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Company update

Wood Panel

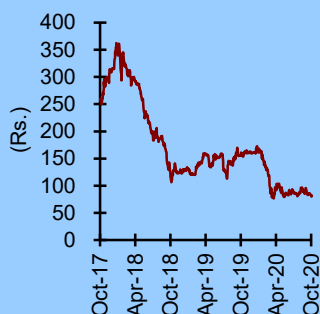
Target price: Rs135

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	51.7	52.0	52.0
Institutional investors	33.7	33.7	33.8
MFs and other	22.3	22.4	22.6
Insurance	0.0	0.0	0.0
FIs	11.4	11.3	11.2
Others	14.6	14.3	14.2

Source: NSE

Price chart



INDIA

Greenply Industries

BUY

Maintained

Rs85

Balance sheet correction to feed into growth

Greenply Industries' (MTLM) intensified focus on cash collection (post Covid-19) is likely to drive considerable balance sheet strengthening over the next two years. Post Covid-19 outbreak, the company's stricter control on its receivables (which may continue in near term) is likely to result in strong cashflow generation in FY21/FY22. The consequent debt reduction to the tune of Rs1.45bn (amid muted capex) and its sustained focus on outsourcing can push its RoCEs higher to 20%+ by FY22E. While Gabon business may gain traction post the recent expansion and its increasing EU penetration, its standalone plywood business is expected to report meaningful volume (driven by lower base and sharp correction in receivables) and margin recovery post Q3FY21. Maintain BUY.

- **Valuation and outlook.** The ongoing balance sheet strengthening and improving growth outlook in both plywood and Gabon businesses post FY21 is likely to drive impressive earnings recovery in FY22E. We expect MTLM to report overall revenue/PAT CAGR of -3.2%/-2.8% over FY20-22E, respectively. At CMP, the stock attractively trades at 11.3x FY22E earnings. With expected improvement in fundamentals in near term, we believe the recent stock underperformance is unwarranted. We, thus, reiterate our BUY rating on the stock with an unchanged target price of Rs135, valuing it at 18x FY22E earnings.
- **Material recovery in plywood likely post Q3FY21:** The prolonged nationwide lockdown in Q1FY21 and muted demand recovery in discretionary-based premium plywood and decorative veneer (DV) segment (in past 3-4 months) may lead to 26.5% decline in its plywood revenue in FY21. Despite the recent cost-control initiatives undertaken by the company post Covid-19, its standalone EBIDTA margin is expected to decline by 190bps to 8.7% in FY21E due to adverse product mix and operating deleverage. However, expected volume recovery in plywood segment, likely improvement in its product mix and sustainable cost cutting measures would drive impressive EBITDA performance in its standalone business in FY22.
- **Traction in Gabon business to continue:** MTLM commenced commercial veneer operations in Gabon, West Africa, in FY18 with an installed annual peeling capacity of 36,000-CBM per annum, which was fully utilised in FY20 itself. With the recently concluded expansion (capacity now at 96,000-CBM per annum), the Gabon subsidiary may witness increasing exports of Okoume commercial veneers to European countries in particular. While we expect Gabon revenues to grow in double digits over the next two years (16% revenue CAGR over FY20-FY22), its EBIDTA margin is likely to improve gradually to 16% in FY22 from 15.5% in FY20.
- **RoCEs can recover back to 20% by FY22E led by sustained balance sheet improvement.** Stricter working capital discipline (focus on curtailing receivables), increasing asset-light approach (incrementally moving towards JV and vanilla outsourcing model) and muted capex (Rs300mn per annum for FY21E and FY22E) will drive higher FCF generation over the next two years. The expected traction in earnings and the consequent net debt reduction (by Rs1.45bn) in FY22E may drive 680bps improvement in its RoCEs to 20%+ by FY22E. This, we believe, will result in rerating in the stock going forward.

Market Cap	Rs10.4bn/US\$142mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GRPL.BO/MTLM IN	Revenue (Rs mn)	14,122	14,204	10,983	13,274
Shares Outstanding (mn)	122.6	Rec. Net Income (Rs mn)	797	473	538	918
52-week Range (Rs)	178/70	EPS (Rs)	6.5	7.9	4.4	7.5
Free Float (%)	47.2	% Chg YoY	283.5	22.0	(44.6)	70.7
FII (%)	11.2	P/E (x)	13.1	10.7	19.4	11.3
Daily Volume (US\$/'000)	382	CEPS (Rs)	8.3	6.0	6.3	9.8
Absolute Return 3m (%)	(2.4)	EV/E (x)	9.0	8.3	11.0	7.3
Absolute Return 12m (%)	(47.3)	Dividend Yield (%)	0.5	0.5	0.7	0.7
Sensex Return 3m (%)	7.5	RoCE (%)	22.5	20.9	13.7	20.5
Sensex Return 12m (%)	4.8	RoE (%)	26.4	27.3	13.4	19.8

