

# Greenpanel Industries | BUY

## Strong quarter in tough times; unveils MDF expansion

Greenpanel Industries (Greenpanel) reported another strong quarter with revenue/EBITDA/PBT 3-year CAGR of 32%/69%/228% respectively (10%/18%/32% above JMFe). Demand momentum sustained in MDF as volume grew at a 3-year CAGR of 18% (flat QoQ, 9% above estimates). MDF realisation (+18%, 3-year CAGR) improved both on domestic and export sales, growing 13% and 27% respectively, leading to 580bps improvement in EBITDA margin (27.7%; 200bps above JMFe). The management has guided for lower margin in MDF c. 26-27% on account of the expected rise in RM cost (timber prices up 5% QoQ/20% YoY in the North and higher chemical costs, as it happens with a lag). Greenpanel turned net cash positive in 1QFY23 (net debt reduced by INR770mn on the back of robust cash flow generation; significant reduction in net working capital days). The management announced its capex plan for MDF of adding 231,000cbm for INR6bn (at its AP unit); it is expected to commence production in Q2FY25. It has guided for revenue growth of c. 25-26% in FY23 and c.15% growth in FY24. We cut our FY23/24EPS estimates by 4%/7% to reflect RM cost inflation outlook, and roll forward to Sept'23 TP of INR 630 basis 22x Sept'24E EPS (INR 600 earlier on 22xMar'24E EPS). We maintain BUY. Demand weakness in the domestic market and consequent pricing pressure are key risks to our call.

- 1QFY23 summary:** Greenpanel's revenue grew at a 3-year CAGR of 32% to INR 4.6bn (10% above JMFe) led by the MDF segment (+39% 3-year CAGR; 10% above JMFe), while the plywood segment grew at a 3-year CAGR of 11% (19% above JMFe). Gross margin expanded by 420bps YoY/50bps QoQ to 61.7% on account of increase in realisation (MDF and ply realisations grew 18% and 5%, 3-year CAGR). EBITDA grew at a 3-year CAGR of 69% to INR 1.3bn (18% above JMFe) as EBITDA margin expanded by 580bps YoY to 27.7% on account of superior product mix, higher domestic mix (c.84% of MDF revenue), cost optimisation and operating leverage. Adj. PAT was INR 761mn (+239% 3-year CAGR; 23% above JMFe).
- MDF volume and margin continues to surprise positively (450bps above JMFe):** In 1QFY23, Greenpanel's MDF revenue grew at a 3-year CAGR of 39% (10% above JMFe) as it posted realisation growth of 18% due to price hikes (effected in 3QFY22), superior product mix and domestic mix. Greenpanel's MDF EBITDA margin continued to surprise positively (33.3%; +1240bps YoY and 450bps above JMFe) due to higher realisation and cost optimisation. Capacity utilisation for MDF plants stood at 81%. Ply segment revenue growth too surprised, growing at a 3-year CAGR of 11% (19% above JMFe) led by volume/realisation growth of 6%/5% (3 years CAGR), Ply EBITDA margin expanded 70bps YoY (200bps above JMFe).
- Unveils MDF capacity expansion in the South:** The board approved the expansion of 231,000cbm MDF capacity for an amount of INR 6bn at its existing facility in Andhra Pradesh. Commercial production is expected to start by Q2FY25. The management highlighted that the new capacity could generate revenue c. INR 7.7bn at an optimum utilisation level (considering current realisations and product mix). The new plant will be



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	630
Upside/(Downside)	22.7%
Previous Price Target	600
Change	5.0%

### Key Data – GREENP IN

Current Market Price	INR513
Market cap (bn)	INR62.9/US\$0.8
Free Float	47%
Shares in issue (mn)	122.6
Diluted share (mn)	122.6
3-mon avg daily val (mn)	INR165.2/US\$2.1
52-week range	626/222
Sensex/Nifty	56,072/16,719
INR/US\$	79.9

### Price Performance

%	1M	6M	12M
Absolute	16.6	8.5	119.2
Relative*	9.6	12.0	107.0

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	10,005	15,860	19,549	21,424	24,706
Sales Growth (%)	20.5	58.5	23.3	9.6	15.3
EBITDA	2,053	3,797	4,923	4,915	5,770
EBITDA Margin (%)	20.1	23.9	25.2	22.9	23.4
Adjusted Net Profit	849	2,334	2,879	3,242	3,806
Diluted EPS (INR)	6.9	19.0	23.5	26.5	31.1
Diluted EPS Growth (%)	109.0	174.8	23.3	12.6	17.4
ROIC (%)	9.2	19.2	29.2	26.9	25.9
ROE (%)	11.6	26.5	26.1	24.2	23.9
P/E (x)	74.0	26.9	21.8	19.4	16.5
P/B (x)	8.1	6.4	5.2	4.3	3.6
EV/EBITDA (x)	32.5	16.8	12.4	12.7	10.5
Dividend Yield (%)	0.0	0.0	0.9	1.3	1.8

