

BUY

TP: Rs 300 | ▲ 26%

GREENPLY INDUSTRIES | Building Materials

02 February 2024

Strong performance on fast ramp-up of MDF plant

- EBITDA beat estimates (+6%) in Q3 on quick ramp-up of MDF plant in a challenging environment
- Management outlook upbeat on MDF but cautious on plywood margins; divestment of Gabon stake a positive step
- Maintain BUY with unchanged TP of Rs 300 on strong earnings growth prospects and reasonable valuations

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Q3 ahead of estimates: MTLM beat our estimates for Q3FY24 (revenue: +7%, EBITDA: +6%, adj. PAT: +19%) due to better-than-expected ramp-up of the MDF unit. Overall, revenue/EBITDA grew by 45%/75% YoY for the quarter.

Key highlights: Despite an 11% YoY rise in volumes, plywood EBITDA fell by 14% due to a sharp increase in timber prices and higher brand spends (+50bps YoY to 4.5%). In MDF, MTLM has been able to speedily ramp up its new plant, raising the operating rate from 52% in Q2FY24 to 70% in Q3. Further, MDF realisations improved 6% QoQ even in a challenging environment as value-added products started to contribute (9% of the mix).

Plywood margin guided to soften, MDF to rise: Management is targeting plywood volume growth of 8-10% but believes margins may come under pressure over the next two quarters due to elevated timber prices (likely to start moderating from FY26). For MDF, management aims to raise the quarterly sales volume run-rate from 41,928cbm in Q3 to 50,000cbm in FY25 and improve segment EBITDA margin from 13.2% in Q3 to 18-21% by Q1FY25. The furniture hardware business is due to become operational by end-Jun'24. MTLM plans to spend Rs 400mn in FY25 to increase MDF capacity by 25% to 1,000cbm and add equipment to make more value-added products.

Gabon divestment likely to be EPS-accretive: MTLM plans to sell a 51% stake in Gabon operations in Q4FY24 for ~Rs 150mn. We believe this would be an EPS-accretive step as Gabon was making losses and the sale would also result in a reduction of net debt (from Rs 7.3bn in Q3FY24 to Rs 5.2bn in Q4FY24).

Maintain BUY: We maintain our BUY rating on the stock with an unchanged TP of Rs 300 as we see strong earnings growth prospects (EPS estimated to grow at 26% CAGR over FY23-FY26) and improving return ratios (ROE projected to improve from 13.9% in FY23 to 17.7% in FY26). Valuations too look reasonable as the stock is trading at 24.8x on 1Y forward P/E vs. its 5Y average of 23.9x. We largely maintain our forecasts and retain our target P/E multiple of 25x on Sep'25E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MTLM IN/Rs 239
Market cap	US\$ 357.3mn
Free float	48%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 267/Rs 135
Promoter/FPI/DII	52%/2%/33%

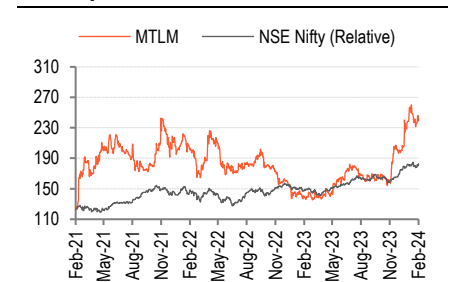
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,456	23,064	25,239
EBITDA (Rs mn)	1,762	2,034	2,747
Adj. net profit (Rs mn)	893	589	1,238
Adj. EPS (Rs)	7.3	4.8	10.1
Consensus EPS (Rs)	7.3	5.9	11.0
Adj. ROAE (%)	15.1	8.7	16.2
Adj. P/E (x)	32.9	49.9	23.7
EV/EBITDA (x)	15.9	12.4	8.6
Adj. EPS growth (%)	(8.9)	(34.1)	110.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	6,208	4,282	45.0	6,077	2.2	17,047	13,765	23.8
Raw-Material expense	3,606	2,610	38.2	3,657	(1.4)	10,048	8,380	19.9
Gross Profit	2,602	1,672	55.6	2,420	7.5	6,999	5,385	30.0
Employee expense	812	604	34.3	780	4.1	2,301	1,802	27.7
Other expense	1,222	743	64.6	1,127	8.4	3,319	2,367	40.2
EBITDA	568	325	74.6	513	10.7	1,379	1,215	13.5
D&A	172	96	78.6	162	6.4	467	261	78.6
EBIT	396	229	72.9	351	12.7	912	954	(4.4)
Interest cost	204	62	227.9	178	14.7	511	187	173.9
Non-operating expense/(income)	(173)	(105)	64.7	(35)	391.8	(219)	(115)	89.5
PBT	365	272	34.3	209	74.9	620	883	(29.8)
Tax	96	(88)	(209.1)	70	38.3	204	79	157.1
Reported PAT	269	360	(25.4)	139	93.2	416	803	(48.2)
Adjusted PAT	202	264	(23.3)	139	45.5	350	707	(50.6)
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	41.9	39.1	286	39.8	209	41.1	39.1	194
Employee cost	13.1	14.1	(104)	12.8	24	13.5	13.1	40
Other cost	19.7	17.3	234	18.6	114	19.5	17.2	228
EBITDA margin	9.1	7.6	155	8.4	71	8.1	8.8	(74)
Tax rate	26.4	(32.5)	5889	33.4	(699)	32.9	9.0	2391
APAT margin	3.3	6.2	(290)	2.3	97	2.1	5.1	(309)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

