Greenply Industries

Strengthening the Core

When it's about money..

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Initiating Coverage

Greenply Industries Ltd

IIFL INDIA PRIVATE CLIENTS

"Strengthening the Core"

Greenply Industries (GIL) is a leading interior infrastructure company and manufactures Plywood/ Medium-density fibreboard (MDF) with an installed capacity of 32.4mn sqm/0.18mn cbm, respectively. GIL is betting big on the increase in usage of MDF on account of wide acceptance/awareness of readymade furniture. To drive growth, GIL will set up a new plant in Andhra Pradesh by mid-FY19 with a capex of Rs6.0bn-Rs6.5bn with an installed capacity of 0.36mn cbm. GIL is also foraying into new product categories like natural veneer, and trading in wall paper. GIL, under Greenterior brand, has given guidance of garnering Rs500cr revenue in the next five years, starting with wallpaper trading. We expect revenue/PAT CAGR of 11.5%/16.4%, respectively, healthy operating cash flow of Rs3.6bn leading to a fall in D/E from 0.69x in FY15 to 0.46x in FY17E, improvement in ex-cash working capital to 15.4% in FY17E from 17.2% in FY15, improvement in pre-tax RoCE by 314bps to 23.4% and increase in operating margin by 106bps over FY15-FY17E, leading to a re-rating of GIL's valuations. We recommend BUY rating with a TP of Rs1,327 based on 22x PE and 12.6x EV/EBITDA FY17E.

Valuations accretive post demerger: In order to streamline its business and increase the focus on each segment, GIL demerged its laminate division (accounting for 29.5% of FY14 revenue) into a separate company called Greenlam Industries (Greenlam) in November 2014. Pre-demerger, GIL had a high D/E ratio of 1.27x in FY14, which post demerger stood at 0.97x. Even the FY14 working capital cycle improved to 51 days post demerger as against 74 days earlier. As laminate has the lowest pre-tax RoCE among the three business divisions at 16.3%, GIL had reported a pre-tax RoCE of 17.2% in FY14. Post demerger, it improved to 19.4% in FY14.

Lower working capital need, strong operating cash flow to support capex: We expect ex-cash working capital cycle to improve from 17.2% in FY15 to 15.4% in FY17E and higher operating margin by 106bps to 14.2% in FY17E. GIL is likely to report healthy operating cash flow of Rs5.7bn over FY15-FY18E, which will support capex, and hence we expect D/E to fall from 0.69x in FY15 to 0.46x/0.46x/0.51x in FY16E/FY17E/FY18E, respectively.

Financial summary

Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	1,564	1,709	1,943	2,147
Growth (%)	12.5	9.2	13.7	10.5
EBITDA	205	239	275	306
EBITDA (%)	13.1	14.0	14.2	14.3
PAT	107	122	146	165
EPS (Rs)	44.5	50.6	60.3	68.5
P/E (x)	19.4	17.1	14.3	12.6
P/BV (x)	4.3	3.5	2.8	2.3
EV/EBITDA (x)	11.8	9.9	8.6	7.9
D/E (x)	0.69	0.46	0.46	0.51
RoCE (%)	19.3	21.7	22.1	20.1

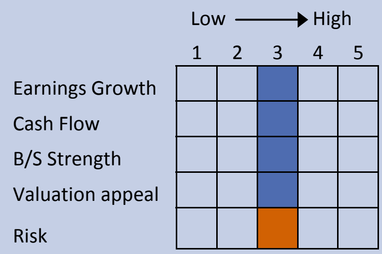
Source: Company, India Infoline Research

Rating:	**BUY**
Target:	**Rs1,327**
CMP:	**Rs864**
Upside:	**54%**

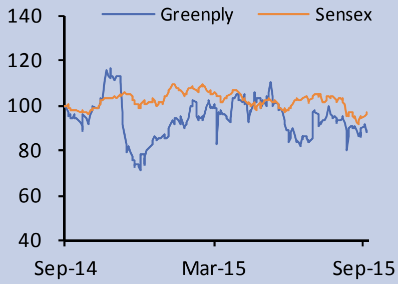
Sector:	**Building Products**
Sector view:	**Positive**
Sensex:	25,823
52 Week h/l (Rs):	1,277/ 699
Market cap (Rscr) :	2,086
6m Avg vol ('000Nos):	759
Bloomberg code:	MTLM IN
BSE code:	526797
NSE code:	GREENPLY
FV (Rs):	5

Price as on September 23, 2015

Company rating grid



Share price trend



Share holding pattern

%	Dec-14	Mar-15	Jun-15
Promoters	55.0	55.0	55.0
Insti	23.2	20.1	21.0
Others	21.8	24.9	24.0

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September 24, 2015

Company Report

MDF to provide better growth and healthy cash flows in coming years: We expect the MDF board business to provide better growth and healthy return ratios/cash flows in the coming years because: 1) Activity in the commercial real estate sector has started rising, which will increase the demand for MDF boards, 2) No new capacity likely in the next two years in MDF board segment, thereby restricting supply (only GIL is setting up a new MDF board plant in Andhra Pradesh, which is expected to get commissioned by mid-FY19), and 3) GIL has introduced low density, cheap MDF board, thereby preventing the consumers' migration to cheap plywood. The management is quite hopeful of improvement in MDF board capacity utilisation to 100%/110%-115% in FY16E/FY17E, respectively, from 89% in FY15. In Q1FY16, the plant's capacity utilization stood at 92%.

Increased outsourcing to improve plywood's division RoCE: Traded plywood pre-tax RoCE stands at ~39% against 18% in case of manufactured plywood. Hence, GIL is not expanding any capacity and instead increasing the contribution of traded plywood, which is expected to touch ~30% in the next three years from 20.5% in FY15. We expect trading plywood to contribute 20.8%/22.4%/24.9% in FY16E/FY17E/FY18E, respectively. With lower capex, pre-tax RoCE will improve 314bps over FY15-FY17E to 23.4%.

Raw-material security in Myanmar: Myanmar is the world's leading producer of teak, accounting for ~75% of global market. So far, majority of this timber has been exported to China, Thailand and India - without processing. However, Myanmar had imposed export ban on timber on April 1, 2014 (export of face veneer is allowed), to conserve its depleting natural resources. This has resulted in ~30% increase in face veneer prices in India and has led to raw material supply constraint for several smaller-sized organised players. To combat the uncertainty over raw-material availability, GIL had set-up a timber peeling (face veneer) plant in Myanmar through joint venture route which is operational since August 2014. Both companies have invested Rs28cr each for an installed capacity of 42msqm of face veneer. While 50%-60% of this would be used as raw material, the remaining would be sold in domestic market. Therefore, GIL will be able to source quality face veneer at lower prices, thereby improving the margins of its plywood division.

GST implementation to benefit organised players: For wood procurement, the plywood industry doesn't pay any excise duty or VAT. Therefore, there is no CENVAT credit available to the plywood manufacturers. The uneven indirect duty structures in favour of unorganized players provide them price advantage over organized manufacturer. Organised players pay excise duty of 12.5% and value-added tax or VAT of 12.5% - a total of ~25% tax. However, with the implementation of GST, the unorganised players will also fall under the purview of tax, which will benefit the organised players significantly. As per the management, the difference between the prices of organised and unorganised players is ~15%. With the implementation of GST, the dealers' purchase prices will come down. This will narrow down the price difference by 10% to 5%. Hence, the rapid shift from unorganised to organised segment will take place, thereby driving growth for GIL.

Valuations and Recommendations

GIL, a leading player in the Indian wood panel market, has transformed its business model from a high working capital requirement, subdued RoCE model to one with efficient working capital management and healthy return ratios. The company had improved its margin by 64bps to 13.1% in FY15 and working capital cycle from 17.6% in FY14 to 17.2% in FY15 (post demerger).

With Rs331cr advertisement expenditure over FY08-FY15 - ranging from 2.9%-5.0% of its sales - strong dealer network and better product offerings, GIL was able to create brand equity in the highly competitive and unorganised segment-dominated plywood market (unorganised segment's share at 75%). Though relatively a late entrant, it overtook market leader Centuryply and achieved the top position in the domestic wood panel market. GIL spent Rs686cr over the past five years to create the necessary infrastructure for plywood, laminates and particularly MDF and started reaping its benefits from FY13.

However, to increase the shareholder's value and to maximize the resource optimization and sharper focus on each entity, Greenply's decorative laminate business was completely hived off into a separate listed entity called Greenlam Industries, effective November 2014 as the laminate business had the lowest RoCE among plywood and MDF because of higher debt. With the laminate business hive off, the D/E ratio and return ratios improved. In addition, the company was also able to generate sufficient free cash flows.

In order to en-cash the emerging market for MDF on the back of increase in the usage of readymade furniture and substitute of cheap plywood, the company is setting-up capacity of 0.36mn cbm at Andhra Pradesh with a capex of Rs6.0bn-Rs6.5bn. The capacity is expected to commence operation by mid-FY19**. During FY15-FY18E, the company is expected to generate operating cash flow of Rs5.7bn. Unlike in the past, healthy operating cash flow is expected to support its aggressive capex plan and as a result D/E is likely to improve from 0.69x in FY15 to 0.46x/0.46x/0.51x in FY16E/FY17E/FY18E, respectively, while absolute debt would remain at the current level over the same period, thereby improving the stock's valuation.**

At the current market price (as on 23rd September 2015), the stock trades at 17.2x/14.4x P/E and 9.8x/8.6x EV/EBITDA based on FY16E/FY17E earnings, respectively, above its four-year median of 12.2x/7.5x respectively, due to healthy return ratios and operating cash flow. Healthy 11.5% sales growth, 106bps improvement in margins, D/E ratio declining to 0.46x from 0.69x, healthy operating cash flow of Rs3.6bn and improvement in pre-tax RoCE by 314bps to 23.4% likely over FY15-FY17E will support rich valuation. We have compared GIL with Kajaria on the back of the same business matrix, strong brand, improving return ratios and similar clientele. The stock trades at 37.3%/30.9% discount to Kajaria on FY17E P/E and EV/EBITDA, respectively. If we compare it with Centuryply on the back of similar product profile, GIL trades at discount of 3.3%/18.1% on FY17E PE and EV/EBITDA, respectively. **However, with the growth visibility, improvement in working capital, healthy balance sheet and healthy operating cash flow, the gap is expected to narrow.**

Strong growth is expected in the home improvement segment, which would enable Greenply to post an 11.5% growth over FY15-FY17E without any capacity expansion. **We have assigned a Buy rating to GIL with a target price of Rs1,327 based on 22x/12.6x FY17E EV/EBITDA and P/E, respectively.**