Source: Company data, JM Financial. Note: Valuations as of 22/Jul/2022

JM Financial Institutional Securities Limited

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
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utilised for manufacturing of thin panel MDF (30-40% of market), which isn't currently offered by Greenpanel. It will be funded both by internal accruals and debt (will borrow externally from German lender).

- **Cut estimates; maintain BUY:** We cut our FY23/24EPS estimates by 4%/7% to reflect RM cost inflation outlook, and roll forward to Sept'23 TP of INR 630 basis 22x Sept'24E EPS (INR 630 earlier on 22xMar'24E EPS). We maintain **BUY** on Greenpanel on the back a) demand tailwinds; (readymade furniture; import substitution), and b) commendable improvement on de-leveraging and working capital fronts. Demand weakness in the domestic market and consequent pricing pressure are key risks to our call.

- **Key highlights from 1QFY23 concall:**

- Demand environment has been extremely encouraging in 1QFY23, though it's typically a weak quarter (20-25% QoQ typically). July has been encouraging, post slight softness in Jun'22. The management has guided for revenue growth of c. 25-26% in FY23 and c.15% growth in FY24.
- MDF segment utilisation stood at c.81% in 1QFY23 vs. 91% 1QFY22. Post debottlenecking at the Uttarakhand and Andhra plants, total capacity has increased from 540,000 CBM to 660,000 CBM. The company can deliver 30% annual growth without any further capacity addition.
- Raw material mix of timber and chemicals has changed from 65%-35% during pre-Covid to current 50%-50% on account of higher chemical prices. The company categorically pointed that while crude prices have spiked significantly since Jan'22, chemical prices haven't followed suit (which usually have a correlation, though could have some lead/lag). Hence, the management has indicated 26-27% as likely EBITDA margins for the MDF segment as it fears further price hikes are unlikely.
- The management does not consider MDF imports to be a risk in the near term because a) global MDF prices are rising thanks to improved demand and high ocean freight costs, b) competing countries like Vietnam are focusing on more lucrative markets than India given better pricing and value-added opportunities (benefitting from china substitution playing out globally).
- In terms of price parity to imports, Thick MDF import price (in landed cost terms) is similar to that of domestic MDF, while Thin MDF import price is about 10% lower than the domestic one. As per the management, current imports are c. 5000cbm per month.
- Majority of unorganised players based out of north India, having capacity of c. 32% of the market but in terms of volume unorganised player market share is only 18%.
- The company has further reduced its net debt by INR 770mn to net cash of INR 170mn in Jun'22. However, for its new capacity, the company will borrow c. INR 2-2.3bn from the German lender. Net working capital days have reduced sharply to 12 as on Jun'22 (34 as of Jun'21).

