our long term investment thesis remains intact as we believe that 1. Brand leveraging would drive asset light growth in future, 2. Gabon unit would act as supporting pillar for growth, and 3. High entry barriers in plywood industry would protect existing margins. Also, robust balance sheet and superior return ratios augurs well to our investment rationale -net cash of Rs 0.95 bn by FY23E Vs net debt of Rs 2.56 bn in FY20 and ROE/ROCE to stand at ~22%/ 25% respectively by FY23E.
- ✓ **Assigning DCF derived P/E multiple of 14.5x on FY23E EPS of Rs 12.2, we maintain our TP of Rs 177 and we maintain our BUY rating on the stock.**

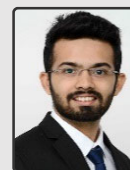
Key Result highlights

- ✓ **Volumes:** Company reported sales volumes of 14 msqm, a 26.7% q/q growth and minimal 2.4% y/y decline. Volumes were above our estimates of 12.8 msqm.
- ✓ **Sales:** Better than expected volumes coupled with higher than expected realizations (Rs 219/sqm Vs expectation Rs 216/sqm) led to overall beat in top-line estimates. Company's sales stood at Rs 3,404 Mn (est Rs 3,149 Mn) reporting a healthy 15.2% q/q growth and remained flat y/y. Sales of subsidiaries reported 14.3% y/y growth while declined sharply by 47% q/q to Rs 303 Mn.
- ✓ **EBITDA:** Company reported EBITDA of Rs 417 Mn (est Rs 362 Mn) registering a growth of 28.9% q/q & 4.9% y/y. Operational margins improved from 11.5%/11% in Q3FY20/Q2FY21 respectively to 12.3% mainly on account of better gross margins which came in at 42.1% Vs 41.1%/39.8% in Q3FY20/Q2FY21 respectively. EBITDA margins of subsidiary contracted from 18%/15% in Q3FY20/Q2FY21 respectively to 13%.
- ✓ **Net Profit:** Net profit stood at Rs 250 Mn (est Rs 209 Mn) reporting a growth of 17.1% y/y & 34.6% q/q. Net profit margins came in at 8.1% Vs 6.2%/6.8% in Q3FY20/Q2FY21 respectively.

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Key Con-call highlights

- ✓ Demand has improved and company expects H2FY21 to be better than H2FY20. During the quarter company faced some issues related to logistics and raw materials which led to marginal y/y decline in volumes.
- ✓ Company is Net debt free on standalone basis and aims to be net debt free on consolidated basis by FY23E
- ✓ NWC-Days improved to 42 days on standalone basis, going ahead NWC-days can further improve to ~36-37 days.
- ✓ Management guided that in FY22E revenues will grow in double digit and they continue to believe that EBITDA margins will improve by 400 bps (from FY20) to ~14-14.5% by FY23E.
- ✓ Premium products contributed 60%/70% in Vol/Value terms respectively & Low-mid end segment contributed 40%/30% in Vol/Value terms respectively during Q3FY21. With company's focus on penetrating into rural markets, low&mid end plywoods witnessed faster growth Vs premium segment.
- ✓ Metros accounted for ~42-43% of total sales Vs 35-37% earlier.
- ✓ Unit-1 of UP (outsourced unit) commenced production during Q3FY21, Unit-2 will start production by Q1FY22 end.
- ✓ Gabon operations faced challenges w.r.t logistics issues and persistent lockdown during the quarter. Currently company possesses huge inventory at docks and therefore they are not taking any fresh orders.
- ✓ Company stated any new investments will be done only into biz which yields 18-20% ROCE. With strengthening of balance sheet, company is exploring to enter new line of business which will be related to building materials only.
- ✓ Price Hikes were taken in February 2021 which was to mitigate the rise in RM cost.
- ✓ Capex for 9MFY21 stood at Rs 190-200 Mn and in Q4FY21 it will be ~Rs 40 Mn. For FY22E capex will be ~Rs170-180 Mn.

Exhibit 1: Quarterly Results Summary

Y/e 31 Mar (Rs mn)	Q3FY21	Q2FY21	qoq(%)	Q3FY20	yoy (%)
Revenue	3,404	2,955	15.2	3,460	(1.6)
Gross Profit	1,432	1,176	21.8	1,423	0.6
GP margin (%)	42.1	39.8	227.4bps	41.1	94 bps
Operating Profit	417	324	28.9	398	4.9
OPM (%)	12.3	11.0	131bps	11.5	76bps
Depreciation	59	57	4.4	64	(7.1)
Interest	36	38	(4.0)	49	(24.9)
PBT	338	241	40.4	288	17.4
Tax	87	45	94.3	73	18.5
Reported PAT	250	186	34.6	214	17.1

Exhibit 2: Operational Highlights

Volumes	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Production (msqm)	7.95	6.67	19.2	9.19	(13.5)
Utilizations (%)	128	107	19.6bps	148	(13.5)bps
Sales (msqm)	14.0	11.0	26.7	14.3	(2.4)
Realizations (Rs/sqm)	219.0	211.0	3.8	219.0	-

Exhibit 3: Revenue split

(Rs Mn)	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Greenply	3089	2374	30.1	3184	(3.0)
Subsidiary	303	572	(47.0)	265	14.3

Exhibit 4: Gross Profit split

(Rs Mn)	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Greenply (Mn)	1269	941	34.9	1218	4.2
GP(%)	41.1	39.6	144.4bps	38.3	282.7bps
Subsidiary(Mn)	151	225	(32.9)	194	(22.2)
GP(%)	49.8	39.3	-	73.2	-

Exhibit 5: EBITDA split

(Rs Mn)	Q3FY21	Q2FY21	% q-o-q	Q3FY20	% y-o-y
Greenply (Mn)	394	251	57.0	351	12.3
Margin (%)	12.8	10.6	218.2bps	11.0	173.1bps
Subsidiary(Mn)	39	84	(53.6)	48	(18.8)
Margin (%)	12.9	14.7	(181.4)bps	18.1	(524.2)bps

Exhibit 6: Financial Summary

(Rs mn)	FY20	FY21E	FY22E	FY23E
Plywood Vol (msqm)	56.4	46.8	59.4	66.3
Net sales	14,204	11,957	15,251	17,014
EBITDA	1,556	1,257	1,879	2,255
EBITDA%	11.0	10.5	12.3	13.3
Net Profit	473	685	1,185	1,515
Net Profit %	3.3	5.7	7.8	8.9
EPS (Rs)	3.9	5.6	9.7	12.2
CFI	(572)	(250)	(200)	(200)
Net Debt	2,556	705	168	(965)
Net Debt/Equity (x)	0.7	0.2	0.0	(0.1)
Net Debt/EBITDA (x)	1.6	0.6	0.1	(0.4)
ROE (%)	20.5	15.6	21.7	22.2
ROCE (%)	20.5	17.6	24.4	25.0
P/E (x)	20.4	24.5	14.2	11.1
P/B (x)	2.5	3.8	3.1	2.5

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