Comparative analysis

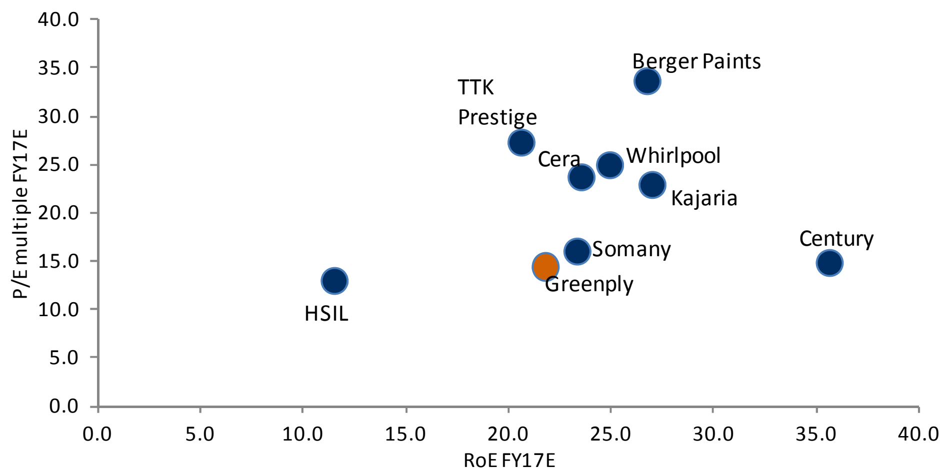
Company Name	Mkt Cap	Net Sales	EBITDA %				CAGR (FY15-FY17E) %			PE			
	(Rs Bn)	FY15	FY15	FY16E	FY17E	FY18E	Sales	EBITDA	PAT	FY15	FY16E	FY17E	FY18E
Greenply*	**21.0**	**15.6**	**13.1**	**14.0**	**14.2**	**14.3**	**11.4**	**15.9**	**16.4**	**19.6**	**17.2**	**14.4**	**12.7**
Century	35.3	15.9	16.1	17.1	17.7	NA	16.3	21.8	26.7	23.6	19.5	14.9	NA
Berger Paints	150.0	43.2	12.1	13.2	13.6	14.2	14.7	21.6	30.7	57.3	42.2	33.7	26.0
TTK Prestige	45.4	13.9	11.1	12.0	13.1	13.9	15.0	24.7	31.6	47.9	36.5	27.3	20.5
Kajaria	57.3	21.9	16.3	16.5	16.9	17.2	18.9	21.2	24.5	34.4	29.2	23.0	18.1
Somany	13.4	15.4	7.1	7.2	7.7	8.9	18.4	23.4	34.5	29.1	21.8	16.1	11.6
Whirlpool	79.3	32.9	10.3	10.9	11.3	11.4	16.7	21.9	24.6	38.8	31.2	25.0	18.7
HSIL	18.7	19.8	16.7	16.4	17.0	16.9	11.9	12.9	35.1	21.8	17.4	13.0	10.7
Cera	25.8	8.2	14.6	14.7	14.9	15.1	22.9	24.0	26.4	37.0	30.6	23.8	17.5

*Source: Bloomberg, India Infoline Research, *IIFL estimate, Price as on 23rd September 2015*

Company Name	EV/EBITDA				P/B				RoE %			
	FY15	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E
Greenply*	**11.7**	**9.8**	**8.6**	**7.9**	**4.3**	**3.5**	**2.9**	**2.4**	**23.7**	**22.6**	**21.8**	**20.3**
Century	22.1	13.1	10.5	NA	13.3	6.5	4.9	NA	43.7	37.9	35.6	NA
Berger Paints	28.3	24.2	20.0	16.2	11.5	10.2	8.6	7.0	22.2	25.4	26.7	29.2
TTK Prestige	28.4	23.5	18.3	13.8	6.2	6.1	5.3	4.4	15.0	17.7	20.6	23.1
Kajaria	18.9	15.4	12.5	10.4	8.7	6.9	5.6	4.6	27.6	25.9	27.0	27.8
Somany	15.7	11.6	9.0	6.7	6.0	4.4	3.6	2.9	19.3	21.0	23.3	25.4
Whirlpool	22.4	18.3	15.1	14.8	10.2	7.3	6.1	4.9	25.4	24.8	24.9	23.0
HSIL	12.2	7.9	6.7	6.1	2.5	1.6	1.4	1.2	7.3	9.5	11.5	12.0
Cera	21.3	17.5	13.9	10.8	8.9	6.0	4.9	4.0	23.5	21.9	23.5	25.1

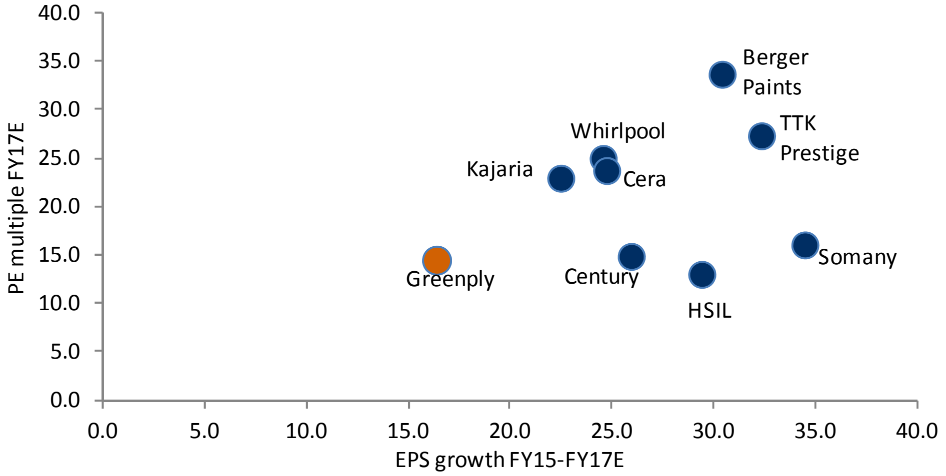
*Source: Bloomberg, India Infoline Research *IIFL estimate, Price as on 16th September 2015*

P/B multiple v/s RoE - FY17E



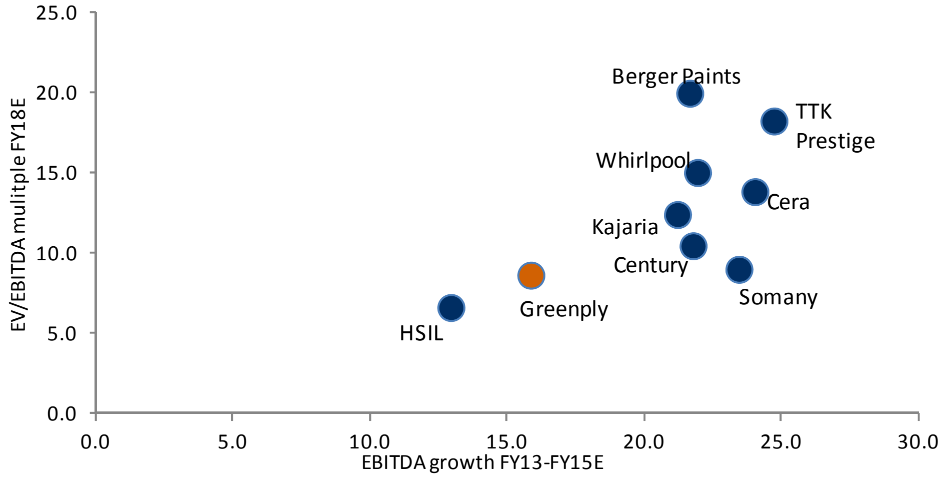
Source: Bloomberg, India Infoline Research

FY15-FY17E EPS growth v/s P/E multiple FY17E



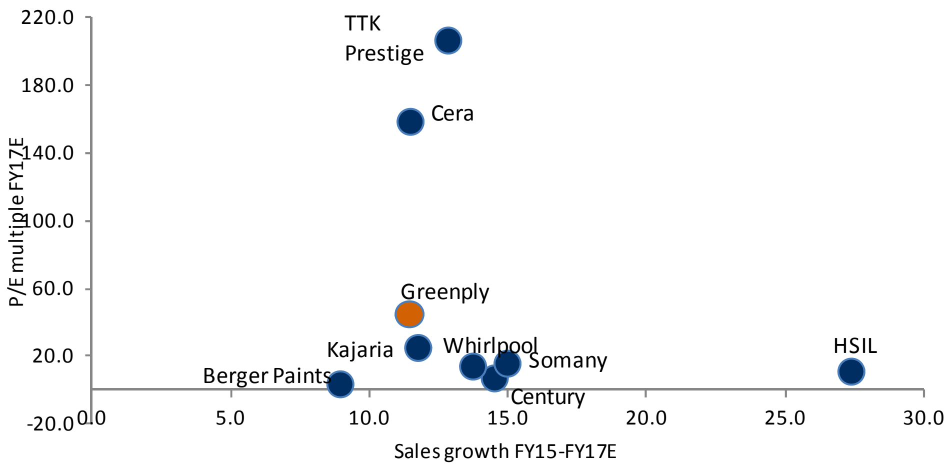
Source: Bloomberg, India Infoline Research

FY15-FY17E EBITDA growth v/s EV/EBITDA multiple FY17E



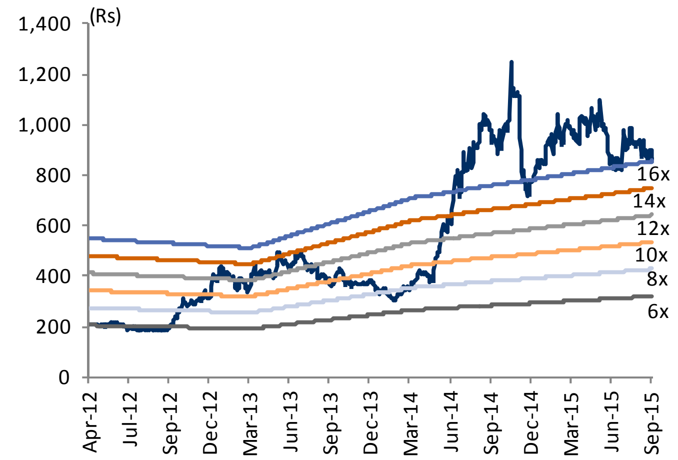
Source: Bloomberg, India Infoline Research