## Exhibit 1. 1QFY23 Financial performance (Standalone)

INR mn	1Q20	1Q22	1Q23	YoY	3yr CAGR	4Q22	QoQ	1Q23E	Var
<b>Net Sales</b>	<b>2,037</b>	<b>3,080</b>	<b>4,640</b>	<b>51%</b>	<b>32%</b>	<b>4,701</b>	<b>-1%</b>	<b>4,224</b>	<b>10%</b>
Gross Profit	1,049	1,771	2,862	62%	40%	2,874	0%	2,323	23%
Gross Margin	51.5%	57.5%	61.7%	420 bps		61.1%	50 bps	55.0%	670 bps
Employee cost	221	266	350	32%	17%	339	3%	277	26%
% of sales	10.8%	8.6%	7.5%	-110 bps		7.2%		6.6%	100 bps
Other expenses	562	830	1,225	48%	30%	1,176	4%	959	28%
% of sales	27.6%	26.9%	26.4%	-50 bps		25.0%		22.7%	370 bps
Total Expenditure	1,771	2,406	3,354	39%	24%	3,342	0%	3,136	7%
<b>EBITDA</b>	<b>267</b>	<b>674</b>	<b>1,286</b>	<b>91%</b>	<b>69%</b>	<b>1,359</b>	<b>-5%</b>	<b>1,087</b>	<b>18%</b>
EBITDA margin	13.1%	21.9%	27.7%	580 bps		28.9%	-120 bps	25.7%	200 bps
Depreciation	154	160	169	6%	3%	169	0%	197	-14%
EBIT	113	515	1,118	117%	NA	1,190	-6%	890	26%
Other Income	6	6	72	1058%	125%	23	210%	25	186%
PBIT	119	521	1,189	128%	115%	1,213	-2%	915	30%
Interest	92	43	25	-43%	-36%	32	-23%	30	-18%
XO Exp/-Inc	-6	76	0			-11		0	
<b>PBT</b>	<b>33</b>	<b>402</b>	<b>1,165</b>	<b>190%</b>	<b>228%</b>	<b>1,192</b>	<b>-2%</b>	<b>885</b>	<b>32%</b>
Tax Expense	8	116	403	NM		392	3%	266	52%
Tax Rate	NM	NM	34.6%			32.9%		30.0%	
<b>Reported Net Profit</b>	<b>25</b>	<b>286</b>	<b>761</b>	<b>166%</b>	<b>214%</b>	<b>800</b>	<b>-5%</b>	<b>620</b>	<b>23%</b>
<b>Adjusted Net Profit</b>	<b>20</b>	<b>343</b>	<b>761</b>	<b>122%</b>	<b>239%</b>	<b>792</b>	<b>-4%</b>	<b>620</b>	<b>23%</b>
Reported EPS	0.2	2.3	6.2	166%	214%	6.5	0.0	5.1	23%
<b>Adjusted EPS</b>	<b>0.2</b>	<b>2.8</b>	<b>6.2</b>	<b>122%</b>	<b>239%</b>	<b>6.5</b>	<b>0.0</b>	<b>5.1</b>	<b>23%</b>

Source: Company, JM Financial

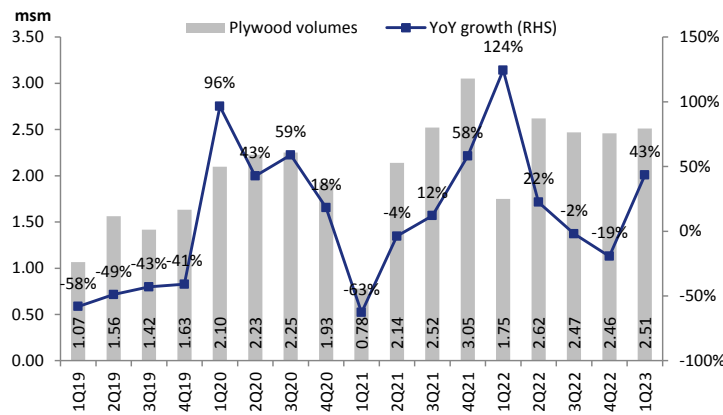
## Exhibit 2. 1QFY23 Segmental performance

INR mn	1Q20	1Q22	1Q23	YoY	3yr CAGR	4Q22	QoQ	1Q23E	Var
<b>Revenue</b>	<b>2,037</b>	<b>3,080</b>	<b>4,640</b>	<b>51%</b>	<b>32%</b>	<b>4,701</b>	<b>-1%</b>	<b>4,224</b>	<b>10%</b>
MDF	1,469	2,540	3,931	55%	39%	3,898	1%	3,576	10%
Plywood	516	453	709	57%	11%	705	1%	598	19%
<b>Volumes</b>									
MDF (cbm)	76,738	112,735	125,029	11%	18%	124,539	0%	115,000	9%
Plywood (msm)	2.1	1.8	2.5	43%	6%	2.5	2%	2.1	20%
<b>Realisation</b>									
MDF (Rs/cbm)	19,138	22,528	31,441	40%	18%	31,300	0%	31,096	1%
Plywood (Rs/sqm)	246	259	282	9%	5%	286	-1%	285	-1%
<b>Segmental Adj.EBITDA</b>	<b>274</b>	<b>580</b>	<b>1,320</b>	<b>128%</b>	<b>69%</b>	<b>1,280</b>	<b>3%</b>	<b>1,087</b>	<b>21%</b>
MDF	190	531	1,238	133%	87%	1,219	2%	1,030	20%
Plywood	84	49	82	66%	-1%	61	34%	57	44%
<b>EBITDA margins</b>	<b>13.5%</b>	<b>18.8%</b>	<b>28.4%</b>	<b>960 bps</b>		<b>27.2%</b>	<b>120 bps</b>	<b>25.7%</b>	<b>270 bps</b>
MDF	13.0%	20.9%	31.5%	1060 bps		31.3%	20 bps	28.8%	270 bps
Plywood	16.3%	10.8%	11.5%	70 bps		8.7%	280 bps	9.5%	200 bps
<b>EBITDA margins per unit</b>									
MDF (INR/cbm)	2,481	4,710	9,902	110%	59%	9,788	1%	8,960	11%
Plywood (INR/sqft)	40	28	32	16%	-7%	25	31%	27	20%
<b>Segmental Adj.EBIT</b>	<b>119</b>	<b>421</b>	<b>1,085</b>	<b>158%</b>	<b>109%</b>	<b>1,097</b>	<b>-1%</b>	<b>890</b>	<b>22%</b>
MDF	50	384	1,014	164%	172%	1,046	-3%	850	19%
Plywood	69	37	71	93%	1%	51	40%	40	78%
<b>EBIT margins</b>	<b>5.9%</b>	<b>13.7%</b>	<b>23.4%</b>	<b>970 bps</b>		<b>23.3%</b>	<b>10 bps</b>	<b>21.1%</b>	<b>230 bps</b>
MDF	3.4%	15.1%	25.8%	1070 bps		26.8%	-100 bps	23.8%	200 bps
Plywood	13.4%	8.1%	10.0%	190 bps		7.2%	280 bps	6.7%	330 bps

