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Q4FY21 result review

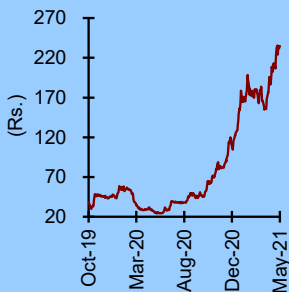
Wood Panel

Target price: Rs350

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	53.1	53.1	53.1
Institutional investors	29.3	26.8	23.2
MFs and others	16.4	14.5	16.7
FIs/Banks	0.0	0.0	0.9
FII	12.9	12.3	5.6
Others	17.6	20.1	23.7

Price chart



Listed on Oct 23, 2019

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INDIA

Greenpanel Industries

BUY

Maintained

Rs240

Strong growth momentum sustains

We remain positively surprised with management assertion of sustainability / improvement over an impressive Q4FY21 volume/margin delivery into FY22, which paves the way for an impressive execution opportunity (excluding probable near-term covid impact) over the next couple of years. As far as Q4FY21 was concerned, Greenpanel Industries (GNPL) sustained its overall growth momentum across all parameters – volumes, realisations, margins and cashflow generation with: a) 12.7% / 21.7% QoQ rise in its MDF volumes / revenues; b) 21.3% / 35.8% QoQ growth in plywood volumes / revenues; c) 330bps QoQ expansion in overall EBITDA margin; and d) net debt reduction of Rs0.75bn QoQ. Despite ongoing brownfield capacity expansion (due to be commissioned by Sep/Oct'21), the management has also guided for substantial net debt reduction of Rs2.25bn over FY22E-FY23E, which is likely to leapfrog its RoCEs to ~25% by FY23E. This we believe would offer further scope for rerating the stock going forward. Maintain BUY.

- **Valuation and outlook:** We conservatively maintain our earnings estimates despite the sharp Q4FY21 outperformance considering the near-term covid challenges. We expect GNPL to report revenue and adjusted PAT CAGRs of 22.8% and 68.4% respectively, over FY21-FY23E. We expect RoCE to substantially improve to 24.4% in FY23E from 11.5% in FY21. We thus maintain our **BUY** rating on the stock with an unchanged target price of Rs350. Key risks: sudden slowdown in OEM demand, and aggressive capacity addition in the industry in near to medium term.
- **Strong MDF/Plywood segment growth aids outperformance:** GNPL reported strong sequential improvement in MDF/Plywood revenue growth by 21.7%/35.8%. Growth in MDF was driven by market share gains from the cheap plywood segment, strong demand for modular furniture (post-covid), and widening of the company's distribution reach. Plywood segment growth was driven by strong recovery in secondary real estate market and overall economy growth. Realisation too increased sharply by 7.9% and 11.9% in MDF and plywood respectively, led by price hikes and better mix. With likely delay in new MDF capacities of large players, we expect GNPL to post an impressive revenue CAGR of 22.8% over FY21-FY23E.
- **EBITDA margin at 24.9%, up 330bps QoQ.** Company reported an EBITDA margin of 24.9% (I-Sec: 23.7%) driven by sharp jump in its South plant margins (which is likely to further improve) led by better mix, operating leverage, higher MDF VAP sales, price hikes in MDF segment, and reduction in wastage. While MDF EBITDA margin was at 28.6% (up 410bps QoQ), plywood margin was at 15.5% (up 80bps QoQ). With recent price hikes in MDF covering large part of the rise in input costs, we expect GNPL's overall EBITDA margin to improve to 24.5% in FY23E from 19.9% in FY21.
- **RoCE improvement gains momentum.** Strong traction in profitability, minimal capex, stricter working capital discipline and expected debt repayment (of ~Rs2.25bn) over the next two years would drive the company's RoCE higher to 24.4% in FY23E vs 11.5% in FY21. This we believe would offer further scope for rerating of the stock going forward.

Market Cap	Rs29.5bn/US\$401mn	Year to Mar	FY20	FY21P	FY22E	FY23E
Bloomberg	GREENP IN	Revenue (Rs bn)	8,766	10,208	13,350	15,402
Shares Outstanding (mn)	122.6	Rec. Net Income (Rs bn)	361	688	1,449	1,951
52-week Range (Rs)	240/25	EPS (Rs)	2.1	5.6	11.8	15.9
Free Float (%)	46.9	% Chg YoY	(26.8)	172.0	110.6	34.6
FII (%)	5.6	P/E (x)	203.5	42.8	20.3	15.1
Daily Volume (US\$'000)	1,364	P/B (x)	6.8	11.2	17.7	21.9
Absolute Return 3m (%)	39.0	EV/E (x)	25.4	15.9	9.9	7.9
Absolute Return 12m (%)	825.6	Dividend yield (%)	-	0.0	0.0	0.0
Sensex Return 3m (%)	(5.3)	RoCE (%)	5.6	11.5	20.9	24.4
Sensex Return 12m (%)	58.3	RoE (%)	3.9	9.9	18.2	20.5

Table 1: Q4FY21 result review (consolidated)

