IndiaNivesh
Trust......we earn it.

Visit Note
March 24, 2015

Greenply Industries Ltd.

Current	Previous
CMP : Rs.964	
Rating : NR	Rating : NR
Target : NR	Target : NR

(NR-Not Rated)

STOCK INFO	
BSE	526797
NSE	GREENPLY
Index	S&P BSE MID CAP
Bloomberg	MTLM IN
Reuters	GRPL.BO
Sector	Building Products
Face Value (Rs)	5
Equity Capital (Rs mn)	121
Mkt Cap (Rs mn)	23,271
52w H/L (Rs) (Adj.)	1277/346
3m Avg Daily Volume (BSE + NSE)	25,532

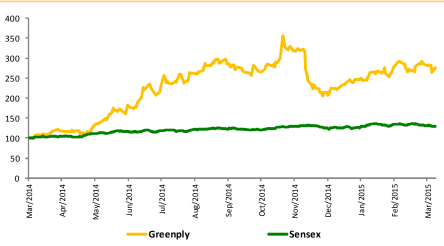
SHAREHOLDING PATTERN	%
(as on Dec. 2014)	
Promoters	55.0
FIIs	15.3
DIIs	7.9
Public & Others	21.8

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
GREENPLY	-3	23	176
SENSEX	-3	2	30

Source: Capitaline, IndiaNivesh Research

GREENPLY v/s SENSEX



Source: Capitaline, IndiaNivesh Research

Greenply Industries Ltd (GIL), incorporated in 1990, is a one-stop manufacturer of all products related to interior infrastructure from plywood and boards, flush doors, medium density fiber (MDF), pre-lam MDF and particle boards. The company commands a market share of 30% in organised plywood segment and 30% in MDF segment. Recently it de-merged its laminates business (market share of 28%) to a separate company namely Greenlam Industries Ltd and listed on the exchanges. Its plywood segment has manufacturing facilities located at 4 locations in Nagaland, West Bengal, Uttarakhand and Gujarat with capacity of 32 mn square meters. MDF plant is located at Uttarakhand with capacity of 180,000 cubic meters.

We met the senior management of the company to understand the business model, growth prospects and strategic initiatives of the company. The following are the key takeaways:

MDF industry likely to grow faster than plywood:

Plywood industry (worth Rs ~50 bn) has been growing at 5%-6% while MDF industry has been growing at 15-20% over the last few years. The increase in automatic furniture manufacturing has led to an increase in demand for MDF. Moreover, MDF is cheaper than premium ply, making it more desirable for furniture manufacturers. MDF is used in other products like handicraft, gift articles, photo frames, shoe heels, etc. as well diversifying the client base of the company. MDF industry is worth Rs 14-15 bn currently, with imports constituting 35-45%. Five years back, the industry size was Rs ~5 bn.

Business Model:

GIL caters to premium and mid segments of the plywood industry. The company sells premium segment products under the brands namely Greenply and Optima Red and mid segment brand include Ecotec brand.

While the premium segment is manufactured in-house, mid segment is outsourced from domestic and Chinese players. The company has tie-up with 6-7 Indian manufacturers and two Chinese players for outsourcing. Traded revenues constitute 23% of plywood volume and 17-18% of plywood revenue.

The operating margin from outsourced products is lower but ROCE is high. The company expects the share of outsourced products to increase to 25% in next 3 years from 17%-18% currently. The demand in mid segment has been better than that of the premium segment as metro cities growth has been stagnant while growth was being driven by Tier-2 and Tier-3 cities. The premium segment sales have been stagnant over the last 2 years against 35-40% growth in mid segment.

Currently, revenue mix of the company is the ratio of 74:26 for plywood: MDF. With expected higher growth in MDF, this is likely to be 70:30 by FY17E.