Please refer to important disclosures at the end of this report

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Financial summary

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	14,122	14,204	10,983	13,274
Operating Expenses	12,681	12,648	9,910	11,701
EBITDA	1,440	1,556	1,073	1,573
% margins	10.2%	11.0%	9.8%	11.9%
Depreciation & Amortisation	224	257	232	285
Gross Interest	186	208	150	125
Other Income	33	20	17	20
Recurring PBT	1,062	1,112	708	1,183
Less: Taxes	315	134	156	265
Less: Minority Interest	-	-	-	-
Add: Share of Profit of Associates	49	(5)	(14)	-
Net Income (Reported)	797	972	538	918
Extraordinaries (Net)	-	(500)	-	-
Recurring Net Income	797	473	538	918

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	5,956	6,189	5,044	5,837
of which cash & cash eqv.	206	103	373	298
Total Current Liabilities & Provisions	2,755	3,187	2,816	3,193
Net Current Assets	3,201	3,002	2,228	2,644
Investments	222	238	438	538
Net Fixed Assets	2,532	3,143	3,262	3,277
Capital Work-in-Progress	160	52	-	-
Goodwill	-	-	-	-
Total Assets	6,115	6,435	5,929	6,459
Liabilities				
Borrowings	2,763	2,656	1,700	1,400
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	123	123	123	123
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	3,230	3,656	4,106	4,937
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	3,352	3,779	4,229	5,059
Total Liabilities	6,115	6,435	5,929	6,459

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net revenues	3,803	3,460	3,447	1,327
% growth (YoY)	5.0	(1.0)	(12.0)	(62.0)
EBITDA	449	397	299	(28)
Margin (%)	11.8	11.5	8.7	(2.1)
Other income	1	2	13	2
Extraordinaries (Net)	-	-	(500)	-
Net profit	264	213	(215)	(113)

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	914	743	770	1,203
Working Capital Changes	(574)	191	855	(500)
Capital Commitments	(1,207)	(760)	(300)	(300)
Free Cashflow	(867)	175	1,325	403
Cashflow from Investing Activities	198	(16)	(200)	(100)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	757	(107)	(956)	(300)
Dividend paid	(59)	(59)	(88)	(88)
Change in Deferred Tax Liability	(81)	(96)	190	10
Chg. in Cash & Bank balance	(52)	(103)	271	(75)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS	6.5	7.9	4.4	7.5
Cash EPS	8.3	6.0	6.3	9.8
Dividend per share (DPS)	0.4	0.4	0.6	0.6
Book Value per share (BV)	27.3	30.8	34.5	41.3
Growth (%)				
Net Sales	54.8	0.6	-22.7	20.9
EBITDA	116.8	8.0	-31.1	46.7
PAT	283.5	22.0	-44.6	70.7
Cash EPS	163.6	-28.5	5.6	56.2
Valuation Ratios (x)				
P/E	13.1	10.7	19.4	11.3
P/CEPS	10.2	14.3	13.5	8.7
P/BV	3.1	2.8	2.5	2.1
EV / EBITDA	9.0	8.3	11.0	7.3
EV / Sales	0.9	0.9	1.1	0.9
Operating Ratios				
Raw Material / Sales (%)	60.4	59.8	61.4	59.2
Employee cost / Sales (%)	10.7	10.5	10.9	10.8
SG&A / Sales (%)	37.3	36.6	36.0	36.2
Other Income / PBT (%)	3.1	3.3	2.4	1.7
Effective Tax Rate (%)	29.7	22.0	22.0	22.4
Working Capital (days)	62.7	77.6	56.0	55.0
Inventory Turnover (days)	43.8	45.5	48.0	48.0
Receivables (days)	78.8	91.6	70.0	68.0
Payables (days)	60.0	59.5	62.0	61.0
Net D/E Ratio (x)	0.8	0.7	0.3	0.2
Return/Profitability Ratios (%)				
Net Income Margins	5.6	6.8	4.9	6.9
RoACE	22.5	20.9	13.7	20.5
RoAE	26.4	27.3	13.4	19.8
Dividend Payout	7.4	12.5	16.4	9.6
Dividend Yield	0.5	0.5	0.7	0.7
EBITDA Margins	10.2	11.0	9.8	11.9

Source: Company data, I-Sec research

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