FY15-FY17E Sales growth v/s P/S multiple FY17E



Source: Bloomberg, India Infoline Research

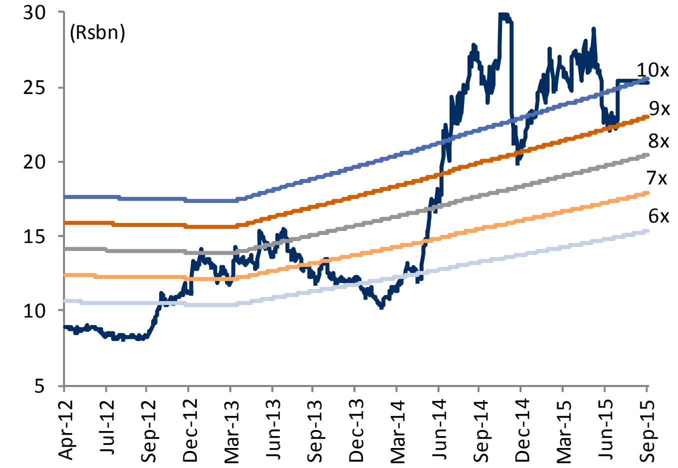
One year forward PE Band



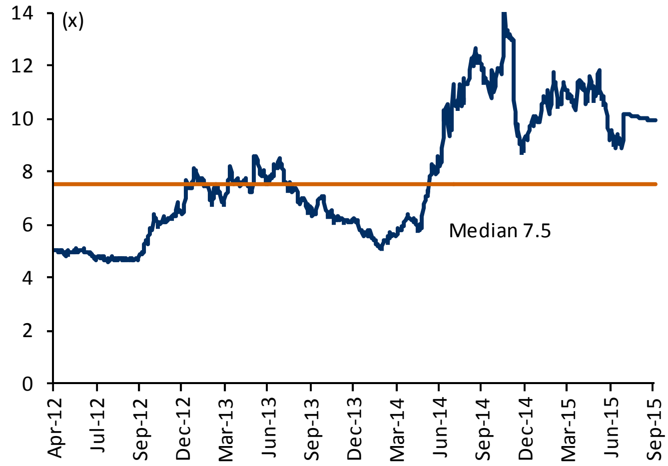
PE median Band

Source: Company, India Infoline Research

One year forward EV/EBITDA Band

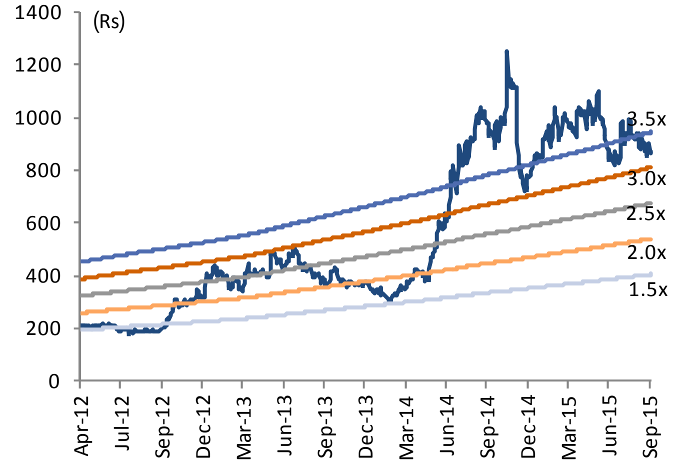


EV/EBITDA median band

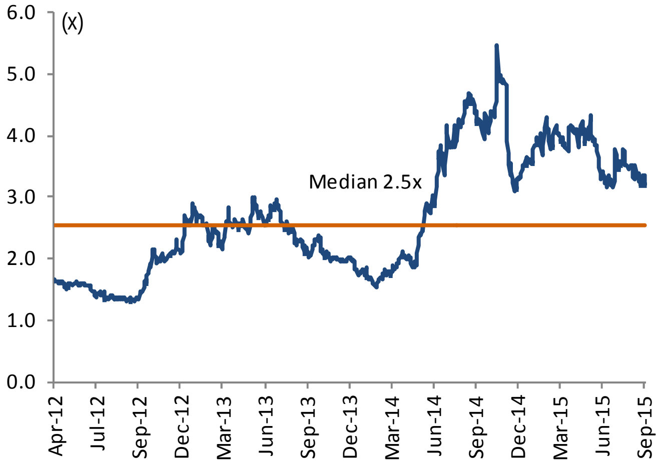


Source: Company, India Infoline Research

One year forward P/B Band



P/B median Band



Source: Company, India Infoline Research

Investment Rationale

Valuations accretive post demerger

In order to streamline its business and increase the focus on each segment, GIL demerged its laminate division (accounting for 29.5% of FY14 revenue) into a separate company called Greenlam Industries (Greenlam) in November 2014. The company demerged its laminate business into separate company because: A) Plywood and MDF (medium density fiber board) are wood-based products (form backbone materials for furniture) whereas laminate is a decoration-based product (surfacing material). From the characteristics of the product to marketing, manufacturing, etc everything is entirely different. B) Plywood and MDF are sold in domestic market and 45.6% of laminate sales are via exports; also the management is increasing its focus on exports. C) Two separate companies will have independent cash flows, which will cater to the future growth. D) Laminates operate on a distributor model as it has large SKUs (1800+), while Plywood & MDF operate on a dealer model as they have few SKUs.

Pre-demerger, GIL had a high D/E ratio of 1.27x in FY14, which post demerger stood at 0.97x. Even the FY14 working capital cycle improved to 51 days post demerger as against 74 days earlier. As laminate has the lowest pre-tax RoCE among the three business divisions at 16.3%, GIL had reported a pre-tax RoCE of 17.2% in FY14. Post demerger, it improved to 19.4% in FY14.

Pre-merger and Post-merger financial health comparison of the company:

	FY14	FY15
Pre-demerger		
Ex-cash working capital (%)	24.6	-
D/E ratio (x)	1.3	-
RoCE (%)	13.2	-
RoCE (pre-tax) (%)	17.2	-
Post-demerger		
Ex-cash working capital (%)	17.6	17.2
D/E ratio (x)	1.0	0.69
RoCE (%)	14.5	17.8
RoCE (pre-tax) (%)	19.4	20.3

Source: Company, India Infoline Research

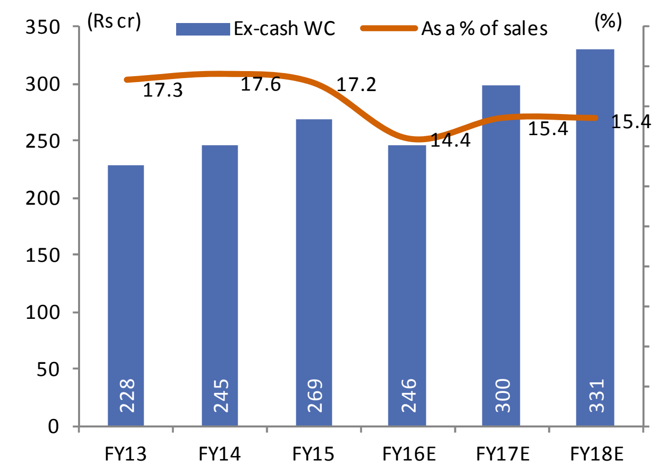
Better working capital management, strong operating cash flow to support capex

GIL has acquired ~105 acres of land in Chittoor district of Andhra Pradesh at a cost of Rs18.5cr and is awaiting statutory approvals/licences to set up a MDF board unit. The installed capacity is expected to be 0.36mn cbm, twice the size of its existing capacity. GIL is expected to incur a capex of ~Rs650cr over FY16E-FY19E, of which ~Rs200cr/~Rs300cr/~Rs150cr capex will be incurred in FY16E-FY17E/FY18E/FY19E, respectively. The total capex of new MDF plant ~Rs650cr will be funded 50:50 or 60:40 via debt and internal accruals. The plant is expected to be commissioned by October 2018 if everything works out as per plan. Apart from the major capex mentioned, company will also incur Rs25cr as maintenance capex every year. As major capex is likely in FY18, we expect the D/E ratio to improve to 0.46x in FY17E from 0.69x in FY15. We expect D/E to marginally inch to 0.51x in FY18E.

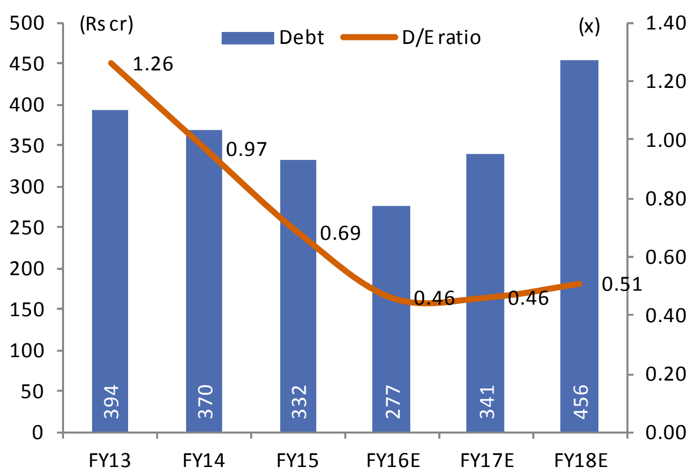
Net debt not to exceed ~Rs450cr by FY19E: Out of gross debt of Rs331.5cr as of FY15-end, ~Rs205cr is long term and ~Rs127cr is short term. The debt for the new MDF plant is estimated to be Rs330cr. As per management, the company will repay Rs180cr over FY15-FY19E, and therefore net debt will increase to Rs120cr over the same period. Hence, peak debt at any point of time will not be more than Rs450cr (Rs330cr+Rs120cr), despite a huge capex of Rs6.0-Rs6.5bn chalked out for new MDF plant, which is likely to be commissioned by mid FY19. Hence, management is confident of keeping D/E under control and is expected to improve to 0.4x in FY19E from 0.69x in FY15.

We expect ex-cash working capital cycle to improve from 17.2% in FY15 to 14.4%/15.4%/15.4% in FY16E/FY17E/FY18E, respectively. With higher operating margin, GIL is likely to report healthy operating cash flow of Rs5.7bn over FY15-FY18E. **The total capex of Rs5.6bn over FY15-FY18E would be financed through the operating cash flow of Rs5.7bn, during the same period. Hence, we do not foresee any strain on the balance sheet.** The healthy operating cash flow will support capex, and hence we expect D/E to fall from 0.69x in FY15 to 0.46x/0.46x/0.51x in FY16E/FY17E/FY18E, respectively.

Improving Working Capital Requirement

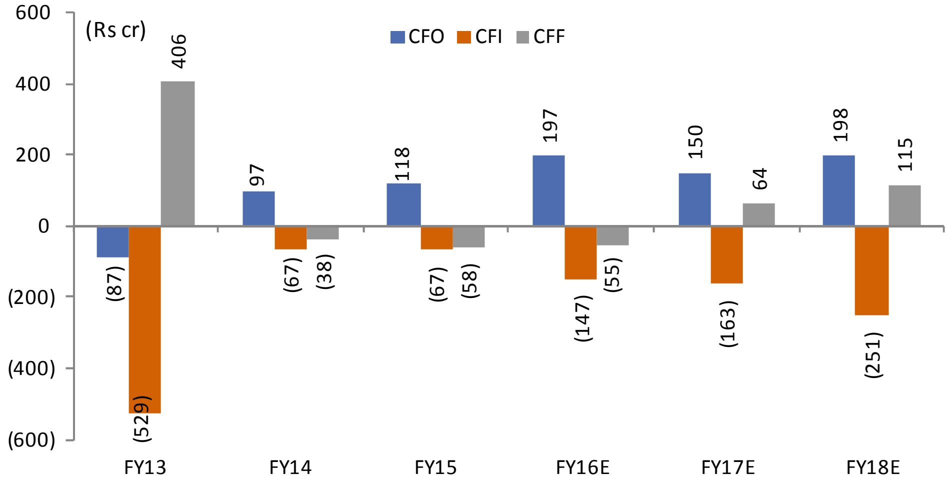


Declining D/E ratio



Source: Company, India Infoline Research

Healthy Operating Cash Flow



Source: Company, India Infoline Research

MDF to provide better growth and healthy cash flows in coming years

MDF has become one of the most popular composite materials in recent years. Being uniform, dense, smooth, and free of knots and grain patterns, MDF makes an excellent substitute for solid wood in many applications, except when the stiffness of solid wood is required, such as in a long bookshelf. Its smooth surface also makes MDF an excellent base for veneers and laminates.

We expect the MDF board business to provide better growth and healthy return ratios/cash flows in the coming years because : 1) Activity in the commercial real estate sector has started growing, which will increase the demand for MDF boards, 2) No new capacity is likely in the next two years in the MDF board segment, thereby restricting supply (only GIL is setting up a new MDF board plant in Andhra Pradesh, which is expected to get commissioned by mid-FY19), and 3) GIL has introduced low density, cheap MDF board, thereby preventing the consumers' migration to cheap plywood. The management is quite hopeful of improvement in MDF board capacity utilisation to 100%/110%-115% in FY16E/FY17E, respectively, from 89% in FY15. In Q1FY16, the plant's capacity utilization stood at 92%.

