

Greenply Industries

BUY

Dominant player in an industry with tailwinds

Summary

We initiate coverage on Greenply Industries with a BUY rating and a target price of Rs171. Greenply is a proxy play on rising real estate sales in India as it is second largest plywood company in India and is on the verge of commissioning a 240,000 cbm Medium-density fibreboard (MDF) plant in Vadodara, Gujarat. We expect the plant to gradually ramp up production during FY24. Post this expansion, we forecast Greenply's sales/EBITDA/net profit to grow at a CAGR of 18%/45%/35%, respectively, over FY23-25E. With this plant, the company will complete its major capex cycle. Hence, we expect its free cashflows to remain strong over FY24-25E and net debt is likely to fall sharply during the same period. Lastly, valuation at (PER of 10x FY25) is inexpensive in our view (Century Plyboards trades at 20x).

Key Highlights and Investment Rationale

- Dominant position in plywood segment:** Greenply Industries is amongst the leading plywood companies in India with a 28% share of the organized market. The company is one of the largest players in the domestic interior infrastructure sector aided by its quality product and strong brand image. Greenply's brands such as 'Green Club 500', 'Green Club plus 700' and 'Green Gold platinum' in the plywood segment are amongst the leading brands in the premium segment.
- Foraying into fast growing MDF:** The growth in MDF is likely to remain strong (+15%) over the coming five years in India given its under penetration. Greenply is setting up a 240,000 cbm MDF plant in Vadodara (Gujarat) with a capex of Rs5.9 bn. The plant has revenue potential of Rs6-6.5bn at its peak utilization and will be commissioned by Q4FY23. We expect plant to gradually ramp up during FY24 and expect 65% utilization in FY25 leading to strong growth in overall sales.
- Valuation attractive:** We expect Greenply's free cash flows to remain strong during FY24-25 as it has no major capex plans in FY24-25. Further, leverage is likely to come off gradually. We value the stock at PER of 12x (lower than 8-yr average PER of 25x) FY25E EPS to derive a target price of Rs171.

TP	Rs171			Key Stock Data	
CMP	Rs137			Bloomberg / Reuters MTLM IN / GRPL.BO	
Potential upside	25%			Sector Plywood Boards/ Laminates	
Previous Rating	--			Shares o/s (mn)	123
Price Performance (%)				Market cap. (Rs mn)	
	-1m	-3m	-12m	16,816	
Absolute	(1.3)	(14.6)	(19.2)	3-m daily average value (Rs mn)	
Rel to Sensex	0.4	(9.8)	(29.3)	1.9	
V/s Consensus				52-week high / low	
EPS (Rs)	FY23E	FY24E	FY25E	Rs232 / 134	
IDBI Capital	7.4	9.0	14.2	Sensex / Nifty	
Consensus	7.4	9.0	13.4	59,809 / 17,594	
% difference	0.4	0.1	6.2		

Financial snapshot (Rs mn)					
Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,653	15,628	18,089	21,956	25,129
Change (yoY, %)	(18)	34	16	21	14
EBITDA	1,151	1,503	1,549	2,525	3,236
Change (yoY, %)	(26)	31	3	63	28
EBITDA Margin(%)	9.9	9.6	8.6	11.5	12.9
Adj.PAT	633	921	907	1,109	1,750
EPS (Rs)	5.2	7.5	7.4	9.0	14.2
Change (yoY, %)	(35)	46	(2)	22	58
PE(x)	26.6	18.2	18.5	15.2	9.6
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4
EV/EBITDA (x)	14.9	12.4	15.0	8.8	6.3
RoE (%)	16	19	16	17	22
RoCE (%)	15	18	11	15	20

Source: IDBI Capital Research

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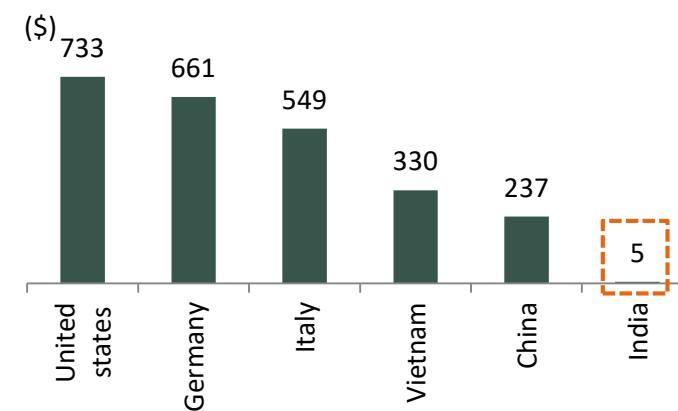
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Industry overview

Indian furniture market growth to remain strong

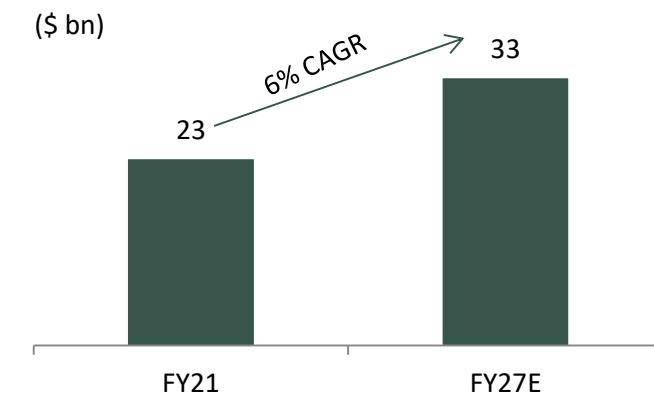
The Indian furniture market is expected to grow by 6% CAGR from \$23 bn in FY21 to \$33 bn in FY27 on the back of rising demand of residential real estate in India. The growth in real estate sector, rise in adoption of ready to made furniture, change in consumer preferences and support of Government's "Make in India" initiatives are likely to drive the demand for the furniture market in long term. Higher demand from commercial plus residential space and capacity expansion by woodpanel companies are likely to drive furniture market further. Moreover, India's per capita consumption for furniture products is only \$5 which is significantly lower than other countries.