Source: Company, JM Financial

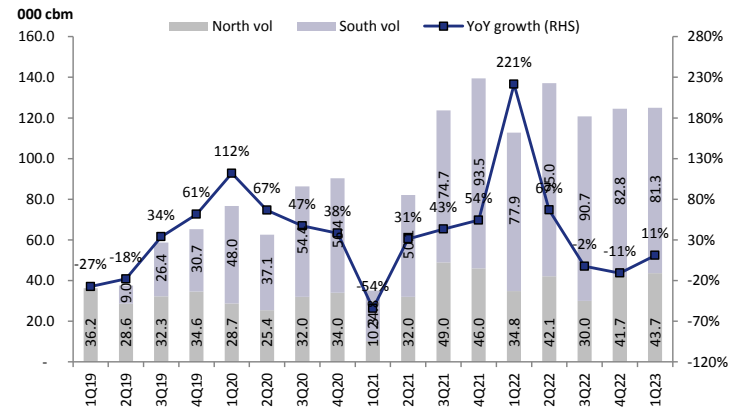
# Quarterly Charts

**Exhibit 3. Plywood volume growth trend**



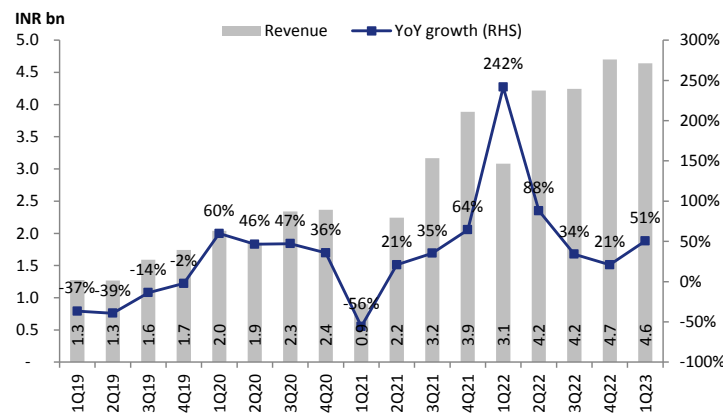
Source: Company, JM Financial

**Exhibit 4. MDF volume growth trend**



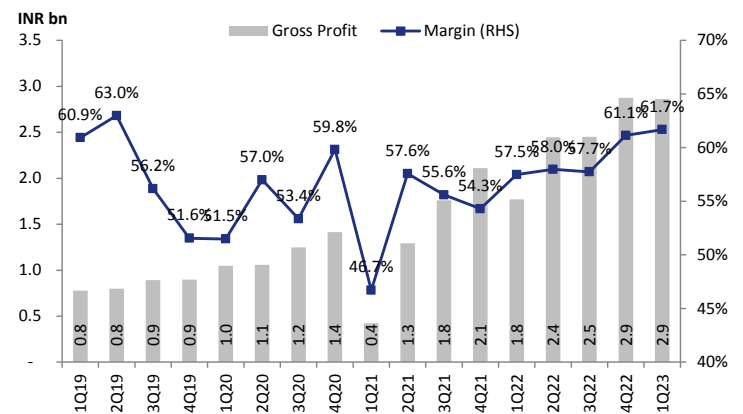
Source: Company, JM Financial

**Exhibit 5. Revenue growth trend**



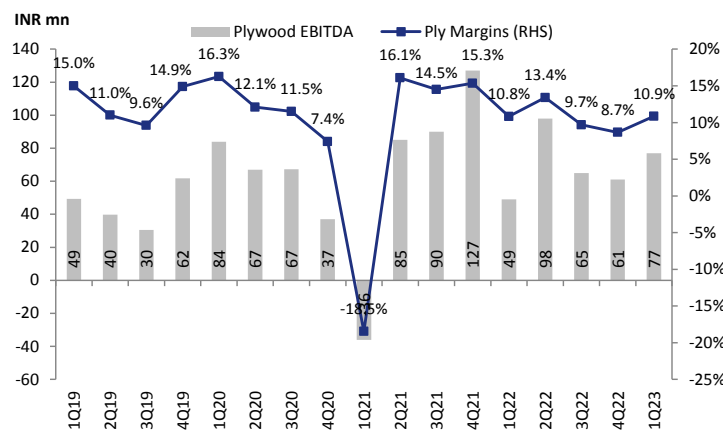
Source: Company, JM Financial

**Exhibit 6. Gross Profit and margin trend**



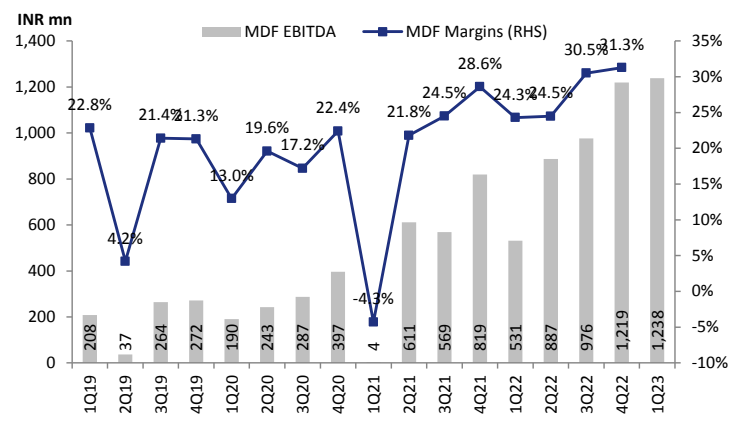
Source: Company, JM Financial

**Exhibit 7. Plywood EBITDA trend**



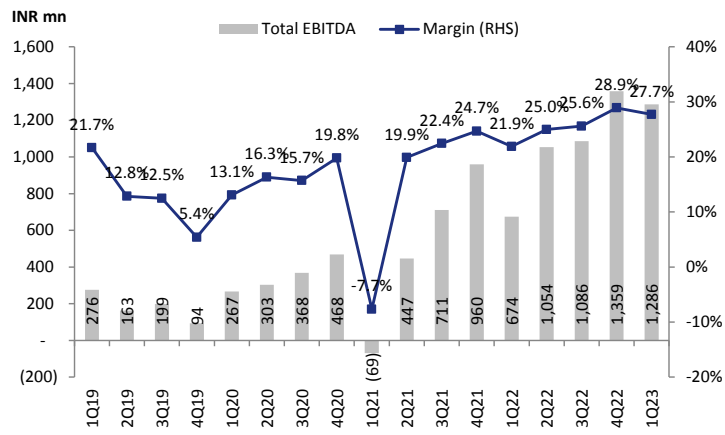
Source: Company, JM Financial

**Exhibit 8. MDF EBITDA trend**



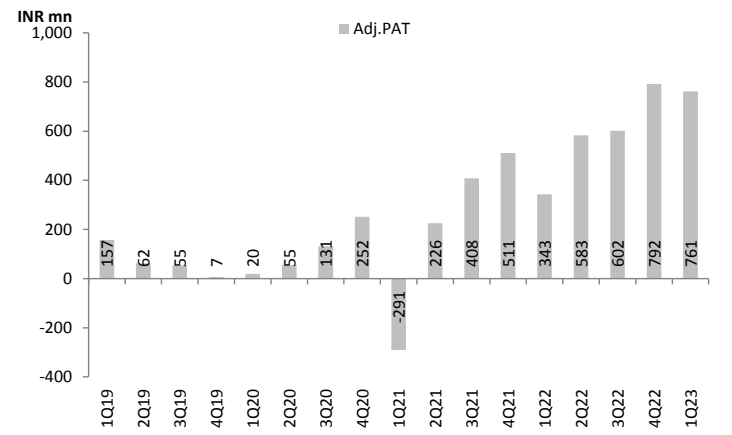
Source: Company, JM Financial

Exhibit 9. Total EBITDA trend



Source: Company, JM Financial

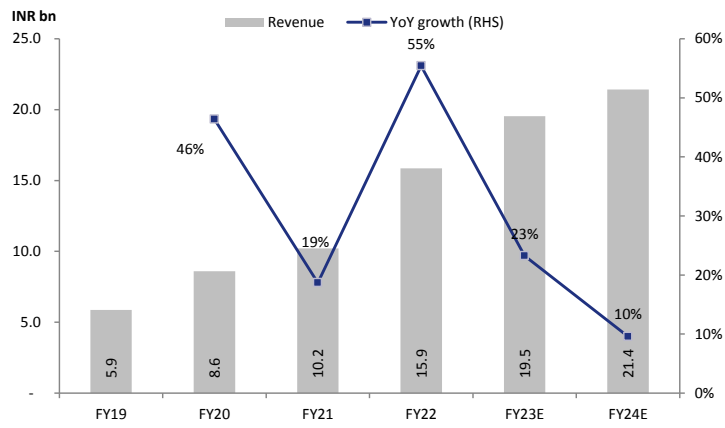
Exhibit 10. Adj. PAT trend



Source: Company, JM Financial

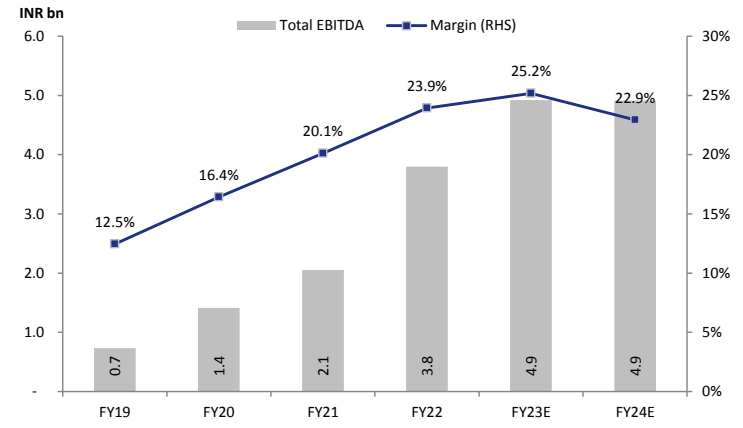
# Annual Charts

**Exhibit 11. Revenue trend**



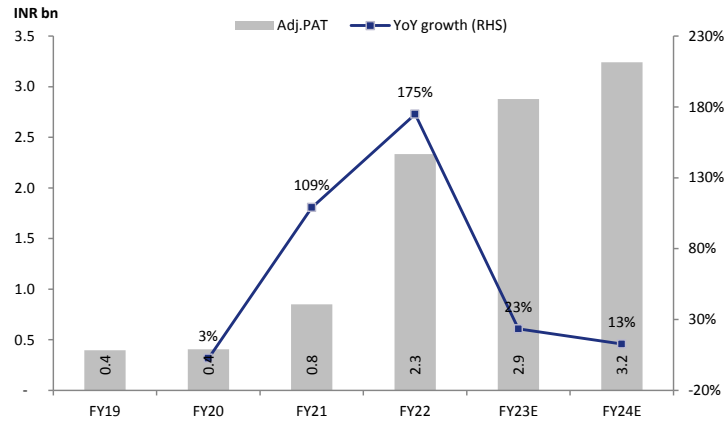
Source: Company, JM Financial

**Exhibit 12. EBITDA and margin trend**



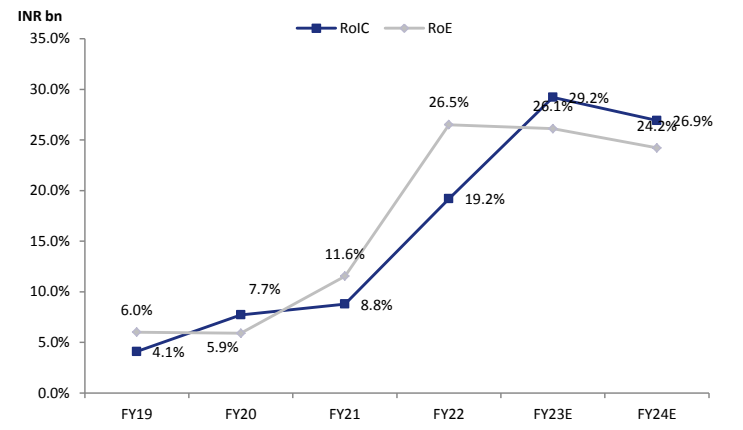
Source: Company, JM Financial

**Exhibit 13. Ad. PAT trend**



Source: Company, JM Financial

