ANANDRATHI

India I Equities

Plywood

Visit Note

23 June 2015

Greenply Industries

Strong balance-sheet to fund expansion; debt to be in check

Rating: **NR**
Target Price: NA
Share Price: ₹860

With a 30% share of the organised market and its strong brand equity, Greenply Industries leads plyboard in India. The hiving off of the laminates division has led to lower debt-equity ratio and adequate free-cash flow. The MDF capacity expansions, GST implementation, revival in real estate growth would deliver growth for the company.

Revenue at 12-15% CAGR over FY15-17. Management expects a subdued H1 FY16 and a pickup in H2, with 6%/9% volume-growth guidance and 5%/8% realisation-growth guidance for FY16/FY17. Plywood/MDF utilisation would rise from FY15's 102%/89% to 118%/110% in FY17. Outsourcing in plywood would rise from 20% (FY15) to 30% (FY18).

Margin expansion of 100-200bps due to greater utilisation. 80% of the plywood is manufactured, the balance outsourced. After Myanmar's timber ban, Greenply set up a veneer plant of 42m sq. metres in Myanmar through a JV in Aug'14. This would raise margins and savings in freight costs as face veneer is lighter than timber. The OPM is expected to improve by100-200bps over FY15-17 due to better product mix and as higher utilisation would result in greater fixed-cost absorption.

Capacity expansion in MDF, and new business **ventures.** As the largest MDF manufacturer with a strong brand, this division has recorded a 19% CAGR over FY12-15. To meet swelling demand, Greenply is setting up a plant in Andhra Pradesh at ₹6.5bn capex over FY16-19. It is also venturing into decorative veneer and trading in wallpaper.

Cash flow and return ratios to be healthy. Revenue/PAT saw 12%/25% CAGRs over FY10-15, with margins rising from 10.2% in FY10 to 13.2% in FY15. On debt repayment in FY15, debt-equity is now 0.7x (1.3x in FY14). FY15 return ratios were strong: 25.5% RoE and 18.8% RoCE.

Management Guidance. Going forward management expects healthy growth, led by increased capacity utilisation. GST implementation and revival in real-estate demand is also likely to benefit GIL. The capacity expansions, launches and expanding sales and distribution networks would lead to continuing growth momentum.

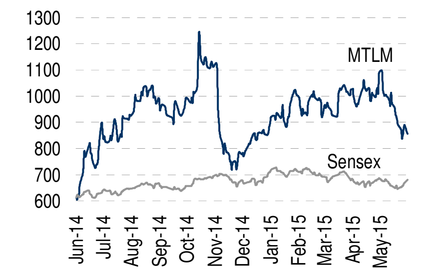
Year-end: Mar	FY11	FY12	FY13	FY14	FY15*
Sales (₹ m)	12,771	17,081	20,479	22,169	15,667
Net profit (₹ m)	235	567	1,197	1,176	1,242
EPS (₹)	9.7	23.5	49.6	48.7	51.5
Growth (%)	(42.3)	141.7	111.0	(1.8)	5.7
PE (x)	88.5	36.6	17.3	17.7	16.7
EV/EBITDA (x)	25.2	16.1	10.3	10.6	11.6
P/BV (x)	6.7	5.7	4.4	3.6	4.3
RoE (%)	7.5	15.6	25.2	20.1	25.5
RoCE (%)	7.0	11.8	18.2	15.4	18.8
Net gearing (x)	2.0	1.9	1.4	1.3	0.7

Source: Company, Anand Rathi Research, Note: Laminate division hived off*

Key data	MTLM IN / GRPL.BO
52-week high / low	₹1277 / ₹595
Sensex / Nifty	27730 / 8353
3-m average volume	$0.24 m
Market cap	₹20.68bn / $0.32bn
Shares outstanding	24.1m

