

Greenpanel Industries

BUY

CMP Rs165

Target Rs230

Upside 39.4%

Exuberant performance

Valuation and Outlook

- ✓ Greenpanel Industries delivered an exuberant performance during Q3FY21 showcasing its top notch execution qualities with a beat on all fronts. Company's MDF division witnessed phenomenal volume growth of 43.2% y/y on the back of (1) 20-25% MDF industry growth led by pick-up in usage of ready made furniture and displacement of low end plywood by MDF combined with (2) aggressive product penetration strategies as the company increased its dealer network by ~22% during 9MFY21. This along with cost optimization and operating leverage resulted into EBITDA growth of ~105% y/y for MDF division during Q3FY21.
- ✓ Based on the sublime performance during Q3FY21, we upgrade our EBITDA estimates for Greenpanel by 28.7%/16.2%/21.2% for FY21E/FY22E/FY23E respectively. Further, we factor in sales/EBITDA/PAT CAGR of 21%/32%/89% over FY21E-FY23E. Cash flow generation would be primarily deployed towards deleveraging wherein net debt should reduce from Rs 5.45 bn in FY20 to Rs 2.02 bn by FY23E.
- ✓ In terms of stock price movement, post our initiation on Greenpanel at CMP of Rs 112 (report dated 21/12/2020), stock has achieved our first target of Rs 174. We upgrade our FY23E EPS from Rs 9.4 to Rs 12.4 and accordingly upgrade our TP for Greenpanel to Rs 230 - assigning DCF derived P/E multiple of 18.5x on FY23E. We maintain our BUY rating on the stock.

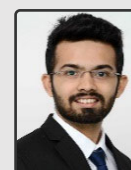
Key Result and con-call highlights

- ✓ Volumes: MDF volumes at 123,723 cbm (vs our est. of 100,736 cbm) grew by 43.2% y/y and 50.6% q/q on account of higher demand for ready-made furniture and shift in preference from low-end plywood to MDF. Moreover, Greenpanel added 230 dealers since beginning of FY21 which accelerated MDF volume growth. Domestic volumes stood at 100,000 cbm and exports came in at 23,723 cbm. Plywood volumes during Q3FY21 grew by 12% y/y & 18% q/q to 2.52 msqm (vs our est. of 2.15 msqm). In plywood segment, company added ~50 dealers since July 2020.
- ✓ Realizations: MDF realizations improved by 4.4% y/y to Rs 20,138/cbm (vs. our est of Rs 20,410/cbm) while Plywood realizations declined 5.6% y/y & 1% q/q to Rs 244/sqm (vs our est. of Rs 247/sqm). Company has undertaken price hikes in MDF division to the tune of 3-6% sequentially in Dec 20 and Jan 21 across regions primarily to mitigate 10% increase in raw material prices.
- ✓ Utilizations: MDF blended utilizations for Q3FY21 stood at 93% wherein Uttarakhand/Andhra utilizations stood at 108%/85% respectively. Plywood utilizations came in at 87%. Going ahead, management expects to achieve peak utilizations of 100-110% in MDF division by FY22E. In terms of incremental supply in MDF industry, only capacity expected in near term is of Rushil's - 800 cbm/day capacity is expected to commence production in FY22E. Century ply is planning to add MDF capacity, however it is unlikely to come before FY23E.
- ✓ Sales: Owing to extremely sharp increase in MDF volumes, total sales came in at Rs 3,169 mn (vs our est. of Rs 2,589 mn) translating into sturdy growth of 34.5% y/y and 41% q/q. MDF sales came in at Rs 2,549 mn (+44% y/y & 48% q/q) wherein domestic/exports sales stood at Rs 2,170 mn/ Rs 323 mn respectively. The Dealer-OEM sales mix stood at 70:30 during Q3FY21. Company expects to maintain double digit growth in Q4FY21 as well. Additionally, management expects MDF industry to grow by 15-20% in next fiscal and plywood industry to report steady 5-7% growth.