**Exhibit 14. Return Ratios**



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Sales	10,005	15,860	19,549	21,424	24,706	
Sales Growth	20.5%	58.5%	23.3%	9.6%	15.3%	
Other Operating Income	200	0	0	0	0	
<b>Total Revenue</b>	<b>10,205</b>	<b>15,860</b>	<b>19,549</b>	<b>21,424</b>	<b>24,706</b>	
Cost of Goods Sold/Op. Exp	4,615	6,703	8,211	9,855	11,365	
Personnel Cost	928	1,229	1,413	1,555	1,741	
Other Expenses	2,609	4,132	5,002	5,099	5,830	
<b>EBITDA</b>	<b>2,053</b>	<b>3,797</b>	<b>4,923</b>	<b>4,915</b>	<b>5,770</b>	
EBITDA Margin	20.1%	23.9%	25.2%	22.9%	23.4%	
EBITDA Growth	45.3%	84.9%	29.7%	-0.2%	17.4%	
Depn. & Amort.	639	680	740	760	951	
EBIT	1,415	3,117	4,183	4,155	4,819	
Other Income	26	82	150	250	350	
Finance Cost	227	165	100	70	80	
PBT before Excep. & Forex	1,213	3,034	4,233	4,335	5,089	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,213	3,034	4,233	4,335	5,089	
Taxes	322	1,085	1,355	1,092	1,282	
Extraordinary Inc./Loss(-)	-125	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	767	1,950	2,879	3,242	3,806	
<b>Adjusted Net Profit</b>	<b>849</b>	<b>2,334</b>	<b>2,879</b>	<b>3,242</b>	<b>3,806</b>	
Net Margin	8.3%	14.7%	14.7%	15.1%	15.4%	
Diluted Share Cap. (mn)	122.6	122.6	122.6	122.6	122.6	
<b>Diluted EPS (INR)</b>	<b>6.9</b>	<b>19.0</b>	<b>23.5</b>	<b>26.5</b>	<b>31.1</b>	