Shareholding pattern (%)	Mar '15	Dec '14	Sep '14
Promoters	55.0	55.0	55.0
- of which, Pledged	-	-	-
Free Float	45.0	45.0	45.0
- Foreign Institutions	12.2	15.3	15.6
- Domestic Institutions	7.9	7.9	7.6
- Public	24.8	21.8	21.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY11	FY12	FY13	FY14	FY15
Net revenues	12,771	17,081	20,479	22,169	15,667
Revenue growth (%)	41.9	33.8	19.9	8.3	(29.3)
- Op. expenses	11,703	15,360	17,814	19,523	13,594
EBIDTA	**1,068**	**1,721**	**2,665**	**2,646**	**2,073**
EBITDA margins (%)	8.36	10.08	13.01	11.93	13.23
- Interest	383	613	619	602	359
- Depreciation	418	483	536	596	471
+ Other income	25	59	65	80	11
- Tax	57	117	378	353	170
Effective tax rate (%)	-	-	-	-	-
Reported PAT	235	567	1,197	1,176	1,242
Extraordinary items	-	-	-	-	-
Adjusted PAT	235	567	1,197	1,176	1,242
PAT growth (%)	(42.3)	141.7	111.0	(1.8)	5.7
Adj. FDEPS (₹/share)	9.7	23.5	49.6	48.7	51.5
Adj. FDEPS growth (%)	(42.3)	141.7	111.0	(1.8)	5.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY11	FY12	FY13	FY14	FY15
Share capital	121	121	121	121	121
Reserves & surplus	2,991	3,508	4,619	5,716	4,743
Net worth	3,112	3,628	4,740	5,837	4,863
Total debt	6,269	7,029	6,932	7,537	3,300
Minority interest		0	0	0	0
Def. tax liab. (net)	247	337	407	492	403
Capital employed	**9,628**	**10,994**	**12,079**	**13,866**	**8,567**
Net fixed assets	6,227	6,454	6,884	8,158	5,469
Investments	1	1	1	1	170
- of which, Liquid					
Working capital	3,242	4,382	5,010	5,575	2,851
Cash	151	158	184	132	77
Capital deployed	**9,628**	**10,994**	**12,079**	**13,866**	**8,567**
Net debt/equity	2.0	1.9	1.4	1.3	0.7
W C turn (days)	93	94	89	92	66
Book value (₹/sh)	129	150	196	242	201

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY11	FY12	FY13	FY14	FY15
PAT	235	567	1,197	1,176	1,242
+ Non-cash items	418	483	536	596	471
Cash profit	653	1,050	1,733	1,771	1,713
- Incr./(decr.) in WC	1,812	1,140	628	564	(2,724)
Operating cash-flow	(1,159)	(90)	1,105	1,207	4,437
- Capex	1,070	710	967	1,869	(2,218)
Free cash-flow	(2,228)	(800)	138	(662)	6,655
- Dividend	28	56	85	85	85
+ Equity raised	10	0	0	0	0
+ Debt raised	1,863	760	(97)	605	(4,236)
- Investments	0	0	0	0	169
- Misc. items	(328)	(102)	(71)	(91)	2,221
Net cash-flow	(55)	6	26	(51)	(56)
+ Op. cash & bank bal.	207	151	158	184	132
Cl. Cash & bank bal.	152	157	184	132	77

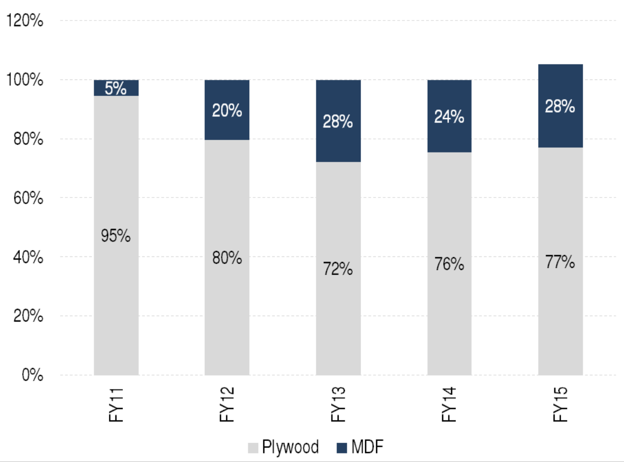
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹860

Year-end: Mar	FY11	FY12	FY13	FY14	FY15
P/E (x)	88.5	36.6	17.3	17.7	16.7
Cash P/E (x)	1.3	0.8	0.5	0.5	0.5
EV/EBITDA (x)	25.2	16.1	10.3	10.6	11.6
EV/sales (x)	2.1	1.6	1.3	1.3	1.5
P/B (x)	6.7	5.7	4.4	3.6	4.3
RoE (%)	7.5	15.6	25.2	20.1	25.5
RoCE (%)	7.0	11.8	18.2	15.4	18.8
Dividend yield (%)	0.1	0.3	0.4	0.4	0.4
Dividend payout (%)	12.0	9.9	7.1	7.2	6.8
Debt to equity (x)	2.0	1.9	1.5	1.3	0.7
Debtor days	58.9	57.7	61.6	61.2	59.9
Inventory days	76.7	70.4	73.3	79.3	51.1
Payables days	90.4	70.2	91.3	98.6	87.2
Working capital days	92.7	93.6	89.3	91.8	66.4
Fixed asset T/O (x)	2.1	2.6	3.0	2.7	2.9