Exhibit 1: Annual per capita consumption of furniture products



Source: IKEA report, IDBI Capital Research

Exhibit 2: Demand projection for furniture industry in India

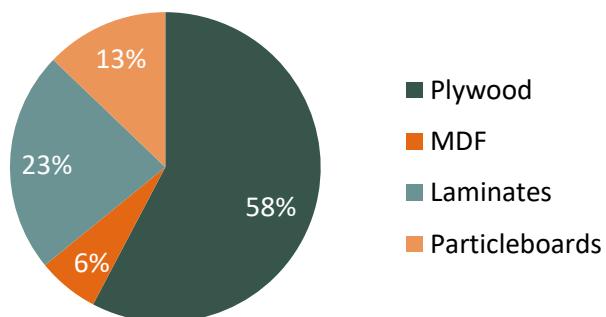


Source: Research & Markets, IDBI Capital Research

■ Indian wood panel market

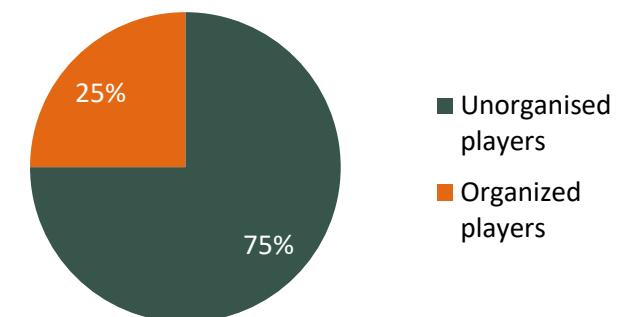
Indian wood panel industry's estimated size was Rs390 bn in FY22. The industry mainly comprises of plywood, laminates, MDF and Particle boards. The market is dominated by plywood industry, comprising of Rs225 bn of market size. This industry is further bifurcated into different categories such as premium, mass and low end plywood. This segment is been dominated by unorganized players with a share of 75% while MDF segment is been largely been dominated by organized players with a share of 65%.

Exhibit 3: Woodpanel Industry - FY22



Source: Greenply presentation, IDBI Capital Research

Exhibit 4: Unorganized players dominate the plywood industry

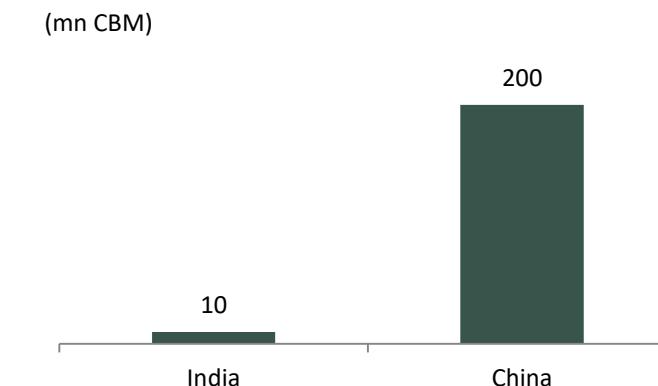


Source: Greenply presentation, IDBI Capital Research

■ Indian Plywood and MDF industry

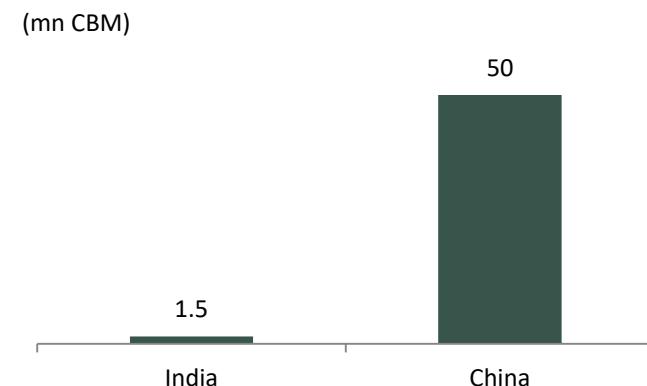
India's FY21 annual production for plywood is estimated at 10 mn cbm compared to China's annual production of 200 mn cbm. MDF production is estimated to be around 1.5 mn cbm compared to China's annual production of 50 mn cbm. These data-points indicate huge headroom for growth in Indian plywood/MDF. In last five years, consumption of MDF segment has grown at a faster pace due to its affordability, flexibility and substitution from low end plywood. Also, companies have expanded their distribution network and exclusive outlets for MDF furniture.

Exhibit 5: Plywood production



Source: Industry data, IDBI Capital Research

Exhibit 6: MDF production



Source: Industry data, IDBI Capital Research

Significant shift towards MDF industry

MDF usage in woodpanel industry is growing at the fastest pace among all other categories due to its lower cost and rising acceptability (especially in ready-made furniture). India consumes only 5% of MDF compared to China which indicates significant headroom to grow in India. Therefore, many players are expanding their MDF capacities in India. Our channel checks indicate strong acceptability of MDF in ready-made furniture in recent years.