Diluted EPS Growth	109.0%	174.8%	23.3%	12.6%	17.4%	
Total Dividend + Tax	0	0	576	811	1,142	
Dividend Per Share (INR)	0.0	0.0	4.7	6.6	9.3	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Profit before Tax	1,083	3,034	4,233	4,335	5,089	
Depn. & Amort.	639	680	740	760	951	
Net Interest Exp. / Inc. (-)	205	-92	-50	-180	-270	
Inc (-) / Dec in WCap.	25	482	208	78	65	
Others	-275	78	0	0	0	
Taxes Paid	-164	-580	-1,355	-1,092	-1,282	
<b>Operating Cash Flow</b>	<b>1,512</b>	<b>3,602</b>	<b>3,776</b>	<b>3,900</b>	<b>4,552</b>	
Capex	-190	-345	-500	-4,900	-1,700	
Free Cash Flow	1,322	3,257	3,276	-1,000	2,852	
Inc (-) / Dec in Investments	0	-1,051	0	0	0	
Others	19	30	150	250	350	
<b>Investing Cash Flow</b>	<b>-172</b>	<b>-1,365</b>	<b>-350</b>	<b>-4,650</b>	<b>-1,350</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	0	-184	-576	-811	-1,142	
Inc / Dec (-) in Loans	-1,054	-1,470	-2,374	50	2,000	
Others	-253	-149	-100	-70	-80	
<b>Financing Cash Flow</b>	<b>-1,308</b>	<b>-1,803</b>	<b>-3,050</b>	<b>-831</b>	<b>778</b>	
<b>Inc / Dec (-) in Cash</b>	<b>33</b>	<b>434</b>	<b>377</b>	<b>-1,581</b>	<b>3,980</b>	
Opening Cash Balance	97	716	2,213	2,589	1,009	
Closing Cash Balance	130	1,149	2,589	1,009	4,989	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Shareholders' Fund	7,735	9,871	12,174	14,606	17,271	