(Rs mn)

Particulars	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Sales	3,887.9	3,650.0	2,377.7	63.5	3,169.3	22.7	10,207.6	8,765.7	16.4
Other Op. Income	0.0	0.0	0.0		0.0		0.0	0.0	
Total Op. Income	3,887.9	3,650.0	2,377.7	63.5	3,169.3	22.7	10,207.6	8,765.7	16.4
Expenditure	2,917.9	2,784.9	1,924.2	51.6	2,485.2	17.4	8,173.9	7,388.0	10.6
Raw Materials	1,741.4	1,540.0	933.2	86.6	1,373.1	26.8	4,515.3	3,833.6	17.8
Cost of traded goods	41.6	39.9	29.3	42.1	35.7	16.6	113.5	103.1	10.1
Staff Cost	291.6	245.0	250.4	16.4	251.9	15.8	979.0	988.9	(1.0)
Other Expenditure	843.2	960.0	711.2	18.6	824.6	2.3	2,566.1	2,462.4	4.2
Operating Profit	970.0	865.1	453.5	113.9	684.0	41.8	2,033.7	1,377.7	47.6
OPM (%)	24.9	23.7	19.1	580bps	21.6	330bps	19.9	15.7	420bps
Other Income	20.0	0.0	9.8	103.2	4.0	395.5	34.48	22.3	54.3
Interest	(36.7)	90.0	167.9	(121.8)	142.1	(125.8)	372.1	482.9	(22.9)
Depreciation	170.0	176.0	179.2	(5.2)	173.9	(2.3)	686.3	691.7	(0.8)
Extraord inc/(exp)	0.0	0.0			0.0		0.0	(108.4)	
PBT	856.7	599.1	116.2	637.0	372.1	130.3	1,009.7	117.1	762.2
Tax	292.2	149.0	(67.6)	(531.9)	67.6	332.4	321.6	(27.5)	(1,269.5)
Reported PAT	564.6	450.1	183.9	207.0	304.5	85.4	688.1	144.6	375.8
Share of profit/(loss) from JV	0.0	0.0	0.0		0.0		0.0	0.0	
Adj. PAT	564.6	450.1	183.9	207.0	304.5	85.4	688.1	253.0	172.0
Reported NPM (%)	14.5	12.3	7.7	680bps	9.6	490bps	6.7	1.6	510bps

Source: Company data, I-Sec research

Greenpanel Q4FY21 result conference call takeaways

- **Management declined from giving a guidance amid uncertainty due to second covid wave lockdown.** However, it mentioned that in Apr'21 it has done well in terms of growth while May'21-TD has seen tapering of growth.
- **Capacity utilisation (CU) in Q4FY21:** In MDF segment, CU of the Andhra Pradesh plant stood at 105% and that for Uttarakhand plant at 96%. Plywood plant utilisation stood at 98%.
- Focus of the company is to reach to optimum utilisation with higher VAP mix and reduction of wastage in wax, and improve production efficiency to increase profitability.
- **Higher growth in MDF was led mainly by:** 1) continued market share gains (from the cheap plywood segment in particular), 2) increasing customer preference towards readymade/modular furniture with higher sales from OEMs, 3) import substitution due to higher seafreight and container unavailability, and 4) India gradually becoming a furniture hub.
- **MDF EBITDA margin:** Company reported 28.6% margin in Q4FY21 and 23% for FY21. Management mentioned that, with higher VAP mix and at 100% utilisation if it sells fully into the domestic market it can do 30% margin going forward.
- **The following price hikes in FY21 have been taken to compensate for the rising cost of raw materials:** i) 6.5% pan-India except South India, and ii) 3.5% in South India. Raw material cost increase during Q4FY21 was 5% and for FY21 it was 10% with increasing cost of timber and resin. Timber forms 65% of the overall cost of the MDF business.
- **In Apr'21, the company hiked price further by 4% due to increase in cost of chemicals.**

- **Plywood price hike:** Company increased plywood prices in Jul'20 by 2.5% on the back of increasing RM prices by 2%. However, it is planning to increase the prices by further in near future by 3-4% to cover the incremental cost increase.
- **MDF domestic realisation** in Uttarakhand plant was at Rs24,180/CBM and South plant was at Rs21,124/CBM in Q4FY21. The higher realisation in North plant is mainly due to higher VAP mix as veneered MDF is 40% higher priced than plain MDF, and flooring MDF price is higher by 400% than plain MDF. Currently there is 5% difference between North and South plants in plain MDF category.
- **MDF domestic sales & exports:** Q4FY21 domestic volumes stood at 121,600CBM with revenues of Rs2.77bn while export volumes were at 17.900CBM with revenues of Rs264mn.
- **MDF export volumes & EBITDA margin FY21:** Company reported 83,000CBM in exports in FY21 and it can reach anything between 0.1mn to 0.12mn CBM in FY22. Company clocked 10% margin in FY21 for exports and this can increase up to 14% with higher sales.
- **MDF mix:** Prelam MDF mix was at 12% while value-added products (including prelam MDF, flooring MDF and veneered MDF) constitute 35% of overall volumes and 46% of overall value.
- Retail currently contributes 65% while OEM contributes 35%. Thick MDF contributes 70% of overall MDF revenues.
- **Net debt: Net debt reduced by Rs760mn/Rs1.57bn during Q4FY21/FY21 respectively and stands at Rs3.76bn as at 31st Mar'21. Company targets to reduce net debt by Rs1.5bn in FY22 and a further 0.75bn in FY23.**
- **Capex** will be at Rs250mn in FY22 and will be utilised for debottlenecking MDF capacity by purchasing additional machinery for both the plants and also purchasing machinery to reduce wax consumption by 35%. The same will be implemented by Q3FY22. Capacity will increase to 0.66mn CBM from the current 0.54mn CBM.
- The whole MDF industry reported healthy growth in Q4FY21 and the demand is not only post-covid from modular furniture and readymade furniture, but also from conversion from cheaper plywood segment to MDF.