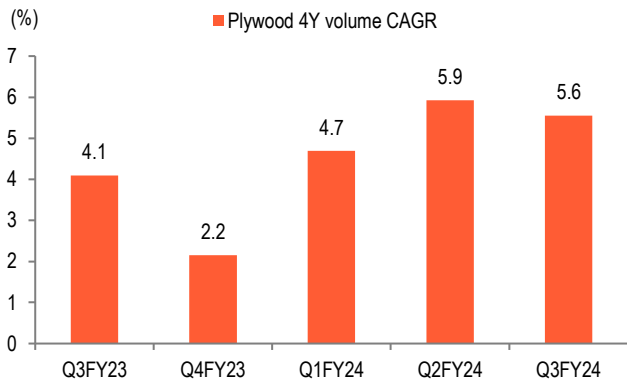
Segment Analysis	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (Rs mn)								
Plywood	4,926	4,282	15.1	5,183	(5.0)	14,690	13,765	6.7
MDF	1,284	0	NM	896	43.3	2,362	0	NM
Total	6,210	4,282	45.0	6,079	2.2	17,052	13,765	23.9
Volumes								
Plywood (mn sqm)	18	16	11.3	19	(6.8)	53	49	8.1
MDF (cbm)	41,928	0	NM	31,019	35.2	79,009	0	NM
Realisation								
Plywood (Rs/sqm)	277	268	3.4	271	2.0	276	280	(1.3)
MDF (Rs/cbm)	30,617	-	NM	28,872	6.0	29,896	-	NM
EBITDA (Rs mn)								
Plywood	360	420	(14.3)	380	(5.3)	1,100	1,243	(11.5)
MDF	170	0	NM	120	41.7	217	0	NM
Others	38	(95)	NM	13	195.0	62	(28)	NM
Total	568	325	74.6	513	10.7	1,379	1,215	13.5
EBITDA margin (%)								
Plywood	7.3	9.8	(250bps)	7.3	(2bps)	7.5	9.0	(154bps)
MDF	13.2	-	NM	13.4	(16bps)	9.2	-	NM
Total	9.1	7.6	155bps	8.4	71bps	8.1	8.8	(74bps)