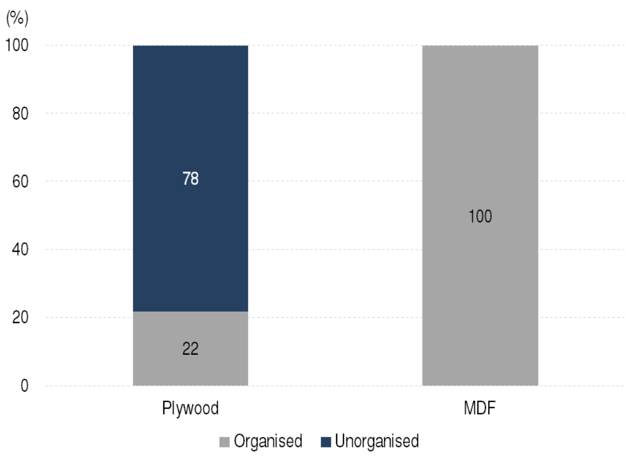
Source: Company, Bloomberg, Anand Rathi Research

Fig 5 – Revenue breakup



Source: Bloomberg, Anand Rathi Research

Fig 6 – Organised Vs. Unorganised Market



Source: Company, Anand Rathi Research

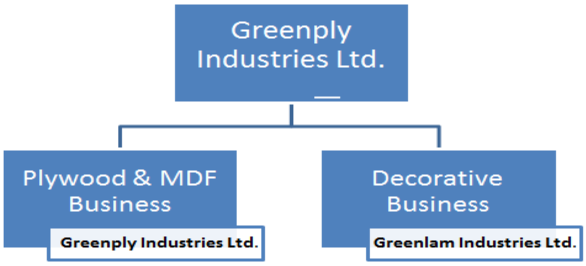
Decorative business hived off

In Nov'14 Greenply's decorative laminates business was completely hived off into a new listed entity, Greenlam Laminates. The split would result in resource optimisation and a sharper focus on each entity.

Laminates are surface decorative material, covering a substrate such as plywood, MDF or particle board. During FY14, laminates brought in about 32% of Greenply's revenue. Since both the businesses (wood-based products and decorative ones) require different sets of dealers, distributors and retailers, the company decided to hive off the laminates business for a sharper focus and quicker growth.

The laminate business RoCE was the lowest because of higher debt. With the hiving off, w.e.f. 26th Nov'14 to Greenlam Industries, the debt-equity ratio has improved. Also, post demerger, the company has been able to generate sufficient free-cash flows.

Fig 7 – Corporate structure



Source: Company, Anand Rathi Research

Plywood and the MDF division

Plywood division led by strong brand equity

The plywood and its allied products division is the company's largest revenue generator. The 33m sq. metre cumulative capacity of the four manufacturing plants is one of the India's highest plywood capacity. The range of products comprises Green Club Premium plywood, Green Club Plus plywood, Green Marine plywood, Green Flexiply, Green Film-Faced Shuttering plywood, Green Flush doors, Green Block board, Optima Red plywood, Greenply plywood, Green Fire-Retardant plywood and Ecotec plywood.

The size of the plywood market is estimated at ~₹160bn, and Greenply commands 30% of the organised segment. At present, capacity of this division is ~33m sq.m.: 25% in the north, 25% in the west, 20% in the east and 30% in the south. As the largest plywood manufacturer with a well-established brand equity, the company will continue to invest ~3% on advertising and brand promotion in order to broaden its brand visibility. Till now, it has launched several ad campaigns.