Exhibit 7: MDF capacity in FY22

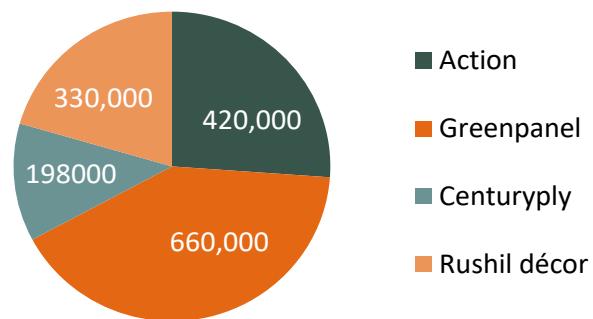
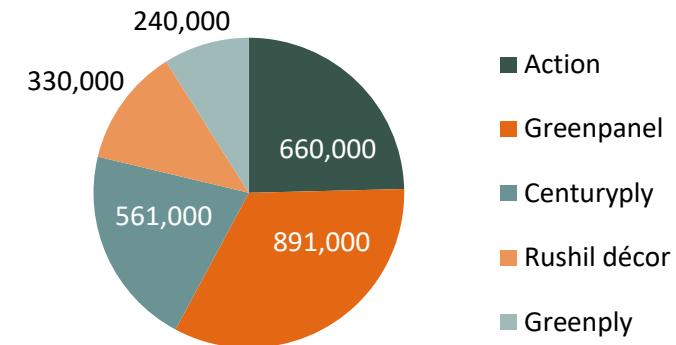


Exhibit 8: MDF capacity by FY25

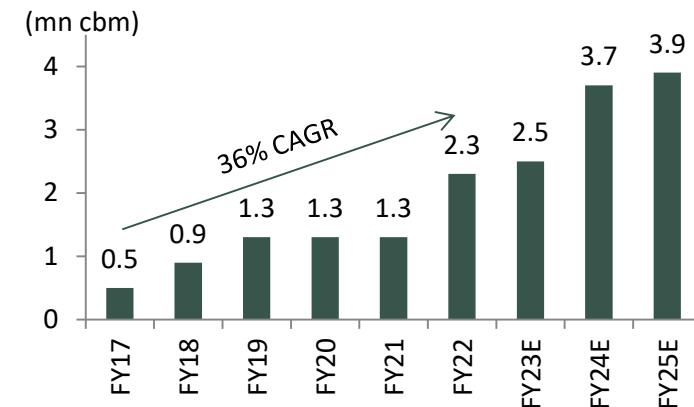


Source: Industry data, IDBI Capital Research

Source: Industry data, IDBI Capital Research

The Indian MDF industry grew at CAGR of 36% over FY17-22, despite various challenges, including Covid-19 related lockdowns and slowdown in the real estate industry. The current size of the MDF industry is approximately Rs29 bn. Looking ahead, rising urbanization, improving durability and cost benefits (when compared to low grade plywood) will continue to lead to stronger growth of MDF in India.

Exhibit 9: MDF growth to remain strong



Source: Industry data, IDBI Capital Research

Exhibit 10: Woodpanel division - Market size (Rs bn)

Categories	CY21	CY26	CAGR over CY21-26(%)
Plywood	243	300	4.3
MDF	30	60	14.9
Laminates	58	90	9.2
Particle boards	33	64	14.2

Source: Industry data, IDBI Capital Research

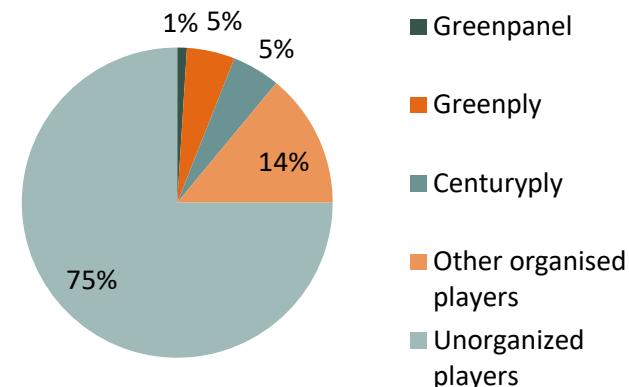
Investment thesis

■ One of the largest plywood company in India

Greenply has strong presence in premium plywood segment

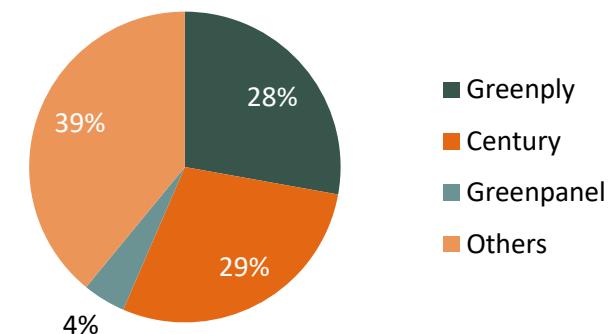
Greenply is amongst the leading plywood manufacturers in India with a 28% share of the organized market, only second to Century Plyboards. The company is mainly focused on premium segment although it company offers a wide range of panel products including plywood, block boards, decorative veneers, doors, and film-faced plywood, among other. Greenply's brands including 'Green Club 500', Green Club plus 700' and 'Green Gold platinum' are amongst the leading brands in the premium segment. Greenply has also gained market share (in some geographies) in lower and mid segment plywood through the outsourcing route with three brands namely 'Ecotec', 'Bharosa' and 'Jansathi'.