Source: Company, BOBCAPS Research

Earnings call highlights

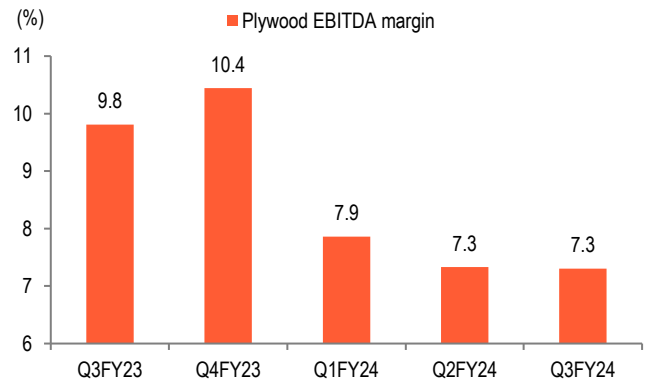
- **Plywood performance:** MTLM's plywood volumes grew 11% YoY (4Y CAGR: +5.6%) in Q3FY24 led by the economy segment, where volume share has swelled 600bps YoY to 57%. In absolute terms, premium volumes were stagnant. Despite higher volumes, plywood EBITDA fell 14% YoY in Q3 due to a sharp increase in timber prices and higher brand spends (+50bps YoY to 4.5%).
- **Plywood outlook:** The company expects plywood volumes to grow at 8-10% YoY in the near term but believes margins may come under pressure for the next two quarters due to the sharp increase in timber prices, while likely improving over the medium term. Management has no plans to take price hikes in the near term.
- **MDF performance:** Despite higher volumes (+35% QoQ), MDF segment EBITDA margin slightly fell by 16bps QoQ to 13.2% in Q3 due to (a) liquidation of cheap, old timber inventories, (b) initial start-up cost associated with production of value-added products, and (c) marketing expense of Rs 30mn.
- **MDF outlook:** The company aims to increase its MDF quarterly sales volume run-rate from 41,928cbm in Q3FY24 to 50,000cbm in FY25 and improve segment EBITDA margin from 13.2% in Q3 to 18-21% by Q1FY25.
- **Capex:** Management plans to spend Rs 400mn in FY25 to increase its MDF capacity by 25% to 1,000cbm and add equipment to make more value-added products.
- **Furniture fittings:** MTLM and Samet plan to invest Rs 2.25bn-2.5bn on the hardware business, which would be financed through equity of Rs 800mn and the remaining through debt. The company's equity contribution in the JV is Rs 400mn (Rs 100mn in Q3FY24, Rs 150mn in Q4FY24, Rs 150mn in FY25). Management expects to clock revenue of Rs 3bn with an EBITDA margin of 20%+ over the next 3-4 years from this business.
- **Gabon:** The company plans to sell a 51% stake in Gabon during Q4FY24 at a consideration of Rs 150mn. We believe this would be EPS-accretive as the subsidiary was making losses and the sale would reduce net debt from Rs 7.3bn in Q3FY24 to Rs 5.2bn in Q4FY24. Going ahead, the company also intends to divest its remaining stake in Gabon.
- **BIS:** BIS (Bureau of Indian Standards) norms are likely to be implemented on MDF products from Mar'24. Management believes this would affect the pace of imports in the short term but notes that end user industries have requested the government to temporarily defer the implementation.

Fig 3 – MTLM’s plywood volume grew 11.3% YoY and 5.6% on a 4Y CAGR basis in Q3FY24



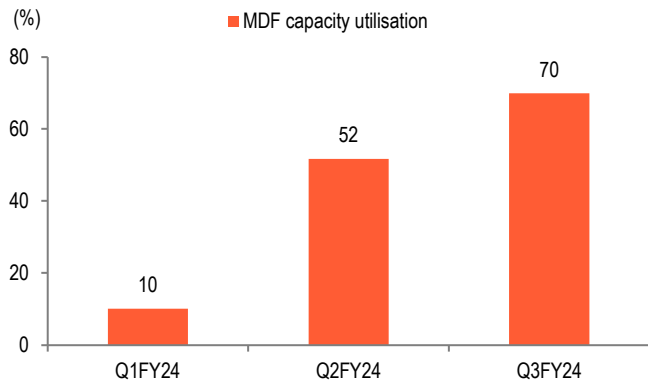
Source: Company, BOBCAPS Research

Fig 4 – Plywood margin fell 250bps YoY to 7.3% on high timber prices and higher brand spend



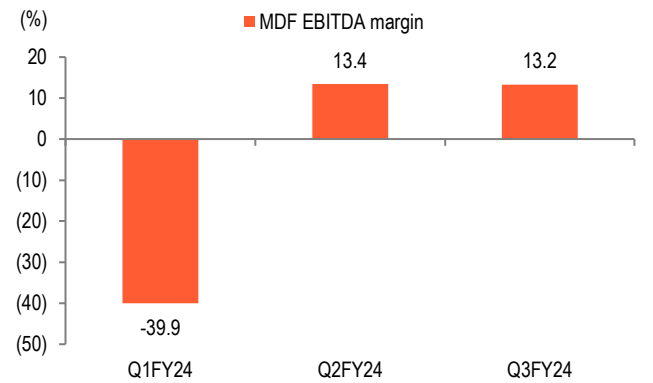
Source: Company, BOBCAPS Research

Fig 5 – Operating rate of new MDF unit was ramped up quickly in a challenging environment