Readymade furniture industry to drive MDF growth

The Indian furniture market, which has witnessed a CAGR of 17.2% for the period FY08-FY13, will incline at a CAGR of 13.0% over FY13-FY18. As per the management, ~Rs700bn is the size of the furniture industry in India in which only Godrej, Featherlight and Blueplast are organised players whose combined size is less than Rs10bn. As the furniture industry is largely dominated by unorganized player, the usage of plywood is higher compared to MDF.

The furniture market in India has historically witnessed a prolific boom in the country. A number of factors have led to growth in furniture demand in Indian households in the last few years. The growing Indian economy has increased the spending capacity of the people, which in turn has impelled the sales of branded furniture items in the market. The growing phase of infrastructure and real estate market has also augmented the demand for furniture products in the country. Resultantly, there will be an increase in the use of automated plants to manufacture furniture. An automated plant prefers to use MDF board over plywood to manufacture furniture. Plywood is manufactured in a labour-intensive environment and hence it is not uniform while MDF boards are manufactured in an automated plant and therefore the quality is uniform, which leads to preference of MDF board over plywood. Additionally, conversion ratio from wood to MDF at 90%-92% is far better for MDF over plywood (conversion ratio of 60%-65%) providing cost efficiency. Further, globally 15% of the readymade furniture is made from plywood and 85% from MDF boards or particle boards. Therefore, in anticipation of the next phase of growth in MDF board segment, GIL will expand capacity in MDF board division and increase outsourcing in the plywood segment.

Why MDF plant in South India?

South India is the next big revenue contributor on account of the rise in the number of NRIs who are using MDF boards as they are used to MDF board usage in developed countries. MDF boards are more of B2C compared to other parts of India where it’s B2B. Freight costs account for 10%-12% of total sales and therefore the company preferred to set up a new MDF plant to cater to the needs of South India. This will help the company in saving costs. In addition, no new players are setting up a MDF plant. Even, if new players venture to set up a MDF plant, they require two to three years to secure the licences to set up the same. By that timeframe, GIL will be able to set up its own manufacturing plant in South India. As of now, plywood market is saturated with just an 8%-9% growth, while the management sees a 15%-20% growth in MDF boards led by the consumer shift from cheap plywood to MDF boards.

Century v/s Greenply (MDF)

As per the management of Centuryply, the company has the license to manufacture MDF in Nellore, Andhra Pradesh; Uttarakhand; and Punjab. The company is planning to set-up a MDF unit in Punjab on the back of availability of raw-material and huge market to cater to in Punjab, Delhi and Haryana. The capacity is ~0.15mn cbm with a capex of Rs3bn. Additionally, the company depends upon imports (Vietnam) for MDF to meet domestic requirement.

On the other hand, GIL enjoys first mover advantage and already has a MDF plant in Uttarakhand (North India) with a capacity of 0.18mn cbm. The capex for the same was Rs2.7bn. Further, GIL is planning to set-up a capacity of 0.36mn cbm in Andhra Pradesh with a capex of Rs6bn-Rs6.5bn. The thought process of setting-up a capacity in Andhra Pradesh is to cater to the South India market efficiently, which has emerged as the huge market for MDF because of increase in the usage of readymade furniture. Further, it will help the company to save the logistics cost (transportation from Uttarakhand plant to South India market) and cater to the huge market available with ease.

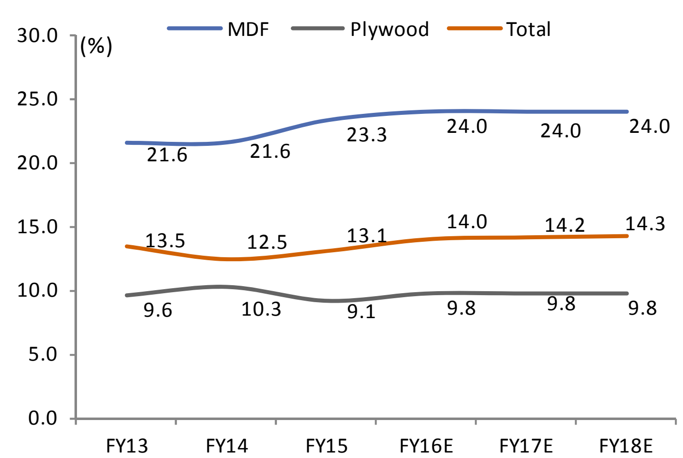
Lower working capital need and high operating margins compensate for capex intensive MDF business

Wood manufacturing is a highly capex intensive business. The company was in an expansion spree due to addition of new capacities in the laminate division (FY10 - Rs120cr), MDF (FY10 - Rs255cr) and plywood (FY11 - Rs28.2cr), which resulted in lowest asset turnover during FY09-FY11. MDF was the lowest asset-turnover as the company took time to stabilize the business. As a result, MDF reported an asset turnover of 0.35x as the plant ran at a capacity utilization of 16.7% in FY11, resulting into 1.55x total asset turnover for the company. However, with the stabilization of plant and ramp-up in capacity utilisation level in MDF to 88.9% in FY15, the asset turnover rose to 1.24x, which improved the overall turnover to 1.87x (post demerger of laminate business). As the company is expanding its MDF capacity by adding 0.36mn cbm by mid FY19 resulting into the lower asset turnover led by lower capacity utilization level, we expect the total asset turnover to remain likely at the same level/slightly lower going forward.

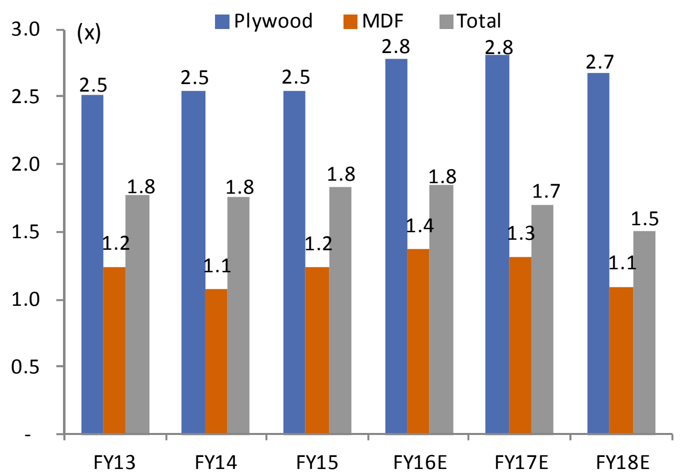
Following higher capex, initially RoCE (pre-tax) of the MDF unit was very low at 8.2% in FY12. However, the MDF unit operated at highest operating margin of 23.3% and lowest working capital cycle of 27 days compared to other segments in FY15. With better capacity utilisation at 77.8%/88.9% in FY14/FY15, respectively from 64.9% in FY12, asset turnover of the MDF division increased to 1.07x/1.24x, respectively in FY14/FY15 from 0.88x in FY12. With lower working capital cycle, higher capacity utilisation leading to high asset turnover coupled with better margins, pre-tax RoCE in the MDF business increased to 19.2%/25.4% in FY14/FY15 from 8.2% in FY12.

As capex is very high for the MDF business, RoCE would remain low for the initial one or two years until capacity utilisation at the unit improves. As GIL plans to set up a new MDF unit in South India (Andhra Pradesh) at a cost of Rs6bn-Rs6.5bn, which would be operational in FY19E, pre-tax RoCE of the MDF unit would remain under pressure post FY17.

MDF to report highest EBITDA margin



MDF Asset Turnover to remain under pressure post FY17



Source: Company, India Infoline Research

As a substitute of cheap plywood, MDF is here to stay
MDF is comparatively cheaper than plywood and acts as a substitute for cheap/economy grade plywood. The strength of premium plywood is higher which limit the usage of MDF primarily to commercial segment. However, due to its great machining characteristics compared to plywood, an automated plant prefers to use MDF board over plywood to manufacture furniture. **In addition, the government stopped issuing licences to the plywood industry.** Hence, we expect plywood to be costlier in future. **We believe MDF to act as a substitute for economy grade plywood and we see an 8%-10% shift from plywood to MDF over the next three-four years, thereby providing healthy growth to the MDF industry.**

As per the management, the quality of MDF board is almost the same as plywood. For example, a table made out of MDF board and plywood will have same lifespan (considering similar usage). It is a myth that MDF board has a low density and therefore the furniture made out of MDF board will not last long. As architects charge their fees as a percentage of project cost, they prefer expensive materials like plywood. There are differences in manufacturing furniture out of plywood and MDF board like: 1) MDF board can be used in an automated plant unlike plywood, which is more labour intensive in nature, and 2) Instead of using nails for plywood, one has to drill holes and insert screws in MDF board furniture. Apart from these two differences, the furniture made out of MDF board and plywood will be the same.

Anti-dumping duty
Around 35%-40% of the current demand for MDF is met via imports as only eight Indian players in the organised segment manufacture MDF in India. Here, the revenue proportion of the organised segment is growing with the government imposing anti-dumping duty on MDF imports. Imports of MDF are mostly from Malaysia, Thailand, New Zealand, Sri Lanka and China with sizes varying from 2.5mm-5.5mm. Significant trade barriers like government control on the issue of new licences, need for large-scale investment and erratic raw material availability could deter new entrants in this segment. Only eight companies have the licence to manufacture MDF in India, i.e. Bajaj Hindusthan, Mangalam Timber, Ukon Industry, Action Tessa, Shirdi Industries, Rushil Décor, Centuryply and GIL.

As per management, anti-dumping duty is not fixed and it varies with different countries of origin. For instance, the MDF board imported from China costs US$250 and the government lays out minimum value imported to be US$275. Hence, the China producer needs to pay the difference of $15. However, many of the countries are out of the purview of anti-dumping duty, one can import MDF boards duty-free by changing the source of origin. Hence, removal of anti-dumping duty won't have any adverse impact in future. Further, as per management, the company is not impacted by the removal of anti-dumping duty in the future despite 6%-8% pricing higher its products compared to imported products, as the MDF manufactured by GIL is of high quality as it is manufactured with eucalyptus wood compared to rubber wood used in the imported MDF, which is of an inferior quality.

Increased outsourcing to improve plywood's division RoCE

The company has a plywood manufacturing facility of 32.4mn sqm total installed capacity at Pantnagar, Uttarakhand (10.5mn sqm); Bamanbore, Gujarat (11.4mn sqm); Kriparampur, West Bengal (6mn sqm); and Tizit, Nagaland (4.5mn sqm). Earlier, the company used to manufacture economical grade plywood at its Rudrapur plant, under the brand name of Ecotec. Later on the company started outsourcing its economy grade plywood from China and was marketed under the same brand of Ecotec. However, with the better learning and stability in the business model, the company tied up with eight plywood manufacturers in India. Gradually, the company phased out the production of its economy grade Ecotec brand from its Rudrapur plant (the unit later utilized for making value added products).