Exhibit 11: Overall market share in plywood segment



Source: Industry data, IDBI Capital Research

Exhibit 12: Organized players market share



Source: Industry data, IDBI Capital Research

Strong distribution network to increase penetration across its geographical presence.

■ Strong distribution network and reach

Greenply has a strong distribution network of over 2,300 dealers spread across over 1,100 cities, towns and villages. The company caters to 27 states and 6 union territories which are been served through 55 branches. The dealership mix is tilted towards urban cities (61%) as compare to rural and semi-rural cities (39%) in FY22. The company's distribution network is supported by its marketing team which is present across India. Moreover, the company will be commissioning its MDF plant in Vadodara (Gujarat) in Q4FY23 for which company has already appointed a new sales team. The team will set up newer distribution channels and develop market strategies.

Exhibit 13: Greenply's dealer network

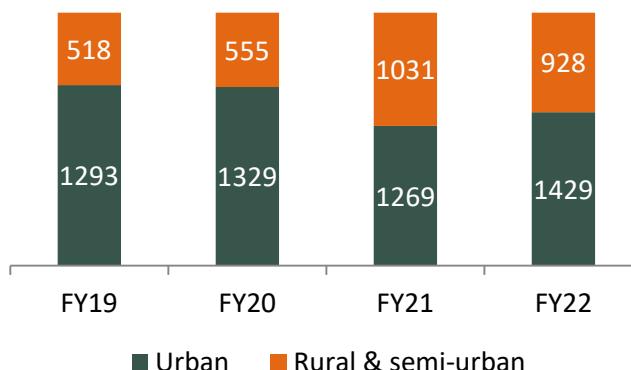
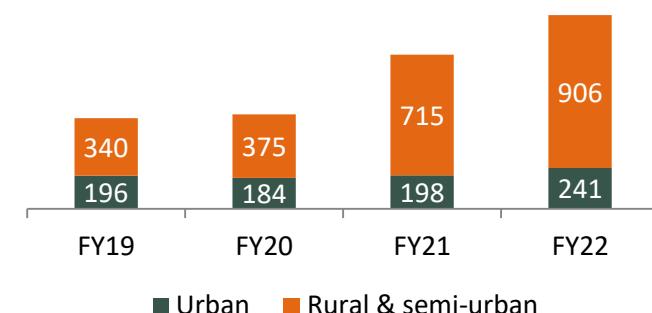


Exhibit 14: No. of cities covered by Greenply



Source: Greenply presentation, IDBI capital Research

Source: Greenply presentation, IDBI capital Research

Exhibit 15: Greenply has PAN India presence



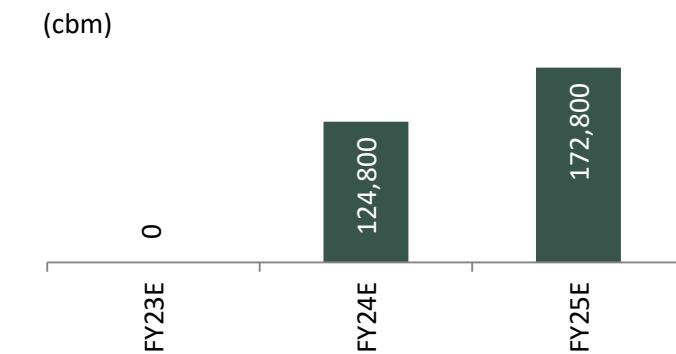
Source: Greenply presentation, IDBI Capital Research

■ **Foraying in fast growing MDF segment**

Foraying into MDF space to provide better product mix

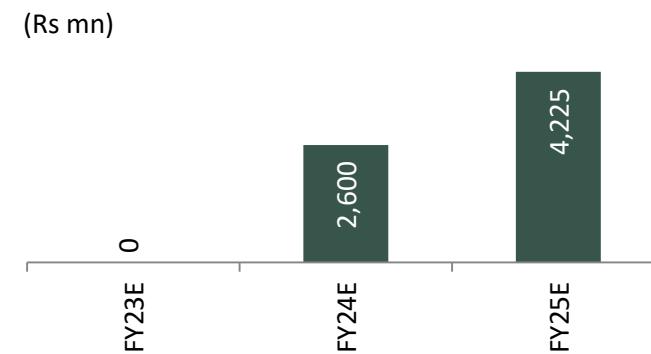
In Q2FY22, Greenply forayed into MDF divsion. It incurred capex of Rs5.9 bn for setting up a MDF plant in Vadodara (Gujarat). The plant will have an installed capacity of 240,000 CBM which will have revenue potential of Rs6-6.5 bn at its peak utilization (likely in 4 years). The plant is expected to commence operations by Q4FY23. However, we expect meaningful profitability from this plant to commence from FY25.