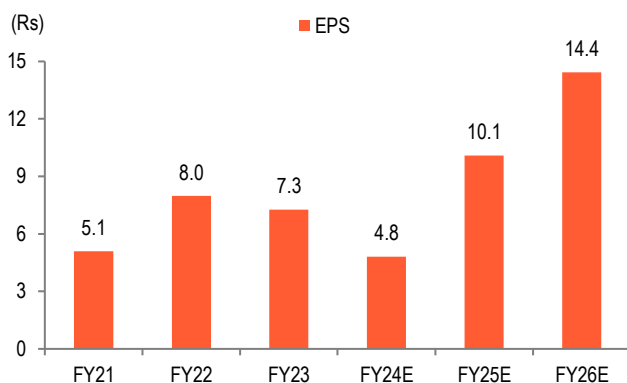
Source: Company, BOBCAPS Research

Fig 6 – MDF EBITDA margin was stable in Q3FY24 and is guided to improve sharply in FY25



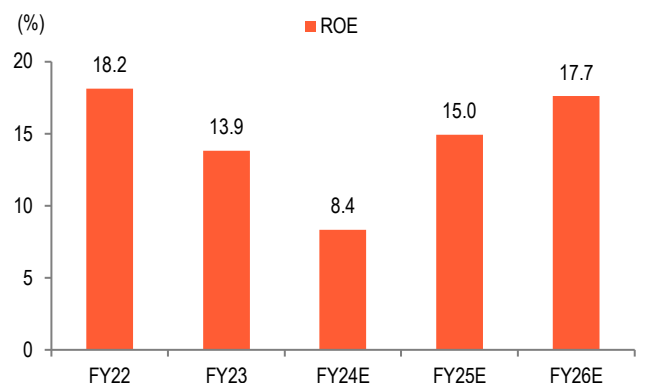
Source: Company, BOBCAPS Research

Fig 7 – MTLM’s EPS is projected to grow at a strong 26% CAGR over FY23-FY26E



Source: Company, BOBCAPS Research

Fig 8 – ROE is also expected to improve from 13.9% in FY23 to 17.7% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

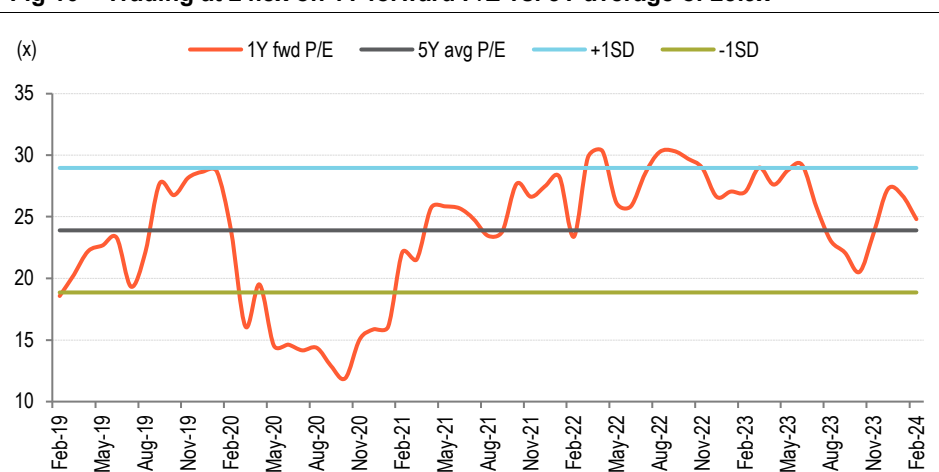
We maintain our BUY rating on the stock with an unchanged TP of Rs 300 as we see strong earnings growth prospects (EPS estimated to grow at 26% CAGR over FY23-FY26) and improving return ratios (ROE projected to improve from 13.9% in FY23 to 17.7% in FY26). Valuations too look reasonable with the stock trading at 24.8x one-year forward P/E vs. its five-year average of 23.9x. We largely maintain our forecasts and retain our target P/E multiple of 25x on Sep'25E EPS – which is in-line with the stock’s historical multiple.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total operating income	23.1	25.2	28.1	23.0	26.9	30.4	0.3	(6.3)	(7.7)
EBITDA	2.0	2.7	3.3	2.0	2.9	3.4	1.3	(3.9)	(3.8)
EBITDA Margin (%)	8.8	10.9	11.7	8.7	10.6	11.2	9bps	28bps	47bps
Adjusted PAT	0.6	1.2	1.8	0.6	1.2	1.8	0.0	0.4	(0.2)
EPS (Rs)	4.8	10.1	14.4	4.8	10.0	14.5	0.0	0.4	(0.2)