Price Differential between grades of Plywood of 19mm thickness:

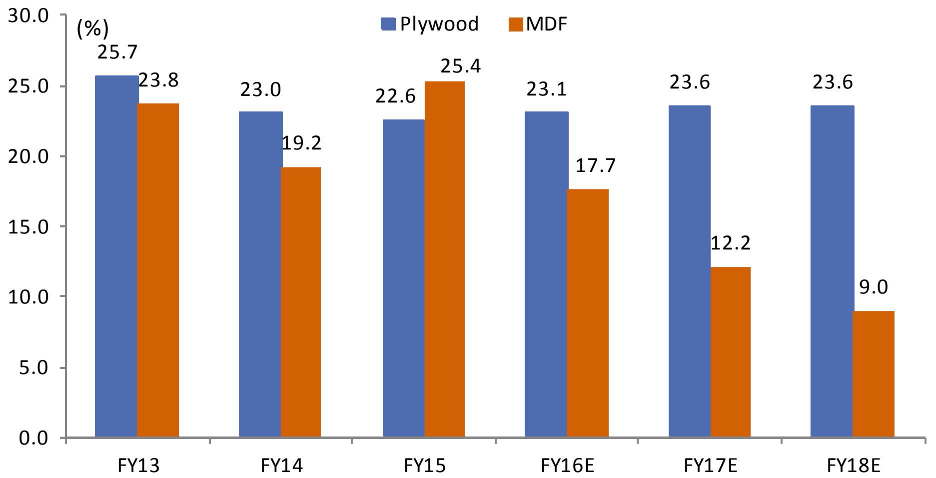
Grade	Rs/sqft
Premium (organized)	Rs100-Rs110/sqft
Mid-segment (unorganized)	Rs80-Rs90/sqft
Cheap/economy	Rs45-50/sqft

Source: Company, India Infoline Research

Traded plywood pre-tax RoCE stands at ~39% against 18% in case of manufactured plywood. **We expect RoCE of the plywood division to improve from 22.6% in FY15 to 23.1%/23.6%/23.6% in FY16E/FY17E/FY18E, respectively.** GIL does not plan to incur any major capex on the plywood division and incremental growth would come from value addition and higher outsourcing, thereby improving RoCE (pre-tax) of the plywood division in the long run. **The company is planning to increase the contribution of traded plywood from 20.5% in FY15 to ~30% in the next three years. We expect the contribution to stand at 20.8%/22.4%/24.9% for FY16E/FY17E/FY18E, respectively.**

With a higher share of MDF business and better RoCE of MDF as well as plywood divisions, consolidated RoCE (pre-tax) should improve to 22.8%/23.4% in FY16E/FY17E, respectively, from 20.3% in FY15, leading to a further re-rating of GIL's valuation. On account of higher capex likely in FY18 on new units, which would be operational from mid-FY19, RoCE would be under pressure after FY17. We expect GIL to maintain a healthy RoCE after the completion of its expansion projects.

Improving Plywood RoCE on the back of increased outsourcing



Source: Company, India Infoline Research

Raw-material security at Myanmar; providing much needed cushion

Myanmar is a major exporter of teak wood in the world, accounting for ~75% of global market. Myanmar banned the export of timber from 1 April 2014, which increased face veneer prices in India by ~30%. Indian timber is inferior to Myanmar timber and cannot serve as a substitute. Myanmar has banned timber export, but export of face veneer is allowed. To secure the availability of raw-material sourcing and insulate from itself from the fluctuation of raw-material prices, GIL has set-up a unit through the joint venture (JV) route in which both JV partners have invested Rs28cr each for an installed capacity of 42msqm of face veneer. GIL's timber peeling (face veneer) plant is operational in Myanmar since August 2014. Therefore, GIL will be able to source quality face veneer at lower prices, thereby improving the margins of its plywood division. Moreover, Centuryply (the arch rival of GIL) has a 6-8 month advantage as the company has set-up a facility in Myanmar in February 2014. Unlike GIL, Centuryply has an installed capacity of 2.5x times GIL's capacity. Following weak balance sheets and regulatory hurdles, players in the unorganised segment are not able to set up their units in Myanmar, thereby giving an edge to GIL and Centuryply.

As per management, the plant will run at 100% capacity utilization by the end of FY16. The reason for setting-up a face veneer is freight costs on face veneer is less than freight costs on wood, which will lead to savings in freight costs. Additionally, the unit also enjoys five-year tax exemption. For the installed capacity of 42mn sqm, GIL requires ~20mn sqm of face veneer, which is sufficient to manufacture plywood at current capacity. For the optimal utilization of 120%, GIL requires 24mn sqm of face veneer. Out of total production, ~50% of the production will be consumed by GIL while the balance low grade face veneer will be sold in the open market at a premium. Because of a 15%-25% premium on face veneer in India, margins are expected to be high in the near term. Further, the company will consume the premium quality, while mediocre quality will be sold in the market. GIL registered a 24%-25% operating margin in face veneer, which is booked under its Myanmar JV. On the other hand, Centuryply sells low to premium grades in the market.

In FY15, Centuryply sold Rs137cr of face veneer against Rs32cr sold by GIL. As Centuryply built up stock at a low price (raw material benefit) and has added first-mover advantage with 2.5x capacity, realisation of Centuryply was ~28% higher than the realisation of GIL in FY15. The management has given revenue guidance of Rs95cr-Rs100cr at optimum capacity utilization.

Strategically located to minimize raw materials availability risk
The company has strategically chosen its plant locations across India in terms of raw-material sourcing, manufacturing and labor costs. GIL enters into seasonal contracts with farmers and contractors to avoid sharp fluctuation in prices.

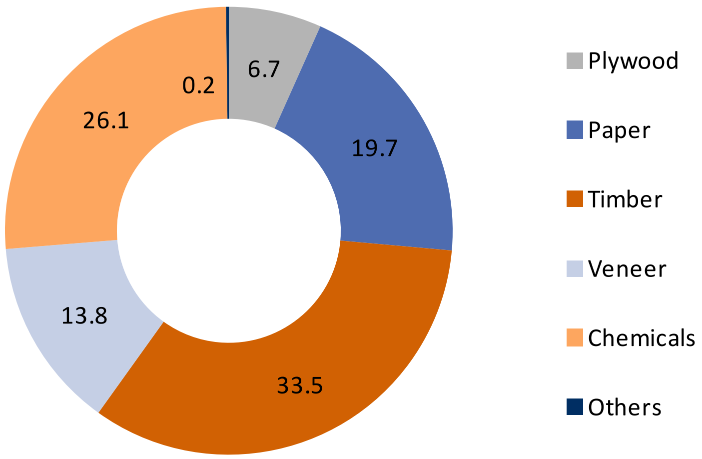
The key raw materials for the manufacture of products are timber, chemicals and paper. The plywood units are located strategically close to a rich raw material source in Nagaland and Uttarakhand. The Kriparampur unit in West Bengal is close to the Kolkata port and the Bamanbore Unit at Gujarat is close to the Kandla port thereby facilitating procurement of timber, phenol and other chemicals at a lower logistic cost. The company has established a captive resin manufacturing facility to enhance the availability and to secure itself from the price volatility.

Raw-material availability:

Manufacturing Plants	Wood Procurement	Region	Clones/Sapling Distributed/Planted (in lacs)
Plywood			
Bamanbore, Gujarat	Proximate to the Kandla port, enabling easy import of raw materials from Africa, Europe	West India	1
Kriparampur, West Bengal	Import from Kolkata port, enabling convenient international access (South east Asian countries)	South India	0.5
Tizit, Nagaland	Proximate to the timber belts of Nagaland, enabling abundant supply of raw materials	East India, North India	3
Pantnagar, Uttarakhand	Proximate to vast agro-forestry resources	North India	5.5
MDF			
Pantnagar, Uttarakhand	Proximate to vast agro-forestry resources	North India	5.5

Source: Company, India Infoline Research

Raw-material break-up (%)



Source: Company, India Infoline Research

Established brands, sturdy market presence and strong distribution network

The industry is witnessing a shift in market share from the unorganised to the organised segment. As the industry is highly unorganised, a good distribution network is essential in this industry. The unorganised segment accounts for around 75% of the plywood industry and 42%/55% of the laminate and veneer industry. The unorganised sector is growing at ~5% while the organised segment is growing at ~15%.

Following consistent ~Rs230cr expenditure on advertisements over FY08-FY15, ranging from 2.9%-5.0% of sales, increasing dealer strength and better product offerings, GIL was able to create brand equity in the highly competitive and unorganised dominated plywood market (unorganised segment's share at 75%).

GIL has segregated its marketing team with a focus on product categories i.e. plywood and MDF. We believe the wood market is highly fragmented with stiff competition from regional and national players. Therefore, to beat competition, GIL has created a strong pan India network with 45 domestic offices spread across the country.

Greenply Distribution Network (post demerger) FY15

Product	Distributors/Stockists	Retailers	Branches
Plywood	1,100	6,000	33
MDF	450	4,000	12
Total	1,550	10,000	45

Source: Company, India Infoline Research

Greenteriors brand – a new venture

GIL expects to garner ~Rs500cr of revenue from this segment over the next five years. Under Greenteriors, GIL is launching its first product - wallpaper. The company will outsource the product totally and has already tied up with 10-12 manufacturers globally in the US and Europe. Wallpaper has Rs800cr market size in India. The company will use its own existing distribution channel to sell the product. After wallpaper, GIL will roll out new related products in the next few years. Typically, the margin is expected to be in the range of 22%-24% and is likely to generate a business of Rs200cr over the next three years.

GST implementation to benefit organised players

In the Rs18,000cr Indian plywood market, the unorganised sector has a market share of 75%. For wood procurement, the plywood industry doesn't pay any excise duty or VAT. Therefore, there is no CENVAT credit available to the plywood manufacturers. As a result, the scope for savings is huge if the excise duty is evaded (that is why the plywood segment has more unorganised players, who form 75% of the segment). The uneven indirect duty structures in favour of unorganized players provide them price advantage over organized manufacturer. Organised players pay excise duty of 12.5% and value-added tax or VAT of 12.5% - a total of ~25% tax. Earlier, the unorganised players used to under invoice their products, which used to help them. However, with the implementation of GST, the unorganised players will also fall under the purview of tax, which will benefit the organised players significantly. As per the management, the difference between the prices of organised and unorganised players is ~15%. With the implementation of GST, the dealers' purchase prices will come down. This will narrow down the price difference by 5% to 10%. Hence, the rapid shift from unorganised to organised segment will take place, thereby driving growth for GIL.