Exhibit 16: MDF sales volume over FY23-FY25E



Source: Company, IDBI Capital Research

Exhibit 17: Revenue from MDF division to gradually increase

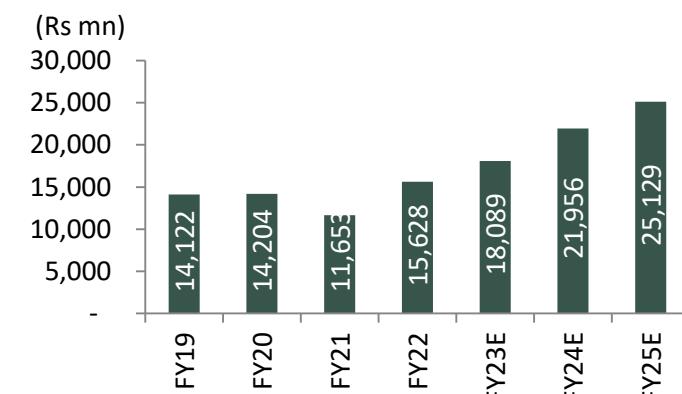


Source: Company, IDBI Capital Research

- **FCFF to improve; Leverage to come off;**

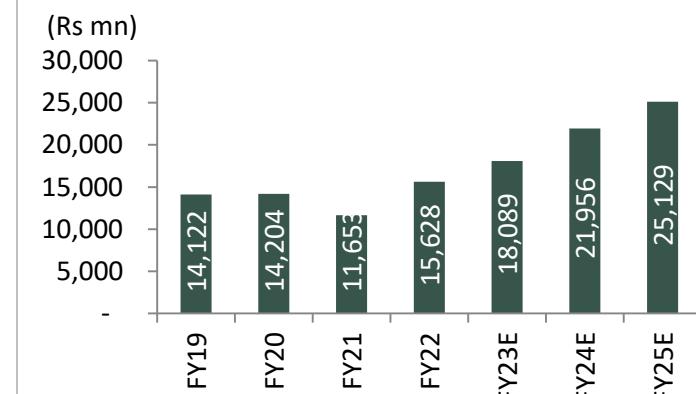
We expect Greenply to generate strong cash-flows from FY24 as it has not lined up any major capex plans over FY24-25 and will mainly focus on ramping up MDF production. Hence, its leverage is likely to come off meaningfully in the coming two years.

Exhibit 18: Sales to grow at a CAGR of 18% over FY23-25E



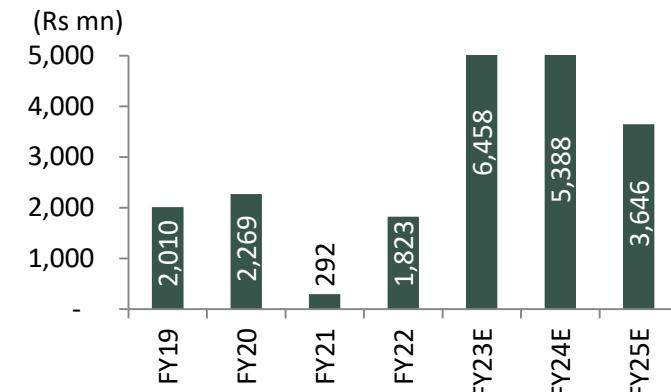
Source: Company; IDBI Capital Research

Exhibit 19: EBITDA to grow at a CAGR of 45% over FY23-25E



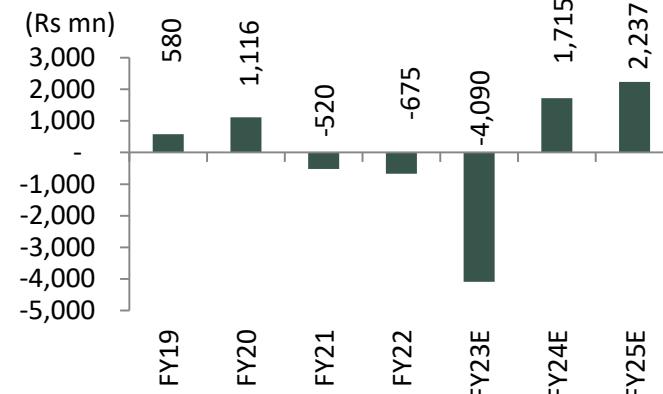
Source: Company; IDBI Capital Research

Exhibit 20: Net debt to come off gradually



Source: Company; IDBI Capital Research

Exhibit 21: FCFF to improve over coming years

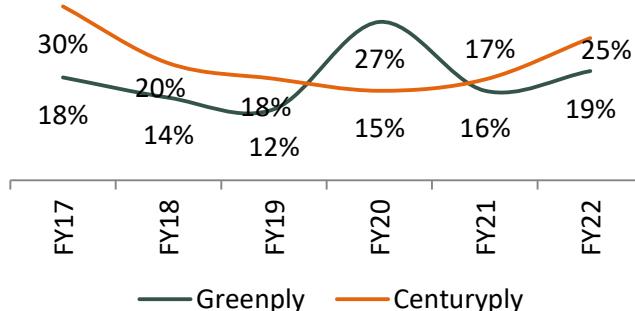


Source: Company; IDBI Capital Research

Peer comparison

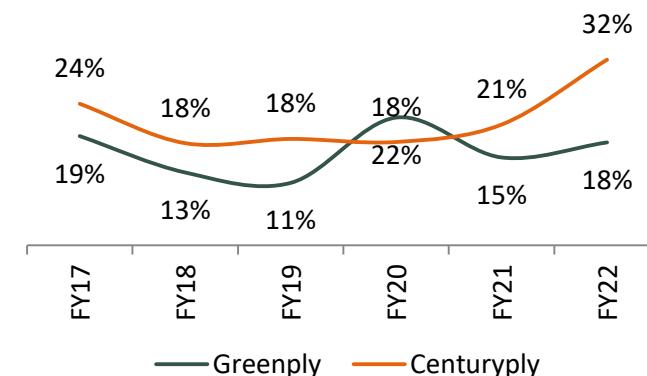
We have compared Greenply with its Century Plyboards in Indian wood panel industry. Century has a diverse product range compared to Greenply. Also, it has higher return ratios over Greenply. However, Greenply scores over Century in working capital management.