Wide Distribution Network:

GIL has warehouses in Delhi, Mumbai, Chennai and Kolkata. Its distribution network includes 1100 dealers for plywood and 450 dealers for MDF. The company added 200 dealers in last 2 years who have contributed 34% to topline. The company has been deliberately reducing dependence on large dealers and upgrading sub-dealers to dealers. This is being done to spread dealer network and reduce price inconsistency in market caused by large dealers. It is likely to add 400 dealers in plywood and 150 dealers in the flooring segment of MDF business over the next 2 years.

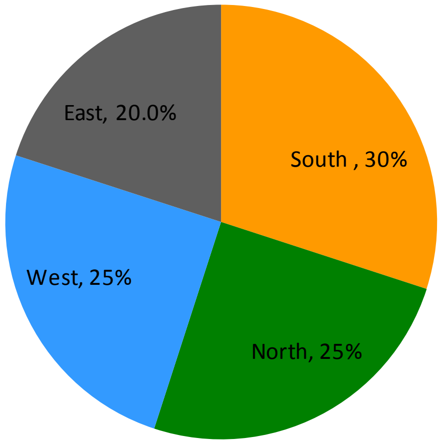
Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Prerna Jhunjhunwala
Research Analyst

Tel: +91 22 66188848
prerna.jhunjhunwala@indianivesh.in

Region-wise Revenue Mix



Source: Company, IndiaNivesh Research

Ensuring raw material sustainability through JV:

GIL has entered into 50:50 joint venture with a Singapore based company to set up face veneer facility in Myanmar. The total cost of setting up this facility is Rs 500 mn of which GIL has contributed its share of 50% in the investment. This would enable raw material availability at reasonable price. The facility commissioned commercial operations in October 2014. The management expects that logistics cost should reduce going forward when Myanmar plant utilisation increases to 80%.

Capex in high margin MDF segment:

GIL has planned a capacity expansion plan of setting up MDF plant with capacity of 300,000-360,000 cubic meters per annum in Andhra Pradesh. This would require capex of Rs 6.5 – Rs 7 bn which would be financed through a mix of debt and internal accruals of 70:30. It has already purchased land worth Rs 1.85 bn and the process of various regulatory approvals is in progress. The commercial production would likely begin in FY19E, if all the approvals are received as per planned schedule.

Demerger of laminate business:

The business model of laminate business is quite different from plywood and MDF businesses. Its profitability is lower than plywood and MDF business and working capital cycle is longer due o higher number of Stock Keeping Units (SKUs). Laminates focus on latest trends in the interior designs while plywood and MDF are base materials for laminates with focus on quality and durability. Also in terms of clientele, laminates caters to commercial segment (65% or revenues) and plywood business caters to residential segment (70% of revenues). Exports constitute 18-20% of sales in laminates while plywood has insignificant revenues from exports. Hence the management observed that the business would require separate management focus and business strategies. Consequently, GIL recently demerged its laminate business into a separate entity and got it listed on the exchanges.

Financial Performance:

The net sales of the company (GIL + Greenlam) stood at Rs 22169 mn in FY14. Its sales have grown at a CAGR of 26.1% CAGR over FY07-FY14 and 20.7% over FY11-FY14. The lower growth in recent years can be attributed to slowdown in real estate sector. The plywood and laminate segments have grown at a CAGR of ~16% over FY11-FY14 while the recently introduced MDF in FY11 has grown at a CAGR of 97.5% in the same period. EBITDA margin of the company has improved to 12.1% in FY14 from 9.1% in FY11.

Recently we have seen an uptick in the demand for real estate which is likely to impact positively for the company. Adjusting for de-merger of Greenlam for 9mFY15, revenue of the company grew 11.7% yoy at Rs 11322 mn, which is higher than FY14 growth. EBITDA grew 9.9% yoy to reach Rs 1471 mn with margin contraction of 20 bps yoy at 13%. Higher advertisement cost impacted the profitability of the company. Net profit grew 39.3% yoy to reach Rs 763 mn due to higher other income, marginal decline in interest cost and lower effective tax rate.