Source: BOBCAPS Research

Fig 10 – Trading at 24.8x on 1Y forward P/E vs. 5Y average of 23.9x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Plywood	100.0	100.0	100.0	83.8	77.8	75.4
MDF	0.0	0.0	0.0	16.2	22.2	24.6
Sales volume growth						
Plywood	-19.1	26.0	15.1	7.7	7.6	7.8
MDF	NA	NA	NA	NA	42.7	18.6
EBITDA margin						
Plywood	10.1	10.0	9.6	8.2	9.2	9.4
MDF	NA	NA	NA	11.7	16.9	18.8

Source: Company

Key risks

- Muted domestic demand and weak domestic MDF prices are the key downside risks to our call.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	678	600	SELL
Astral	ASTRA IN	6.2	1,902	2,000	HOLD
Century Plyboards	CPBI IN	2.1	783	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,239	8,100	HOLD
Finolex Industries	FNXP IN	1.6	218	230	HOLD
Greenlam Industries	GRLM IN	0.8	547	600	HOLD
Greenpanel Industries	GREENP IN	0.6	391	400	HOLD
Greenply Industries	MTLM IN	0.4	239	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	466	700	BUY
Kajaria Ceramics	KJC IN	2.6	1,345	1,400	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.9	701	800	HOLD
Somany Ceramics	SOMC IN	0.4	737	900	BUY
Supreme Industries	SI IN	6.4	4,138	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	15,628	18,456	23,064	25,239	28,103
EBITDA	1,542	1,762	2,034	2,747	3,292
Depreciation	258	365	640	707	737
EBIT	1,283	1,397	1,394	2,040	2,555
Net interest inc./(exp.)	(119)	(262)	(692)	(563)	(497)
Other inc./(exp.)	99	153	187	220	230
Exceptional items	39	71	0	0	0
EBT	1,224	1,217	889	1,697	2,288
Income taxes	303	192	292	417	460
Extraordinary items	0	(96)	0	0	0
Min. int./Inc. from assoc.	26	(208)	(8)	(42)	(54)
Reported net profit	947	914	589	1,238	1,773
Adjustments	31	(21)	0	0	0
Adjusted net profit	978	893	589	1,238	1,773

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,164	2,427	2,883	3,155	3,513
Other current liabilities	767	920	920	920	920
Provisions	169	73	92	100	112
Debt funds	2,919	6,634	5,398	4,838	4,198
Other liabilities	188	318	318	318	318
Equity capital	123	123	123	123	123
Reserves & surplus	5,259	6,315	6,904	8,143	9,916
Shareholders' fund	5,382	6,438	7,027	8,266	10,039
Total liab. and equities	11,588	16,810	16,637	17,596	19,099
Cash and cash eq.	1,035	314	(24)	(215)	666
Accounts receivables	1,864	2,287	2,528	2,766	3,080
Inventories	2,256	2,784	2,267	3,101	3,469
Other current assets	547	1,143	1,429	1,563	1,741
Investments	258	64	250	400	400
Net fixed assets	3,086	4,014	8,903	8,696	8,458
CWIP	1,096	5,130	300	300	300
Intangible assets	292	578	488	488	488
Deferred tax assets, net	198	55	55	55	55
Other assets	955	442	442	442	442
Total assets	11,588	16,810	16,637	17,596	19,099

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	364	923	2,200	1,362	2,288
Capital expenditures	(1,586)	(5,612)	(610)	(500)	(500)
Change in investments	(33)	194	(186)	(150)	0
Other investing cash flows	60	179	187	220	230
Cash flow from investing	(1,558)	(5,239)	(610)	(430)	(270)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,001	3,716	(1,236)	(560)	(640)
Interest expenses	(119)	(262)	(692)	(563)	(497)
Dividends paid	0	0	0	0	0
Other financing cash flows	67	142	0	0	0
Cash flow from financing	949	3,595	(1,928)	(1,123)	(1,137)
Chg in cash & cash eq.	(245)	(721)	(338)	(191)	881
Closing cash & cash eq.	1,035	314	(24)	(215)	666