Exhibit 22: ROE comparison (%)



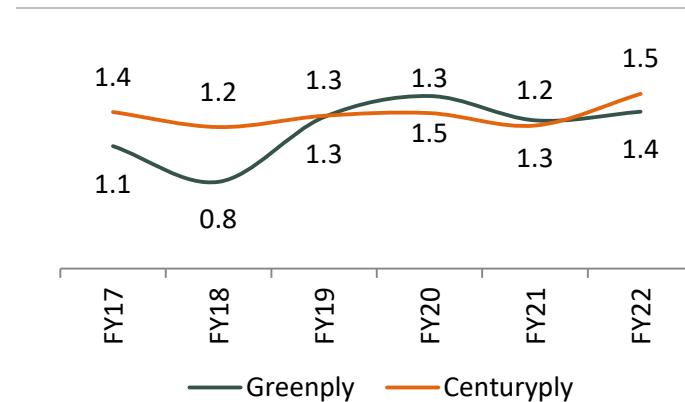
Source: Company; IDBI Capital Research

Exhibit 23: ROCE comparison (%)



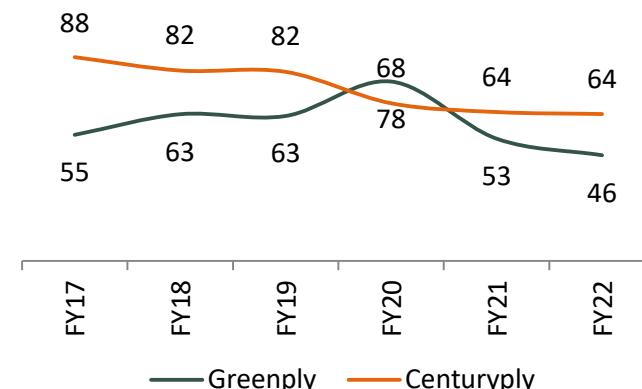
Source: Company; IDBI Capital Research

Exhibit 24: Asset turnover (x)



Source: Company; IDBI Capital Research

Exhibit 25: Greenply scores over Century in working capital days



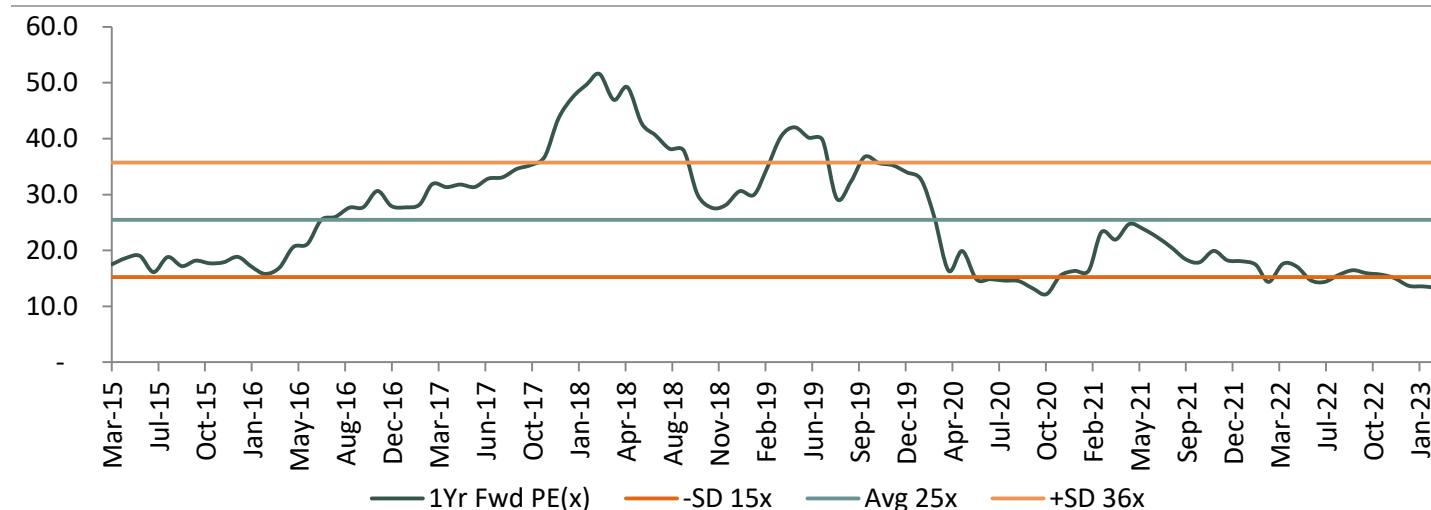
Source: Company; IDBI Capital Research

Valuation and Outlook

Greenply trades at a steep discount to Century Plyboards

With structural tailwinds in the real estate industry, we forecast Greenply's EPS to grow at CAGR of 19% over FY22-25E. Greenply stock trades at a significant discount to Century Plyboards. We value the stock at PER of 12x on our FY25 EPS to derive a target price of Rs171.

Exhibit 26: One-year forward PER trend



Source: Company, IDBI Capital

Exhibit 27:Peer valuation

	PER			P/BV			ROE		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Centuryply board	35.1	24.4	20.0	6.3	5.3	4.4	19	24	24
Greenply Industries	18.5	15.2	9.6	2.8	2.4	1.9	16	17	22
Greenpanel Industries	13.8	12.7	11.9	2.9	2.4	2.0	23	21	18
Greenlam Industries	34.3	26.4	19.5	4.3	3.8	3.2	15	16	18
Average	25.4	19.7	15.3	4.1	3.5	2.9	18	20	21

Source: Bloomberg (except greenply & centurply board), IDBI Capital Research

Corporate governance check

■ Independent directors' representation on the board

Independent directors constituted between 50-75% of Greenply's Board of Directors in the last five years indicating higher role of professionals compared to the promoters.