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Greenpanel Industries

- ✓ EBITDA: For Q3FY21, EBITDA stood at Rs 684 mn (vs our estimates of Rs 445 mn); a phenomenal growth of 96.8% y/y & 47.9% q/q. EBITDA margins: With higher operational efficiency backed by cost saving measures, EBITDA margins improved to 21.6% Vs 14.8%/20.6% in Q3FY20/Q2FY21 respectively. MDF margins came in at 24.5% Vs 17.2% in Q3FY20 and plywood margins came in at 14.7% Vs 11.5% in Q3FY20. Going ahead, management expects to expand MDF margins by 50-100bps and Plywood margins to come in at 15% by FY22E.
- ✓ ROE/ROCE for quarter stood at 19.2%/17.8% respectively. Pre-tax ROCE is expected to improve from 17.8% to 22% and post-tax ROCE should expand to 18-18.5% in FY22E.
- ✓ Capex in FY22 will be ~Rs 550 mn which will be utilized for (1) expanding MDF annual capacity from 540,000 cbm to 650,000 cbm wherein new capacity will be only of thick MDFs and is expected to get operational by Nov-Dec 2021 and (2) operational capex for reduction in consumption of wax (RM for MDF manufacturing) by 30%.
- ✓ Net Debt stood at Rs 4.52 bn in Q3FY21 which is expected to reduce to Rs 4 bn by Q4FY21E and to Rs 2.5 bn by FY22E.

Exhibit 1: Q3FY21 Result tables

(Rs mn)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Revenue	3,169	2,356	34.5%	2,249	40.9%
COGS	1,409	1,110	26.9%	957	47.3%
GP	1,761	1,246	41.3%	1,292	36.2%
GP (%)	55.5%	52.9%	266.3bps	57.5%	(191.4bps)
Employee cost	252	254	(0.9%)	226	11.6%
Other cost	825	644	28.0%	604	36.5%
Operating Profit	684	348	96.8%	463	47.9%
OPM (%)	21.6%	14.8%	683.2bps	20.6%	101.5 bps
Other Income	4	6	(32.8%)	2	112.1%
Depreciation	174	171	1.6%	173	0.6%
EBIT	514	182	182.1%	291	76.4%
Interest	142	170	(16.6%)	127	11.6%
PBT	372	12	3026.2%	164	126.7%
Tax	68	7	864.3%	(20)	-
PAT	305	5	6114.7%	184	65.4%
PAT (%)	9.6%	0.2%	940.0bps	8.2%	142.1bps

Volume	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Plywood (sqm)	25,20,000	22,54,704	11.8%	21,36,232	18.0%
MDF (cbm)	123,723	86,369	43.2%	82,133	50.6%

Segmental Revenue (Rs mn)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Plywood	621	585	6.0%	530	17.1%
MDF	2,549	1,771	44.0%	1,719	48.3%

Avg Realization (Rs)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Plywood (per sqm)	244	259	(5.6%)	246	(1.0%)
MDF(per cbm)	20,138	19,296	4.4%	20,926	(3.8%)

EBITDA (%)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Plywood	14.70%	11.50%	320bps	16.40%	(170bps)
MDF	24.50%	17.20%	730bps	21.80%	270bps

EBITDA (Rs mn)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Plywood	91	67	35.5%	87	4.9%
MDF	624	305	105.1%	375	66.7%

Exhibit 2: Financial Summary

Financial Overview (Rs mn)	FY20	FY21E	FY22E	FY23E
Ply-Vol (Mn sqm)	8.5	7.9	8.9	9.5
MDF- Vol (cbm)	316,022	381,818	473,618	583,714
Net sales	8,766	9,857	11,992	14,411
EBITDA	1,378	1,802	2,336	3,140
EBITDA%	15.7%	18.3%	19.5%	21.8%
Net Profit	145	426	862	1,523
Net Profit (%)	1.7%	4.3%	7.2%	10.6%
EPS	1.2	3.5	7.0	12.4
CFI	(223.4)	(150.0)	(300.0)	(300.0)
Net Debt	5,454	4,598	3,627	2,017
Net Debt/Equity (x)	0.8	0.7	0.5	0.2
Net Debt/EBIDTA (x)	4.0	2.6	1.6	0.6
ROE (%)	2.4%	6.1%	10.9%	16.2%
ROCE (%)	5.9%	9.7%	14.3%	21.3%
P/E (x)	24.2	47.4	23.5	13.3
P/B (x)	0.5	2.9	2.6	2.1

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