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	7.7	7.4	4.8	10.1	14.4
Adjusted EPS	8.0	7.3	4.8	10.1	14.4
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	43.9	52.4	57.2	67.3	81.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.8	1.5	1.1	0.9	0.9
EV/EBITDA	18.0	15.9	12.4	8.6	7.3
Adjusted P/E	29.9	32.9	49.9	23.7	16.6
P/BV	5.4	4.6	4.2	3.6	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.9	73.4	66.3	73.0	77.5
Interest burden (PBT/EBIT)	95.4	87.1	63.7	83.2	89.5
EBIT margin (EBIT/Revenue)	8.2	7.6	6.0	8.1	9.1
Asset turnover (Rev./Avg TA)	134.9	109.8	138.6	143.4	147.1
Leverage (Avg TA/Avg Equity)	2.2	2.6	2.4	2.1	1.9
Adjusted ROAE	18.2	13.9	8.4	15.0	17.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	34.1	18.1	25.0	9.4	11.3
EBITDA	30.5	14.3	15.5	35.0	19.8
Adjusted EPS	56.8	(8.9)	(34.1)	110.3	43.2
Profitability & Return ratios (%)					
EBITDA margin	9.9	9.5	8.8	10.9	11.7
EBIT margin	8.2	7.6	6.0	8.1	9.1
Adjusted profit margin	6.3	4.8	2.6	4.9	6.3
Adjusted ROAE	20.1	15.1	8.7	16.2	19.4
ROCE	16.7	11.9	12.7	17.2	19.6
Working capital days (days)					
Receivables	44	45	40	40	40
Inventory	53	55	36	45	45
Payables	51	48	46	46	46
Ratios (x)					
Gross asset turnover	3.5	3.4	2.6	2.1	2.3
Current ratio	1.2	1.3	1.2	1.3	1.5
Net interest coverage ratio	10.8	5.3	2.0	3.6	5.1
Adjusted debt/equity	0.4	1.0	0.8	0.6	0.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

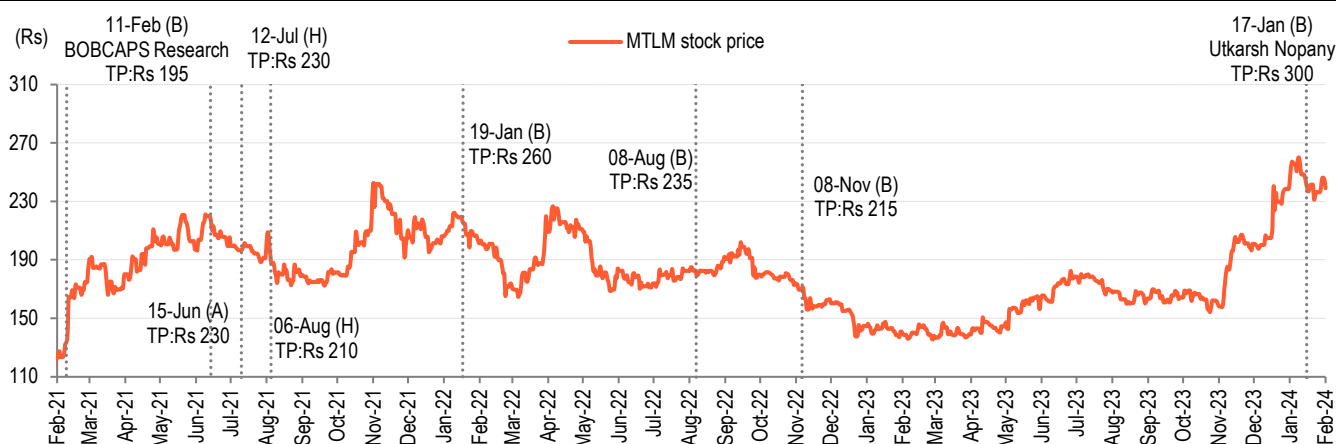
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): GREENPLY INDUSTRIES (MTLM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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