Exhibit 28: Representation of independent directors and promoters

	FY17	FY18	FY19	FY20	FY21	FY22
Promoters group Directors	2	2	2	3	3	3
Independent Directors	5	5	5	5	4	5
Total Directors	7	7	7	8	7	8
<i>Share of promoter directors (%)</i>	29	29	29	38	43	38
<i>Share of independent directors (%)</i>	71	71	71	63	57	63

Source: Company; IDBI Capital Research

■ Promoter group compensation analysis

Greenply's promoters' compensation has remained high in the recent years despite rise in net profits. Over FY18-22, it has been in the range of 5-11% of net profit.

Exhibit 29: Promoters group compensation

(Rs mn)	FY18	FY19	FY20	FY21	FY22
Rajesh Mittal	52	38	36	37	60
Sanidhya Mittal	5	19	15	14	24
Total compensation	57	57	51	51	83
Net profit	1,106	797	473	609	947
<i>Total compensation as a % of net profit</i>	<i>5%</i>	<i>7%</i>	<i>11%</i>	<i>8%</i>	<i>9%</i>

Source: Company; IDBI Capital Research

■ **Related party transaction**

The promoters have lent loans to Greenply. However, the proportion of loans is insignificant.

Exhibit 30: Promoter loans to Greenply

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Loans given by promoters to Greenply	99	47	163	221	212	183	189
Debt (excluding promoters)	2,601	4,410	6,959	2,279	2,462	1,734	2,729
Total debt	2,700	4,457	7,122	2,500	2,674	1,917	2,919

Source: Company; IDBI Capital Research

■ **Contingent liabilities**

Greenply's contingent liability is not significant as a proportion of its net worth.

Exhibit 31: Contingent liabilities

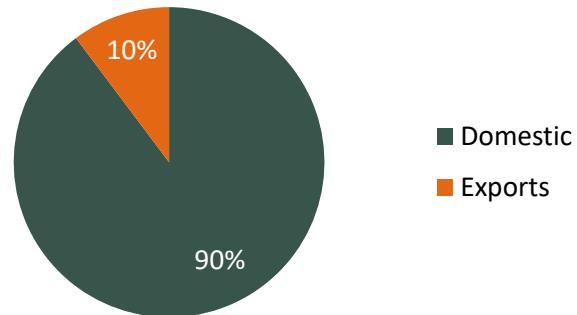
(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Contingent liabilities (Rs mn)	482	540	445	512	560	556
Net worth (Rs mn)	7,727	8,775	3,352	3,779	4,367	5,382
<i>Contingent liabilities as a % of net worth</i>	6	6	13	14	13	10

Source: Company; IDBI Capital Research

Company overview

Incorporated in 1990, Greenply is one of India's largest woodpanel companies. It is engaged in the manufacturing of plywood and is on the verge of commissioning a MDF plant. The company has four manufacturing facilities of plywood, one each in Nagaland, West Bengal, Gujarat and Uttar Pradesh with a plywood capacity of 48.4 mn sqm. The company's major brands in the plywood premium segment are 'Green Club 500' 'Green Club plus 700' 'Green Gold platinum'. As a part of backward integration initiatives, the company has face veneer peeling capacity of 96,000 CBM in Gabon, West Africa.

Exhibit 32: Geographical mix – FY22



Source: Company; IDBI Capital Research

Exhibit 33: Plant locations and capacities

Location	Capacities (mn sqm)
Kriparpur, West Bengal	11
Tizit, Nagaland	8.1
Bamanbore, Gujarat	15.8
Sandila, Lucknow	13.5

Source: Company; IDBI Capital Research

Key Employees

Exhibit 34: Key management persons

Name	Designation	Details
Mr. Rajesh Mittal	Chairman & MD	He is a promoter of the company who joined Greenply in 1984. He is a commerce graduate with 30 years of experience.
Mr. Sanidhya Mittal	Joint MD	He is B.com graduate with 5 years of experience. He is focused on strengthening branding.
Mr. Manoj Tulsian	Joint MD & CEO	Prior to Joining Greenply Industries, he was associated with couple of brands such as Kalpataru, VIP industries and Gabriel India.
Mr. Indranil Roy	Chief Sales and Business Officer	He is a gold medalist from the prestigious IISWBM Kolkata and holds 30 years of experience in sales & marketing. He was previously associated with the companies such as VIP Industries, Century Pulp & Paper, Safari Industries, Whirlpool India, Panasonic and Titan.

Source: Company; IDBI Capital Research

Key risks

Slowdown in real estate sales: A general slowdown in real economy/rising interest rate could affect real estate sales which in turn could lead to weak sales for woodpanel industry.

Margin compression in MDF: Existing MDF players are expanding capacities and Greenply is on the verge of commencing its MDF plant. Rising imports/slowdown in real estate could pressurize MDF margins.