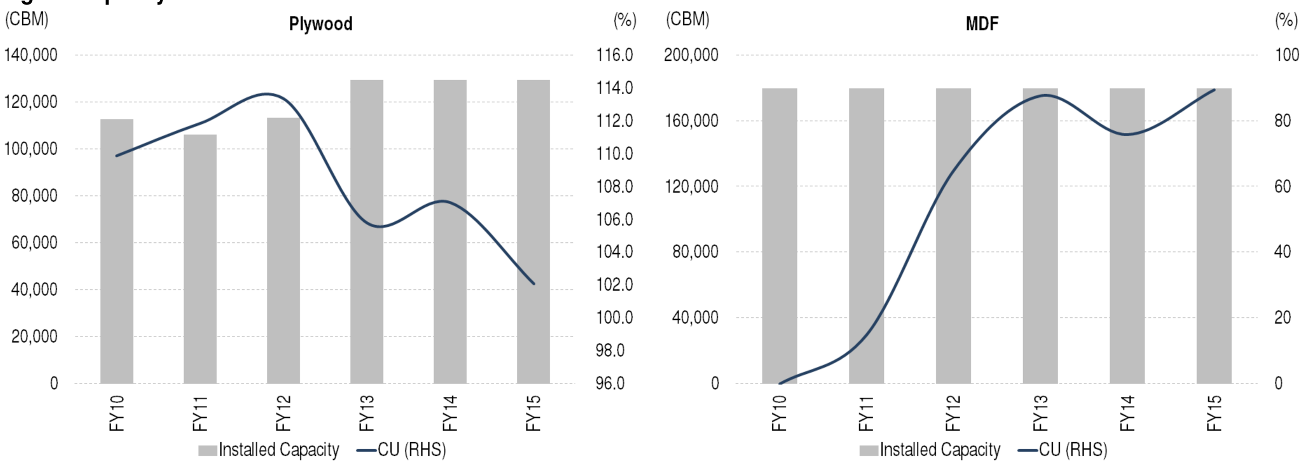
Ahead, Greenply is expecting an asset-light model in ply. At present 80% is manufactured in-house, 20% outsourced, with plans to increase the latter to 30% in the next three years. Outsourcing would be of the mid-segment variants so that capacity is freed up to produce premium variants.

Backward integration to drive margins

After the timber ban from Myanmar w.e.f from 1st Apr'14, veneer prices in India shot up ~25%, leading to constrained margins. With Greenply's timber peeling plant (veneer) becoming operational in Aug'14 (export of face veneer is permitted), its plywood margins started climbing. Greenply set up the 42m sq. m. plant through a JV. This also helps reduce freight cost as face veneer weighs much less than wood.

Revenue of the plywood division has registered 11% CAGR over FY10-15 and company has been generating a healthy ~21% RoCE. Since the company is shifting toward an outsourced model, no major capacity expansion in this division would be required.

Fig 8 – Capacity details



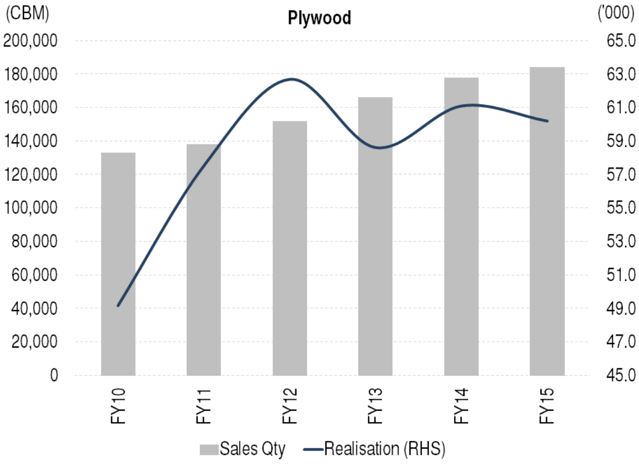
Source: Company, Anand Rathi Research

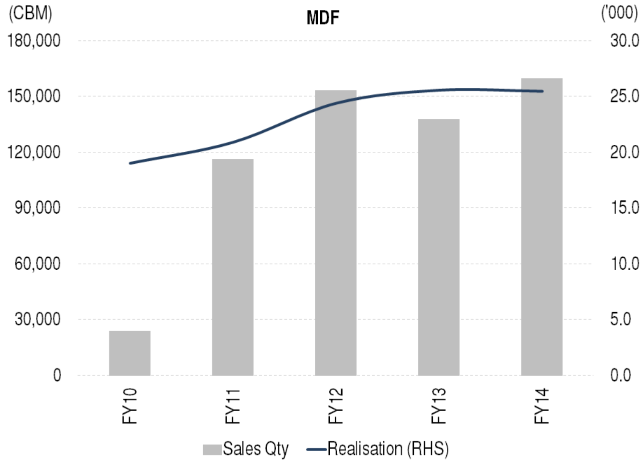
MDF business

Greenply is the largest MDF manufacturer with strong brand visibility and distribution network. Conti-press technology gives it a distinct edge over other MDF producers. Green Panelmax Plain, Pre-Laminated and Veneered MDF Boards have been approved for use in Defence works by the Military Engineering Services. MDF is very versatile, with widespread applications, primarily in panelling, range of furniture, window and door frames, handicrafts, display/exhibition stands and signage, false ceilings, toys, carving and moulding panels, partitions, the shoe industry and educational equipment. The MDF market is estimated at ~₹15bn, with Greenply commanding 30% of the regulated segment.