GST will address the complexities and inefficiencies of the current indirect tax framework through a robust technology platform. Post GST, clandestine business will become almost impossible. GST will address double taxation, cascading effects and regional disparities in tax rates. Post GST, inter-state transactions will be tax neutral. GST will be a win-win situation for all stakeholders as it will lower tax incidence, ease business and increase tax buoyancy coupled with tax collections. **With the implementation of GST, the management believes that both organized and unorganized players will then come at an even tax platform which will be a potential "Game Changer" for the plywood manufacturers that could give them an opportunity to tap unorganized market whose size is almost 3x that of organized market.**

Market Size:

Product	Market Size (Rs cr)	Organized Share	Organized Market size (Rs cr)	Greenply Market Share in organized	Overall Market share of Greenply
Plywood & Decorative Veneers	18,000	25%	4,500	26%	6%

Source: Company, India Infoline Research

Sustainable industrial growth drivers

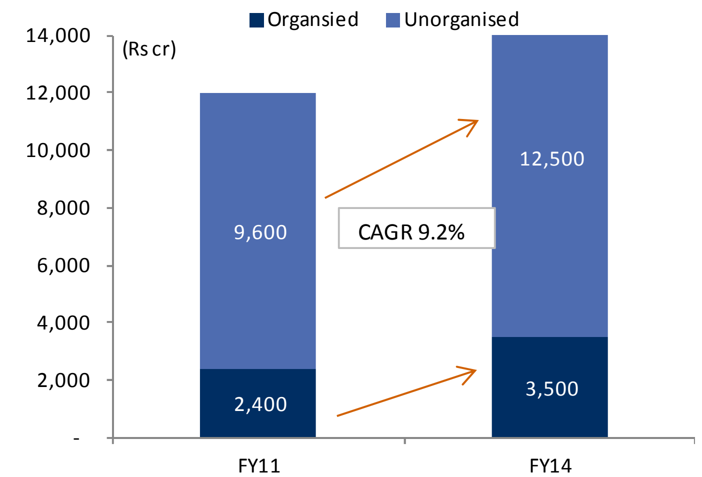
As per latest available data, the furniture industry in India was valued at around Rs710bn in FY13. The organised segment accounts for just 15%, with the unorganised segment accounting for the rest. The wood panel market comprises materials used in making furniture, such as plywood, MDF, and decorative veneers. Plywood and MDF form the backbone material for furniture, whereas laminates and decorative veneers are surfacing products and are used for decorative purposes. The Indian wood panel market is valued at Rs285bn. Plywood has a share of 63% or Rs180bn (including decorative veneers). The industry comprises unorganised players, making up for 75% of the market share. Organised players command 25% or Rs45bn market share. The organised industry has been growing at 12%-15% CAGR over the last few years.

The MDF market is worth ~Rs14bn in India, growing at a CAGR of ~5% over the last five years. MDF is a superior substitute for cheap unorganised plywood. MDF faces competition from imports from Malaysia, Thailand, China, etc. Demand in this sector is driven by ready-made modular furniture, modular kitchen, ready-to-move into offices/retail outlets, a need to substitute low quality plywood, affordability, increasing awareness of customers of better alternatives, and shortage of time. **In addition, the Centre's hold on fresh licensing for the manufacture of plywood has led to increasing gap between demand and supply. This will increase the use of engineered panel products, which is a positive development for the MDF industry.**

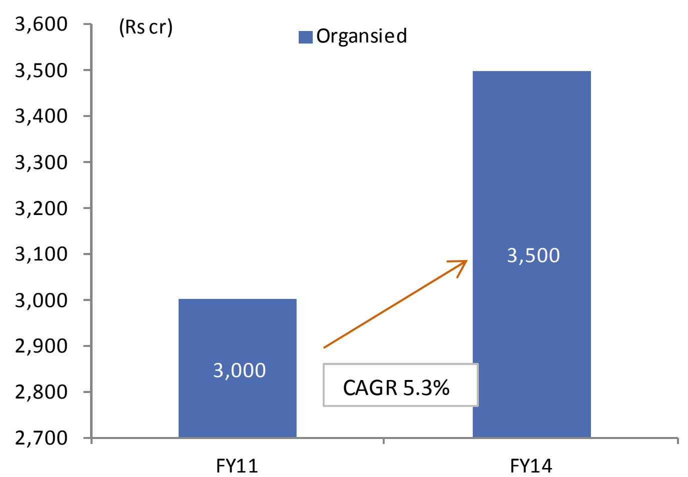
Wooden flooring business in India is estimated over Rs150bn in 2014-15. Market share of laminated flooring is around 80%, against other wooden flooring solutions. Moreover, share of wooden flooring in India is 2%, against the global standard of 38%, leaving ample scope for growth. The Indian wooden flooring market is expected to grow by 15% year-on-year. Reputed real estate builders have also started using laminated flooring, as designer tiles are expensive.

Tailwinds to this sector include higher disposable income; rising urbanisation; real estate sector's growth, particularly in Tier II and Tier III cities; and the fast growing replacement market. The government's 'Housing for all by 2022' policy gives further impetus to the plywood industry.

Plywood industry size and growth



MDF & Particleboard industry size and growth



Source: Company, India Infoline Research

Financial Analysis

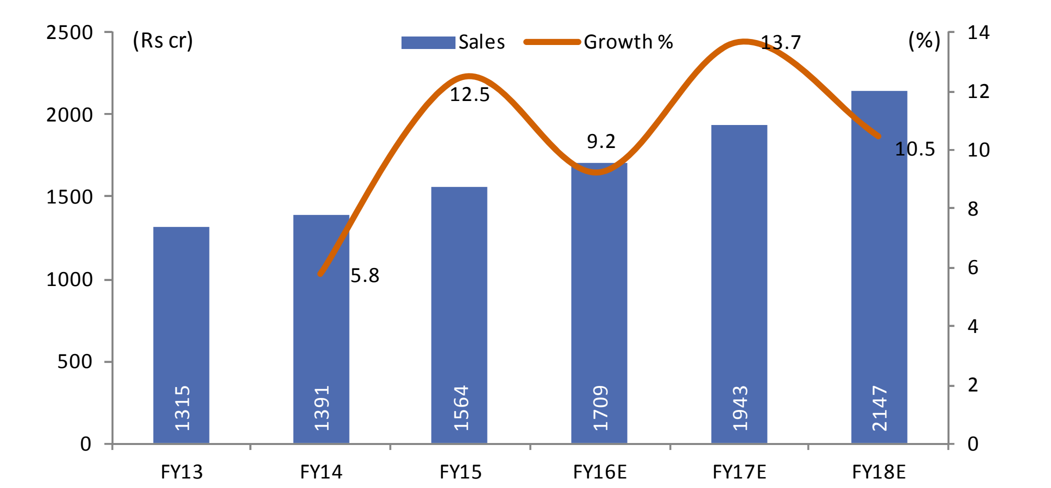
Revenue likely to witness a CAGR of 11.5% over FY15-FY17E

Strong brand building, gradual recovery in real estate sector, higher utilization & outsourcing in Plywood segment and increasing acceptance in MDF segment would drive company's standalone revenue growth, which we expect to grow at a CAGR of 11.5% over FY15-FY17E. We expect GIL to continue reaping the benefits of healthy capex made over the past five years coupled with improvement in brand equity and distribution channel.

GIL operated its plywood plants at 102% (the plant had run at a capacity utilization of 128% in Q2FY14) and MDF plants at 88.9% of their installed capacity in FY15. We feel there is still some room for volume expansion through high capacity utilisation. In addition, higher realisation through value addition of MDF and outsourcing of plywood would provide additional growth. **We expect 8.6% growth in in-house plywood volume and in addition the outsourcing volume in plywood would grow by 15%, leading to a total plywood volume of 10.5% over FY15-FY17E. Further, we expect higher capacity utilisation at the MDF plant (the company did a capacity utilization of 111.1%/91.7% in Q4FY15/Q1FY16, respectively) to provide 6.6% volume growth over FY15-FY17E, which will result in a gross revenue CAGR of 17.3% over the same period. Due to a better product mix, we expect 5.4%/10.5% increase in realisation in case of plywood/MDF divisions, respectively over FY15-FY17E.** We believe that MDF segment would be the next growth driver for GIL, given its widespread applications across the industries. Simultaneously, increasing revenue contribution from MDF segment would boost profitability margins. However, as the company is on an expansion spree in the MDF segment (the company is setting-up a MDF plant in Andhra Pradesh with a capacity of 0.36 mn cbm with a capex of Rs6.0bn-6.5bn), the company's return ratios would be under pressure post FY17E.

We expect GIL to register 11.5% net revenue CAGR over FY15-FY17E.

Net Revenue to grow at a CAGR of 11.5% over FY15-FY17E

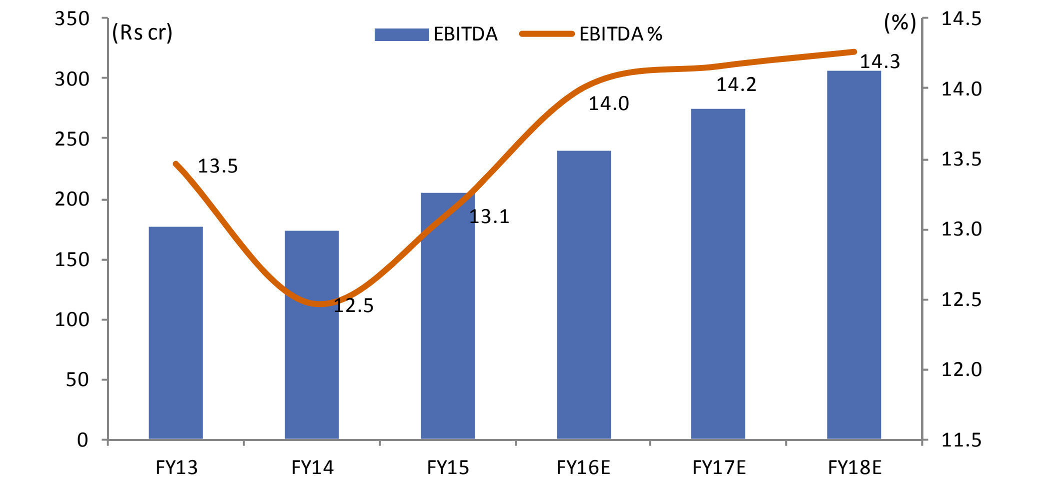


Source: Company, India Infoline Research

Steady improvement in EBITDA margin

High-margin MDF contributed 47.2% to EBITDA in FY13, while plywood contributed 52.8% in the same period, resulting in 13.5% margin. However, the margin declined by 100bps in FY14 as the contribution of plywood rose to 58.3% compared to MDF of 41.7%. With better demand and increase in acceptability of MDF supported by the rise in usage of readymade furniture and substitute of cheap plywood, MDF contribution rose to 47.5% compared to plywood of 52.5% in FY15. Hence, the margin improved 64bps to 13.1% in FY15. Going forward, we expect the share of MDF division to increase to 47.6%/48.2%/48.1% in FY16E/FY17E/FY18E, respectively, while the share of low-margin plywood may decline to 52.4%/51.8%/51.9% in FY16E/FY17E/FY18E, respectively from 52.5% in FY15. Due to a higher share of MDF revenue and better margins in MDF plus improvement in plywood margins, we expect margins to improve by 106bps over FY15-FY17E to 14.2%.