Financial Summary

Profit & Loss Account

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E	(Rs mn)
Net sales	14,204	11,653	15,628	18,089	21,956	25,129	
<i>Change (yoY, %)</i>	0.6	(18)	34	16	21	14	
Operating expenses	(12,648)	(10,503)	(14,125)	(16,541)	(19,430)	(21,893)	
EBITDA	1,556	1,151	1,503	1,549	2,525	3,236	
<i>Change (yoY, %)</i>	8.9	(26)	31	3	63	28	
<i>Margin (%)</i>	11.0	9.9	9.6	8.6	11.5	12.9	
Depreciation	(257)	(231)	(258)	(359)	(597)	(656)	
EBIT	1,299	920	1,244	1,190	1,928	2,580	
Interest paid	(208)	(166)	(119)	(242)	(542)	(338)	
Other income	20	84	99	92	96	97	
Pre-tax profit	1,112	837	1,224	1,039	1,482	2,340	
Tax	(134)	(205)	(303)	(132)	(374)	(590)	
<i>Effective tax rate (%)</i>	12.1	24.4	24.7	12.7	25.2	25.2	
Minority Interest	-	-	-	-	-	-	
Net profit	977	633	921	907	1,109	1,750	
Exceptional items	-	-	-	-	-	-	
Adjusted net profit	977	633	921	907	1,109	1,750	
<i>Change (yoY, %)</i>	30.8	(35)	46	(2)	22	58	
EPS	8.0	5.2	7.5	7.4	9.0	14.2	
Dividend per share	0.4	0.4	0.4	0.5	0.5	0.5	
<i>Dividend Payout %</i>	5.0	7.8	5.3	6.8	5.5	3.5	

Balance Sheet							(Rs mn)
Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Shareholders' funds	3,779	4,367	5,382	6,092	7,139	8,828	
Share capital	123	127	258	123	123	123	
Reserves & surplus	3,657	4,240	5,123	5,969	7,017	8,705	
Total Debt	2,371	1,572	2,549	7,161	5,644	4,295	
Other liabilities	2,357	1,594	2,608	7,220	5,703	4,354	
Curr Liab & prov	3,728	1,939	1,864	2,158	2,619	2,998	
Current liabilities	3,381	3,127	3,526	3,980	4,641	5,217	
Provisions	348	212	225	225	225	225	
Total liabilities	5,738	4,720	6,134	11,200	10,343	9,571	
Total equity & liabilities	9,517	9,087	11,515	17,292	17,483	18,399	
Net fixed assets	3,194	3,147	4,621	9,863	9,766	9,609	
Investments	-	-	-	-	-	-	
Other non-curr assets	507	521	1,402	1,412	1,423	1,435	
Current assets	5,815	5,419	5,492	6,017	6,293	7,355	
Inventories	1,771	1,792	2,256	2,478	2,707	2,960	
Sundry Debtors	3,565	1,939	1,864	2,158	2,619	2,998	
Cash and Bank	103	1,280	726	703	256	649	
Loans and advances	198	248	510	535	562	590	
Other current assets	178	160	136	142	150	157	
Total assets	9,517	9,087	11,515	17,292	17,483	18,399	

Cash Flow Statement							(Rs mn)
Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Pre-tax profit	1,112	837	1,224	1,039	1,482	2,340	
Depreciation	210	193	201	359	597	656	
Tax paid	(198)	(164)	(311)	(132)	(374)	(590)	
Chg in working capital	(2,374)	1,301	(252)	(86)	(56)	(83)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	(1,250)	2,168	861	1,180	1,649	2,323	
Capital expenditure	(712)	(146)	(1,675)	(5,600)	(500)	(500)	
Chg in investments	-	-	-	-	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(712)	(146)	(1,675)	(5,600)	(500)	(500)	
Equity raised/(repaid)	-	5	131	(136)	-	-	
Debt raised/(repaid)	155	(800)	978	4,612	(1,517)	(1,349)	
Dividend (incl. tax)	(49)	(49)	(49)	(61)	(61)	(61)	
Chg in minorities	-	-	-	-	-	-	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	106	(844)	1,059	4,415	(1,578)	(1,410)	
Net chg in cash (a+b+c)	(1,856)	1,178	246	(5)	(429)	413	

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	30.8	36	44	50	58	72
<i>Adj EPS (Rs)</i>	8.0	5.2	7.5	7.4	9.0	14.2
<i>Adj EPS growth (%)</i>	30.8	(35)	46	(2)	22	58
<i>EBITDA margin (%)</i>	11.0	9.9	9.6	8.6	11.5	12.9
<i>Pre-tax margin (%)</i>	7.8	7.2	7.8	5.7	6.8	9.3
<i>Net Debt/Equity (x)</i>	0.6	0.1	0.3	1.1	0.8	0.4
<i>ROCE (%)</i>	22.1	15	18	11	15	20
<i>ROE (%)</i>	27.4	16	19	16	17	22
DuPont Analysis						
Asset turnover (x)	1.4	1.3	1.5	1.3	1.3	1.4
Leverage factor (x)	2.8	2.3	2.1	2.5	2.6	2.2
<i>Net margin (%)</i>	6.9	5.4	5.9	5.0	5.1	7.0
Working Capital & Liquidity ratio						
Inventory days	46	56	53	50	45	43
Receivable days	92	61	44	44	44	44
Payable days	67	71	56	55	57	58

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	17.2	26.6	18.2	18.5	15.2	9.6
Price/Book value (x)	4.4	3.8	3.1	2.8	2.4	1.9
EV/Net sales (x)	1.3	1.5	1.2	1.3	1.0	0.8
EV/EBITDA (x)	12.3	14.9	12.4	15.0	8.8	6.3
<i>Dividend Yield (%)</i>	0.3	0.3	0.3	0.4	0.4	0.4

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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