To meet rising demand, the company planned capacity expansion in this segment through a plant in Andhra Pradesh, likely to be implemented over FY16-19 at capex of ~₹6.5bn. For this, it has acquired 106 acres. Revenue in this division has registered a 19% CAGR over FY12-15 and the company has generated a healthy, 26%, RoCE.

Fig 9 – Volume and realisation trend





Source: Company, Anand Rathi Research

Key growth triggers

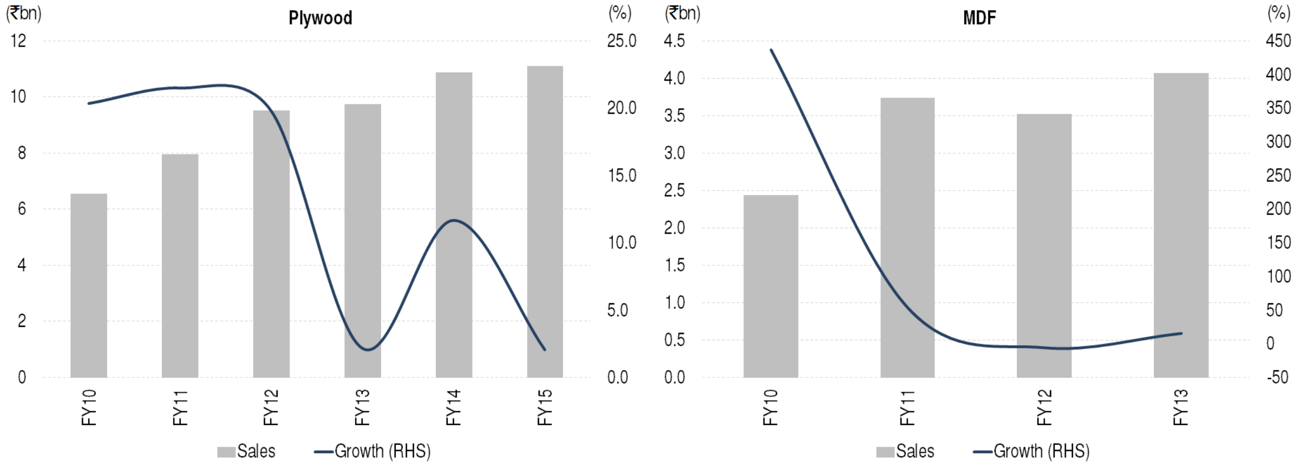
- Increasing urbanisation, higher disposable incomes and a swelling middle class would contribute to the company's growth.
- The GST implementation would help eliminate the unorganised market, thereby increasing the proportion of the organised one.
- Growth in real estate because of lower interest rates would prove beneficial to the company.
- The capacity expansion, launches and widening sales and distribution networks would lead to continuing growth momentum.

Financials

The company's established brand equity, coupled with the capacity expansions and new products, would lead to a better performance in the years to come – and to healthy margins. Revenue over FY10-15 has come at an 11.7% CAGR. FY15 revenue came at ₹15.6bn, with the margin at 13.2% (11.9% in FY14). PAT recorded a 25% CAGR over FY10-15. During FY15, PAT rose 5.7% to ₹1.2bn. The company expects FY16 revenue growth of 10-12% and margins to be better because of the better product mix and cost controls.

Debt in FY15 was ₹3.3bn (₹7.5bn in FY14), resulting in a declining debt-equity ratio. The company has strong return ratios: 25.5% RoE and 18.8% RoCE in FY15. Its fixed-asset turnover was 2.9x in FY15 (2.7x in FY14).

Fig 10 – Trend in plywood and MDF sales



Source: Company, Anand Rathi Research

Company Background & Management

The largest all-India player with a 30% share of the organised plywood market and a 30% share of the domestic MDF market, Greenply Industries has six state-of-the-art manufacturing plants: at Nagaland, West Bengal, Uttarakhand and Rajasthan. It manufactures a host of renowned brands such as Greenply Plywood, Green Club Premium Ply and Green Decowood. Its product range comprises plywood and boards (all ranges), flush doors, decorative veneers and pre-laminated MDF boards.

With 45 branches across India and a strong, more-than-15,000, dealer/ distributor/sub-dealer/ retailer network it has a commanding reach in more than 300 cities.

At present the plywood division operates at 102% utilisation, with further growing demand would be met through outsourcing. At present, ~80% of the plywood is manufactured in-house, the balance outsourced. The MDF utilisation level is 90% with 100% in-house production.

Fig 11 – Board of Directors

Name	Designation
Mr Shiv Prakash Mittal	Chairman
Mr Rajesh Mittal	Managing Director
Mr Shobhan Mittal	Joint Managing Director and CEO

Source: Company

Appendix

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