Stable improvement in margins

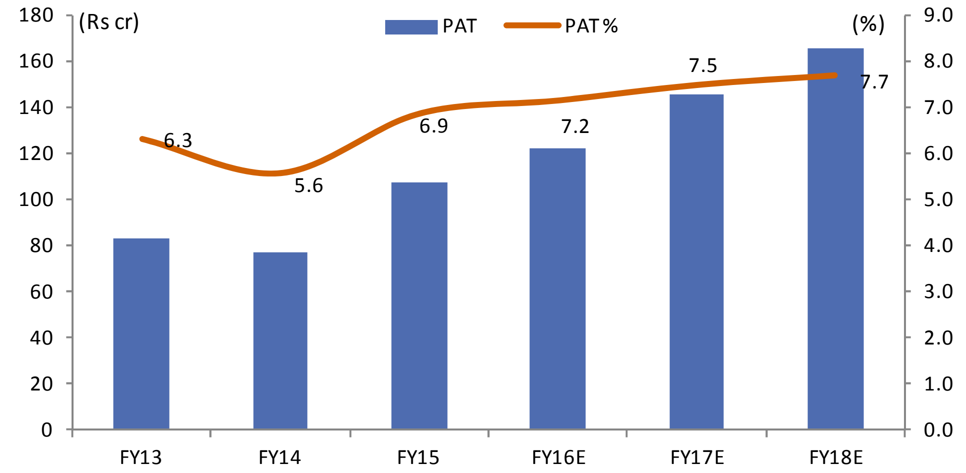


Source: Company, India Infoline Research

PAT to grow 16.4% CAGR over FY15-FY17E

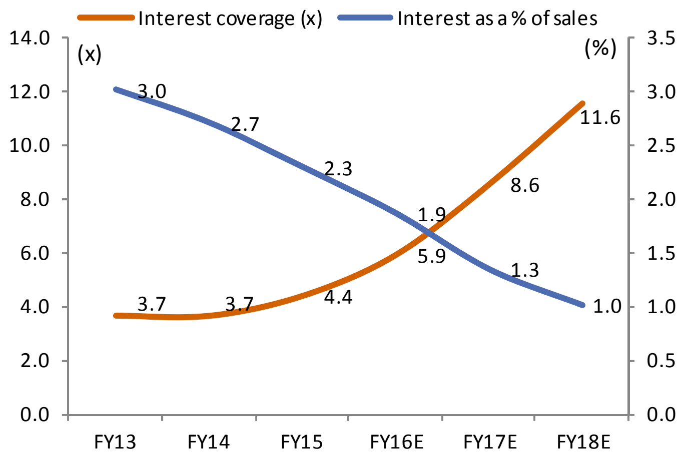
With better operating cash flow and declining gross debt, we expect interest costs to remain under control, resulting in a healthy growth in PBT of 20.7% CAGR over FY15-FY17E. As part of the tax benefits enjoyed by GIL would get over from FY16, its tax rate would increase gradually. **In addition, a significant part of incremental growth in FY16/FY17 would come from the plywood capacity in Rajkot, Gujarat; where GIL doesn't get any tax benefit and hence the tax rate would increase to 24%/28%/30% in FY16E/FY17E/FY18E from 12.2% in FY15. However, GIL is sticking to asset light model, which would reduce GIL's debt burden going ahead, thereby reducing interest costs, this would surge PAT growth going forward. Hence, we expect net profit to show a 16.4% CAGR over FY15-FY17E.**

PAT to grow at a CAGR of 16.4% over FY15-FY17E

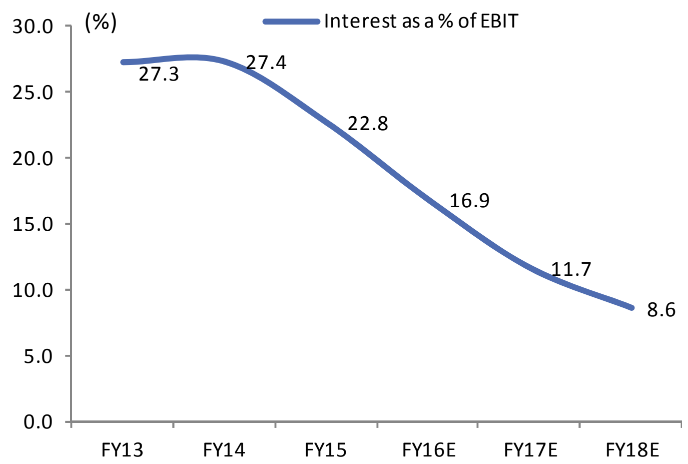


Source: Company, India Infoline Research

Improving interest coverage ratio



Declining interest costs to boost profit

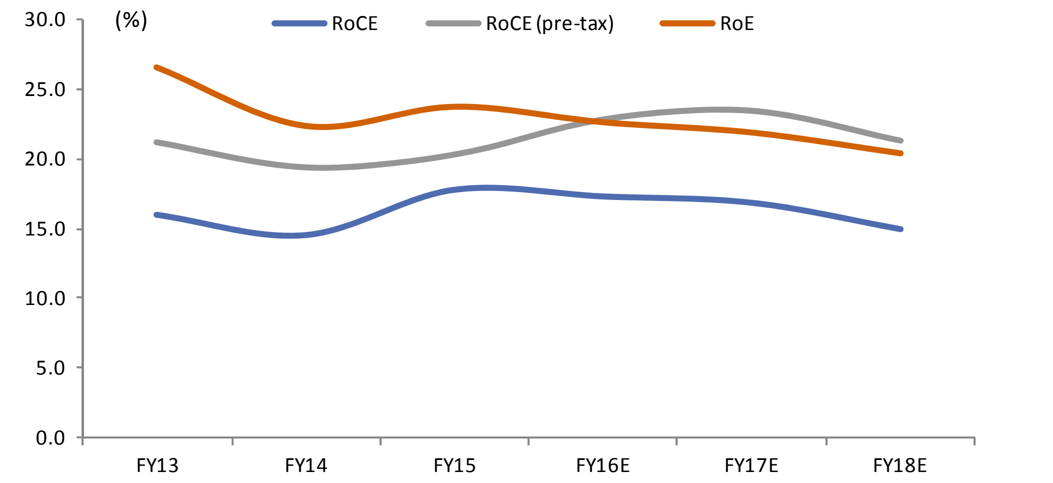


Source: Company, India Infoline Research

Return Ratios to improve post FY19

As capex is very high for the MDF business, RoCE would remain low for the initial one or two years until capacity utilisation at the unit improves. As GIL plans to set up a new MDF unit in South India (Andhra Pradesh) at a cost of Rs6bn-Rs6.5bn, which would be operational in mid-FY19E, pre-tax RoCE of the MDF unit would remain under pressure after FY17. We expect return ratios to improve post FY19. Despite return ratios being under pressure for couple of years, we believe the valuations of GIL are lucrative on the back of visible growth across segments, favorable D/E, improvement in EBITDA margins, strong operating cash flow, security of raw-material to provide much needed cushion and venture into newer segments like Greenterior to provide growth going forward.

Return ratios to remain under pressure FY16 onwards



Source: Company, India Infoline Research

Key concerns

a) Rupee appreciation likely to exert pressure on MDF division's margins

Around 65% of MDF demand is met locally, while the rest is met through imports from various countries. Depreciation of the rupee against the US dollar increases cost of imported MDF and hence increases the margins of domestic producers. The company imports wood and other raw materials like chemicals, etc for other divisions, with imports accounting for 41.5% of raw material costs i.e. 23.2% of sales. Any appreciation in the rupee would increase the margins of plywood division but would exert pressure on the margin of its MDF business, and thereby on consolidated margin.

b) Tax benefits to reduce from FY16

GIL enjoys excise duty and income-tax benefit at three out of its five units. As most of the units are going out of purview of tax benefits or reduction from 100% to 30% tax/excise benefits, which would be over by FY16, resulting into lower operating margin/net profit from FY17.

Details of tax benefits on various units of GIL

Plant location	Product	Benefits
Tizit, Nagaland	Plywood	100% income-tax/excise duty exemption from FY06-FY15
Pantnagar, Uttarakhand	Plywood & Veneer	100% income-tax exemption from FY07-FY12. 30% income-tax exemption from FY12-FY16. 100% excise duty exemption from FY07-FY16
Pantnagar, Uttarakhand	MDF	100% income-tax exemption from FY10-FY14, 30% exemption from FY15-FY19. 100% excise duty exemption from FY10-FY19

Source: Company, India Infoline Research

c) **Maintaining MDF's current RoCE on new MDF unit poses a challenge**
Compared to other divisions, the MDF business enjoyed highest pre-tax RoCE of 25.4% as against 22.6% in the plywood business in FY15. The cost of setting up a MDF unit has increased and as a result GIL would have to invest Rs6bn-Rs6.5bn (capacity of 0.36mn cbm) compared to Rs2.7bn incurred in FY11 to set up 0.18mn cbm capacity. On account of high capex per cbm of MDF, RoCE of the new MDF unit would be lower than the existing unit. Higher capex would partially get compensated from cheap timber in Andhra Pradesh.

d) **Lack of raw-material availability and high raw-material cost:** The industry procures majority of its raw material from Myanmar as well as countries like Vietnam, Indonesia, Thailand, Germany, etc. We believe any unforeseen regulation (like Myanmar's ban on raw timber export) may pose risk in the inability to procure raw-material at right time. However, GIL has insulated itself from the risk by setting-up peeling unit in Myanmar. Although, any such activities in the other regions and delay in reaction from the company can pose a risk to our estimates:

e) **Delay in GST roll-out:** As the plywood market is largely dominated by unorganised players with ~75% of total market share, the GST roll-out becomes a key factor in order to bring the organised and unorganised player under the same pricing format. With the rollout of GST, the pricing difference between organised and unorganised players due to tax inequalities is likely to significantly narrow down. Hence, any delay in the implementation of GST will pose risk to the organized player in gaining market share.

f) **Downturn in real-estate demand to impact Plywood growth:** Retail demand plays a significant role in consumption of plywood driven by pick-up in real estate demand. A downturn in the real estate sector could dent the off-take and in turn our estimates and profitability for the company.

Company Background

Greenply Industries Limited, India's premier interior infrastructure company, manufactures, markets, distributes and brands plywood and medium density fibreboards. The Company enjoys a leadership position in this sector, accounting for ~26% of the organised plywood and ~30% of the MDF market in India as on FY15.

Mr. Shiv Prakash Mittal and Mr. Rajesh Mittal are the promoters of the company. GIL ventured into the industry by setting up a saw mill in 1984 and a plant in Nagaland to manufacture plywood in 1988. The company, incorporated in 1990, has steadily grown as an integrated solutions provider for interior infrastructure products. The company has five plants in India. GIL has total plywood production capacity of 32.4mn sqm spread over Nagaland, West Bengal, Uttarakhand and Gujarat and MDF production capacity of 0.18mn cbm located in Uttarakhand. GIL has a presence across different price points to cater to all customers across the high-end, mid-market and value segments with a pan-India presence. The company has a presence in over 300 cities across 21 states serviced through a well-entrenched distribution network of 1,550 distributors and 10,000 retailers and 45 branches pan-India.

GIL has a comprehensive product portfolio of servicing clients under brand names of Greenply Plywood, Green Club Premium Ply, Optima Red, Ecotec, Green Panelmax and Green Floormax, among others.

Production facilities of GIL

Plant location/division	Plywood (mn sqm)	MDF (mn cbm)
Tizit, Nagaland	4.5	-
Kriparampur, West Bengal	6.0	-
Pantnagar, Uttarakhand	10.5	0.18
Bamanbore, Rajkot, Gujarat	11.4	-
Total	**32.4**	**0.18**

Source: Company, India Infoline Research

GIL's business segments

Plywood

The Indian wood panel market is valued at Rs285bn. Plywood has a share of 63% or Rs180bn. The industry comprises unorganised players, making up for 75% of the market share. Organised players command 25% or Rs45bn market share. The organised industry has been growing at 12%-15% CAGR over the last few years. GIL has ~30% of the market share in the organised segment.

Plywood contributes 73.8% to GIL's net revenue (FY15). GIL manufactures plywood in the premium segment (Greenply, Greenply Club and Greenply Club+ brands) and mid-segment (Optima Red). The company is also involved in plywood trading under the Ecotec brand. Majority of its revenue comes from South India (30%), North India (25%), West India (25%) followed by East India (20%). The company faces competition mainly from domestic players such as Centuryply, Europly, Archidply and Uniply.