Share Capital	123	123	123	123	123	
Reserves & Surplus	7,612	9,749	12,052	14,483	17,148	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	4,409	2,824	450	500	2,500	
Def. Tax Liab. / Assets (-)	202	682	682	682	682	
<b>Total - Equity &amp; Liab.</b>	<b>12,345</b>	<b>13,378</b>	<b>13,307</b>	<b>15,789</b>	<b>20,453</b>	
Net Fixed Assets	10,465	9,890	9,650	13,790	14,539	
Gross Fixed Assets	14,162	14,303	14,503	14,703	21,203	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	3,733	4,413	5,153	5,913	6,864	
Capital WIP	36	0	300	5,000	200	
Investments	524	524	524	524	524	
Current Assets	3,761	5,227	6,477	5,179	9,654	
Inventories	1,494	1,658	2,142	2,348	2,707	
Sundry Debtors	778	414	803	880	1,015	
Cash & Bank Balances	716	2,213	2,589	1,009	4,989	
Loans & Advances	774	942	942	942	942	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,405	2,263	3,345	3,705	4,264	
Current Liabilities	1,314	1,479	2,142	2,348	2,707	
Provisions & Others	1,091	784	1,202	1,357	1,556	
Net Current Assets	1,356	2,964	3,133	1,474	5,390	
<b>Total - Assets</b>	<b>12,345</b>	<b>13,378</b>	<b>13,307</b>	<b>15,789</b>	<b>20,453</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Margin	8.3%	14.7%	14.7%	15.1%	15.4%	
Asset Turnover (x)	0.8	1.2	1.5	1.5	1.4	
Leverage Factor (x)	1.7	1.5	1.2	1.1	1.1	
RoE	11.6%	26.5%	26.1%	24.2%	23.9%	