The management estimates 10-12% topline growth for the next 2 years due to slower pace of revival in real estate sector. It also commented that margin may improve slightly with MDF gaining share in revenue mix.

Valuation

At CMP of 964, the stock trades at PE of 17.3x and 14.8x its FY16E and FY17E Bloomberg consensus earnings. In our opinion, the company is well poised to benefit from the improvement in macroeconomic scenario. Its leadership position would enable to capitalise on the opportunity much faster than its competitors. The key catalyst for financial performance of the company would be improvement in secondary sales of real estate business in both the commercial and residential segments. **We do not have any formal rating on the stock.**

Quick Consolidated Fundamentals

Particulars (Rs Mn)	FY11	FY12	FY13	FY14
Net Sales	12607	17081	20475	22168.9
Growth (%)	31.4	35.5	19.9	8.3
EBITDA	1144	1762	2702	2686
Margin (%)	9.1	10.3	13.2	12.1
PAT	234.7	567.1	1196.6	1175.7
Margin (%)	1.9	3.3	5.8	5.3
EPS	9.56	23.17	49.07	48.2
Debt:Equity	1.86	1.98	1.66	1.36
ROE (%)	8.21	16.84	28.61	22.23

Source: Company, Capitaline, IndiaNivesh Research

Disclaimer: This report has been prepared by IndiaNivesh Securities Private Limited (“**INSPL**”) and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014, for use by the recipient as information only and is not for circulation or public distribution. INSPL includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, redistributed, uploaded, published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from INSPL. The projections and the forecasts described in this report are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections are forecasts were based will not materialize or will vary significantly from actual results and such variations will likely increase over the period of time. All the projections and forecasts described in this report have been prepared solely by authors of this report independently. None of the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this report nor anything contained therein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute a personal recommendation or take into account the particular investment objective, financial situation or needs of individual clients. The research analysts of INSPL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. The recipients of this report must make their own investment decisions, based on their own investment objectives, financial situation or needs and other factors. The recipients should consider and independently evaluate whether it is suitable for its/ his/ her/their particular circumstances and if necessary, seek professional / financial advice as there is substantial risk of loss. INSPL does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her/its/their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The price and value of the investment referred to in this report and income from them may go up as well as down, and investors may realize profit/loss on their investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as ‘will’, ‘would’, etc., and similar expressions or variations of such words may constitute ‘forward-looking statements’. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. INSPL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. INSPL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared by INSPL based upon the information available in the public domain and other public sources believed to be reliable. Though utmost care has been taken to ensure its accuracy and completeness, no representation or warranty, express or implied is made by INSPL that such information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of INSPL and INSPL does not guarantee the accuracy or reliability of any projection, assurances or advice made herein. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients’ specific circumstances. This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company’s technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement		
1.	Details of business activity of IndiaNivesh Securities Private Limited (INSPL)	INSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSPL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSPL is a Registered Portfolio Manager and is registered with SEBI.
2.	Details of Disciplinary History of INSPL	No disciplinary action is / was running / initiated against INSPL
3.	Research analyst or INSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSPL or its relatives'/associates')
4.	Whether Research analyst or INSPL or its relatives'/associates' is holding the securities of the subject company	No
5.	Research analyst or INSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6.	Research analyst or INSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7.	Has research analyst or INSPL or its associates received any compensation from the subject company in the past 12 months	No
8.	Has research analyst or INSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9.	Has research analyst or INSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10.	Has research analyst or INSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11.	Has research analyst or INSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	No
12.	Has research analyst served as an officer, director or employee of the subject company	No
13.	Has research analyst or INSPL engaged in market making activity for the subject company	No
14.	Other disclosures	No

INSPL, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. This information is subject to change, as per applicable law, without any prior notice. INSPL reserves the right to make modifications and alternations to this statement, as may be required, from time to time.

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSPL

CS = Coverage Suspended. INSPL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSPL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)

IndiaNivesh®
Trust......we earn it.

IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

Home