MDF

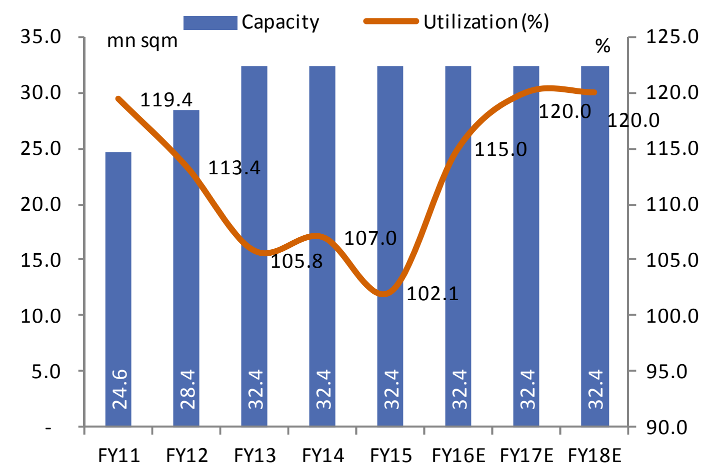
MDF accounted for ~5% of total wood panel market, valued at Rs13bn in FY15. MDF and particle boards are completely controlled by players in the organised segment. GIL has the country's single largest MDF plant in Rudrapur. The investment for setting up a MDF plant is very high, which restricts competition from the unorganised segment. Domestic production meets only ~65% of the demand, while the rest is met through imports. There is an anti-dumping duty depending upon the origin and size on MDF board imports from New Zealand, Thailand, Malaysia, Sri Lanka and China in order to promote India's MDF industry. **In addition, the Centre's hold on fresh licensing for the manufacture of plywood has led to increasing gap between demand and supply. This will increase the use of engineered panel products, which is a positive development for the MDF industry.**

MDF manufacturers in India

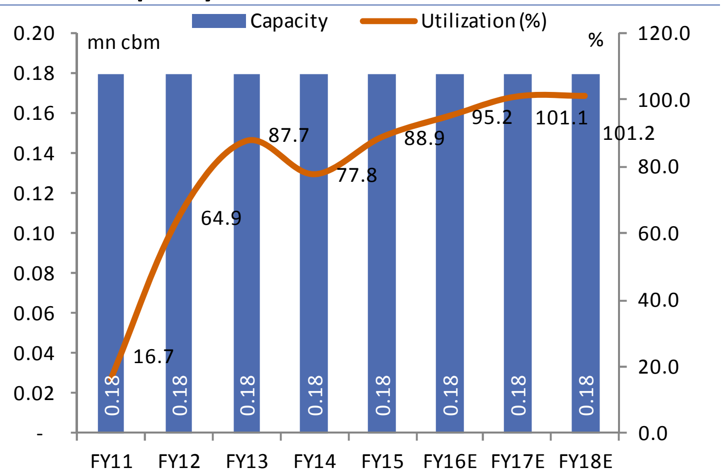
Company	Capacity (lakh cbm)	Utilization (lakh cbm)	Market share (%)
Greenply Industries	1.80	1.60	29
Action Shoes	1.68	1.10	20
Shirdi Industries	0.36	0.10	2
Mangalam Timber	0.50	0.30	5
Rushil Décor	0.72	0.61	11
Nuchem	0.45 (now closed)	0.00	0
Bajaj Hindustan	2.1 (now closed)	0.00	0
Total Domestic	**5.51**	**3.71**	**67**
Import	**1.80**	**1.80**	**33**
Grand Total	**7.31**	**5.51**	**100**

Source: Company, Industry, Nirmal Bang Institutional Equities Research

Plywood Capacity

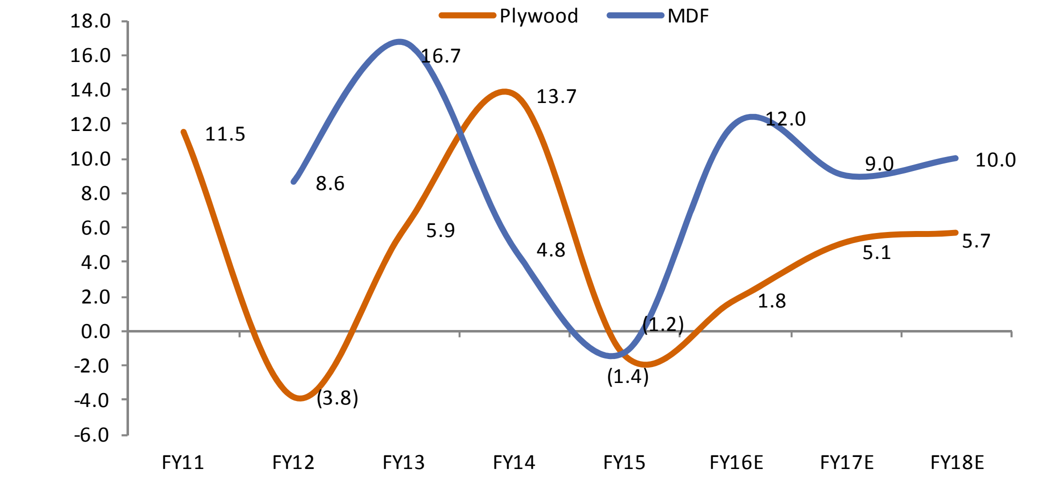


MDF Capacity



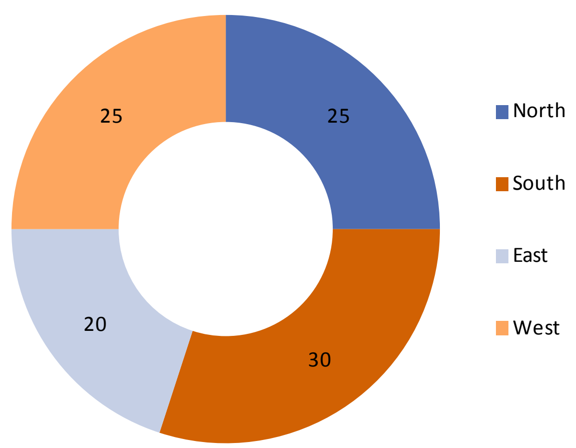
Source: Company, India Infoline Research

Realizations (%) of Plywood and MDF

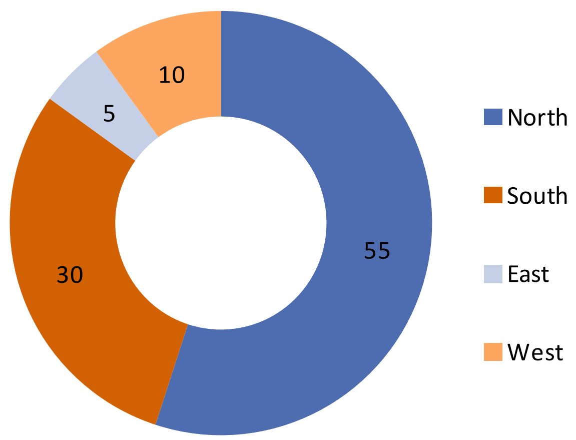


Source: Company, India Infoline Research

Plywood Region Break-up FY15



MDF Region Break-up FY15



Source: Company, India Infoline Research

Greenply Brands

Source: Company, India Infoline Research

Financials

Income statement

Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenue incl OI	1,564	1,709	1,943	2,147
Operating profit	**205**	**239**	**275**	**306**
Depreciation	(47)	(50)	(51)	(53)
Interest expense	(36)	(32)	(26)	(22)
Other income	1	4	4	5
Extraordinary income/loss	16	0	0	0
Profit before tax	**139**	**161**	**202**	**236**
Taxes	(17)	(39)	(57)	(71)
Extraordinary item	0	14	0	0
Net profit	**107**	**122**	**146**	**165**

Balance sheet

Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Equity capital	12	12	12	12
Reserves	472	586	723	880
Net worth	**484**	**598**	**735**	**892**
Minority Intt	0	0	0	0
Total Debt	332	277	341	456
Def.tax liability	40	50	66	85
Total liabilities	**856**	**924**	**1,142**	**1,432**
Net Fixed assets	527	582	594	590
CWIP	20	62	163	364
Investments	33	33	33	33
Net working capital	**269**	**246**	**300**	**331**
Inventories	190	204	232	256
Sundry debtors	257	280	318	352
Other current assets	112	114	135	150
Sundry creditors	(225)	(253)	(278)	(307)
Other curr lib & Prov	(66)	(100)	(108)	(119)
Cash	7	1	52	114
Total assets	**856**	**924**	**1,142**	**1,432**

Cash flow statement

Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Profit before tax	139	161	202	236
Depreciation	47	50	51	53
Tax paid	(17)	(39)	(57)	(71)
Working capital Δ	(23)	23	(54)	(31)
Operating cash flow	145	195	142	187
Capital expenditure	(67)	(147)	(163)	(251)
Free cash flow	**79**	**48**	**(21)**	**(63)**
Equity raised	4	-	-	-
Investments	(19)	-	-	-
Goodwill	-	-	-	-
Debt fin/disposal	(39)	(55)	64	115
Dividends paid	(8)	(8)	(8)	(8)
Other items	12	10	16	19
Net Δ in cash	**(0)**	**(6)**	**51**	**62**

Source: Company, India Infoline Research

Key ratios

Y/E Mar	FY15	FY16E	FY17E	FY18E
Growth matrix (%)				
Revenue growth	12.5	9.2	13.7	10.5
Op profit growth	18.2	16.8	15.0	11.3
EBIT growth	12.5	21.3	18.5	13.0
Net profit growth	57.6	0.3	19.1	13.6
Profitability ratios (%)				
OPM	13.1	14.0	14.2	14.3
EBIT margin	10.2	11.3	11.8	12.0
Net profit margin	7.8	7.2	7.5	7.7
RoCE	19.3	21.7	22.1	20.1
RoE	28.2	22.6	21.8	20.3
RoA	11.0	10.1	10.4	9.8
Per share ratios				
EPS	50.5	50.6	60.3	68.5
Dividend per share	3.0	3.0	3.0	3.0
Cash EPS	70.0	71.4	81.2	90.6
Book value per share	200.5	247.7	304.5	369.5
Valuation ratios (x)				
P/E	19.4	17.1	14.3	12.6
P/CEPS	12.4	12.1	10.6	9.5
P/B	4.3	3.5	2.8	2.3
EV/EBIDTA	11.8	9.9	8.6	7.9
Payout (%)				
Dividend payout	6.9	6.9	5.8	5.1
Tax payout	12.2	24.0	28.0	30.0
Liquidity ratios				
Debtor days	60	60	60	60
Inventory days	51	51	51	51
Creditor days	60	63	61	61
Leverage ratios				
Interest coverage	4.4	6.0	8.7	11.8
Net debt / equity	0.7	0.5	0.4	0.4
Net debt / op. profit	1.6	1.2	1.0	1.1

Du-Pont Analysis

Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Tax burden (x)	0.77	0.76	0.72	0.70
Interest burden (x)	0.87	0.83	0.89	0.92
EBIT margin (x)	0.10	0.11	0.12	0.12
Asset turnover (x)	1.42	1.41	1.39	1.27
Financial leverage (x)	2.55	2.24	2.10	2.08
RoE (%)	**24.8**	**22.6**	**21.8**	**20.3**

Source: Company, India Infoline Research

‘Best Broker of the Year’ – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

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IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

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Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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