Key Ratios						
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
BV/Share (INR)	63.1	80.5	99.3	119.2	140.9	
ROIC	9.2%	19.2%	29.2%	26.9%	25.9%	
ROE	11.6%	26.5%	26.1%	24.2%	23.9%	
Net Debt/Equity (x)	0.5	0.1	-0.2	0.0	-0.1	
P/E (x)	74.0	26.9	21.8	19.4	16.5	
P/B (x)	8.1	6.4	5.2	4.3	3.6	
EV/EBITDA (x)	32.5	16.8	12.4	12.7	10.5	
EV/Sales (x)	6.5	4.0	3.1	2.9	2.5	
Debtor days	28	10	15	15	15	
Inventory days	53	38	40	40	40	
Creditor days	59	45	53	52	52	

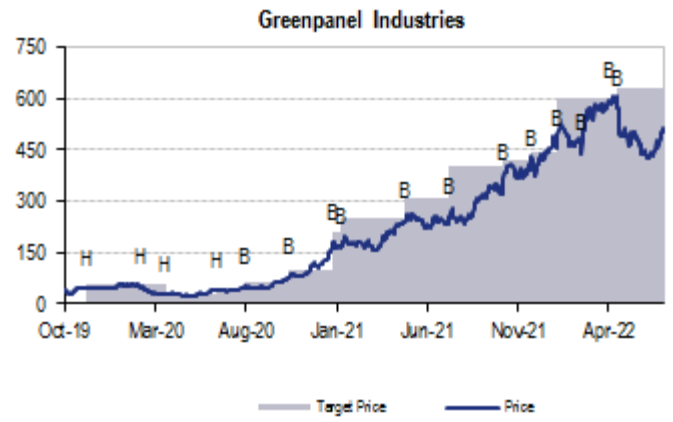
Source: Company, JM Financial



History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
27-Nov-19	Hold	55	
28-Feb-20	Hold	60	9.1
8-Apr-20	Hold	30	-50.0
2-Jul-20	Hold	41	36.7
20-Aug-20	Buy	65	58.5
2-Nov-20	Buy	100	53.8
15-Jan-21	Buy	210	110.0
27-Jan-21	Buy	250	19.0
14-May-21	Buy	310	24.0
29-Jul-21	Buy	400	29.0
27-Oct-21	Buy	420	5.0
13-Dec-21	Buy	440	4.8
24-Jan-22	Buy	600	36.4
7-Mar-22	Buy	600	0.0
22-Apr-22	Buy	600	0.0
7-May-22	Buy	630	5.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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