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Revenues	8,766	10,208	13,350	15,402
Operating Expenses	7,388	8,174	10,170	11,622
EBITDA	1,378	2,034	3,180	3,780
% margins	15.7%	19.9%	23.8%	24.5%
Depreciation & Amortisation	692	686	720	740
Gross Interest	483	372	390	266
Other Income	22	34	-	10
Recurring PBT	225	1,010	2,070	2,784
Less: Taxes	(28)	322	621	833
Less: Minority Interest	-	-	-	-
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	253	688	1,449	1,951
Extraordinaries (Net)	(108)	-	-	-
Recurring Net Income	361	688	1,449	1,951

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	3,490	3,774	4,941	5,937
of which cash & cash eqv.	115	720	1,015	1,262
Total Current Liabilities & Provisions	2,362	3,325	3,592	4,245
Net Current Assets	1,128	449	1,349	1,693
Investments	-	-	-	-
Net Fixed Assets	11,111	10,742	10,458	10,718
Capital Work-in-Progress	57	36	-	-
Goodwill	-	-	-	-
Total Assets	12,296	11,228	11,807	12,411
Liabilities				
Borrowings	5,611	3,722	3,000	1,800
Deferred Tax Liability	69	202	202	202
Minority Interest	-	-	-	-
Equity Share Capital	123	123	123	123
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	6,494	7,181	8,483	10,287
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	6,616	7,304	8,606	10,409
Total Liabilities	12,296	11,228	11,807	12,411

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Total Income	902	2,249	3,169	3,888
% growth (YoY)	(57.3)	17.1	34.5	65.0
EBITDA	(83)	462	684	970
Margin (%)	(9.2)	20.6	21.6	24.9
Other income	9	2	4	20
Add: Extraordinaries	-	-	-	-
Net profit	(365)	184	305	565

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	997	1,516	2,169	2,691
Working Capital Changes	1	31	(833)	(197)
Capital Commitments	(223)	(109)	(400)	(1,000)
Free Cashflow	775	1,438	936	1,494
Cashflow from Investing Activities	-	-	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(858)	(1,419)	(722)	(1,200)
Dividend paid	-	-	(147)	(147)
Change in Deferred Tax Liability	-	-	228	100
Chg. in Cash & Bank balance	(83)	18	295	247

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
EPS	2.1	5.6	11.8	15.9
Cash EPS	6.8	11.2	17.7	21.9
Dividend per share (DPS)	0.0	1.0	1.0	1.0
Book Value per share (BV)	54.0	59.6	70.2	84.9
Growth (%)				
Net Sales	46.3	16.4	30.8	15.4
EBITDA	78.1	47.6	56.4	18.9
PAT	-26.8	172.0	110.6	34.6
Cash EPS	-4.5	64.4	57.8	24.1
Valuation Ratios (x)				
P/E	203.5	42.8	20.3	15.1
P/CEPS	35.2	21.4	13.6	10.9
P/BV	4.4	4.0	3.4	2.8
EV / EBITDA	25.4	15.9	9.9	7.9
EV / Sales	4.0	3.2	2.4	1.9
Operating Ratios				
Raw Material / Sales (%)	44.7	45.3	42.2	41.5
Employee cost / Sales (%)	11.3	9.6	8.6	8.8
SG&A / Sales (%)	28.3	25.1	25.4	25.2
Other Income / PBT (%)	19.1	3.4	0.0	0.4
Effective Tax Rate (%)	-23.5	31.9	30.0	29.9
Working Capital (days)	43.2	34.8	35.0	35.0
Inventory Turnover (days)	64.1	53.4	55.0	55.0
Receivables (days)	29.4	27.8	25.0	25.0
Payables (days)	50.2	46.4	45.0	45.0
Net D/E Ratio (x)	0.8	0.4	0.2	0.1
Return/Profitability Ratio (%)				
Net Income Margins	2.9	6.7	10.9	12.7
RoACE	5.6	11.5	20.9	24.4
RoAE	3.9	9.9	18.2	20.5
Dividend Payout	0.0	21.4	10.2	7.5
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	15.7	19.9	23.8	24.5

Source: Company data, I-Sec research

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