



## Greenply Industries

View: Positive

Discretionary play available at discount; re-rating on cards

CMP: Rs985

- ◆ **Leading player in organised plywood market:** Greenply Industries (Greenply) is a leading player in the organised plywood segment (market size of Rs5,000 crore) with a market share of 25%, competing neck and neck with Century Plyboards (Century). Over the years, Greenply has created a brand-equity strength in the market which enables it to command a 15-20% premium over the unorganised players and a 5-8% premium over the other regional brands. A strong growth is expected in the home improvement segment which would enable Greenply to post a 15-18% growth over the next three years without any capacity expansion.
- ◆ **GST roll-out a game changer; to provide big opportunity to organised players:** Starting FY2016, the transition towards the Goods and Services Tax (GST) and the determination of the government to adhere to the GST implementation timeline would benefit organised plyboard players like Greenply. As for procuring wood, 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 70% of the segment). However, once the GST comes into force, the tax advantage currently enjoyed by the unorganised players would diminish sharply and the market share of the organised players would surge. This would expedite the shift from the unorganised segment to the organised segment, thereby leading to a strong growth in volumes. After the roll-out of GST, the market share of the organised players is expected to double from 30% currently to over 50% in the next two to three years.
- ◆ **Market leader in MDF segment; set to grow manifold:** Apart from being present in the plywood segment, Greenply is present in the new and fast emerging MDF business. This segment in the furniture industry is expected to grow at a faster pace of 20-25% on an average over the next three years. Greenply is a market leader with a 30% market share and thus is largely expected to lead the industry growth in the segment. We expect this segment of Greenply to grow at a much brisker pace of 21.3% CAGR over FY2014-17, trending the expected uptick in the commercial and the retail real estate segment.
- ◆ **Margins set to improve by 170BPS and returns to improve significantly:** Led by healthy revenues in the plywood and MDF segments, the OPM is expected to improve (the margin of the MDF business is expected to improve from 23.6% currently to 26% in FY2017 owing to better absorption of overheads as a result of an improvement in capacity utilisation. The margin of the plywood business is expected to improve from 9.3% currently to 11% in FY2017, led by a lower freight cost and the benefits of raw material joint venture flowing to the financials). Thus, on a consolidated basis, we expect a 170-BPS improvement in the overall margin. A strong margin improvement coupled with no enhanced capex is likely to result in a healthy improvement in the return ratios. We expect Greenply to report RoCE and RoE of 20% and 25% for FY2017 respectively.
- ◆ **Discretionary play with undemanding valuations; re-rating eminent:** At the current market price the stock is trading at 17.6x our FY2016 EPS estimate of Rs56. We believe that a strong player with healthy financials, strong free cash generation capability (we expect the company to generate free cash averaging Rs150 crore annually over FY2015-17) and healthy return ratios is trading at undemanding valuations. Moreover, its robust growth potential and improving industry dynamics are not being adequately factored in by the market in terms of valuations. Hence, we expect the stock to get re-rated, hence we hold a positive view on the stock and expect the company to trade at 17-18x (which is a 25-30% discount to its competitor, Century) its FY2017 earnings estimate of Rs70. This provides an upside of around 25% from the current levels.

## Valuations

Particulars	FY2014	FY2015E	FY2016E	FY2017E
Net sales (Rs cr)	1,390.9	1,571.4	1,849.3	2,176.3
% growth	5.8	13.0	17.7	17.7
Operating profit (Rs cr)	184.0	222.0	269.2	324.6
% growth	2.2	20.6	21.3	20.6
Operating profit margin (%)	13.2	14.1	14.6	14.9
Net earnings	77.2	105.8	135.2	170.0
% growth	(6.4)	37.1	27.7	25.8
EPS (Rs)	32.0	43.8	56.0	70.4
PER (x)	30.8	22.5	17.6	14.0
RoCE (%)	13.6	16.0	17.4	20.1
RoE (%)	22.3	24.4	24.6	25.2

## Company background

- Greenply is a leading player in the organised plywood market with a market share of around 25%, competing neck and neck with its closest rival, Century. Greenply has four plywood manufacturing plants (with a cumulative capacity of 32.40 million square metres). The manufacturing plants (two in eastern and one each in northern and western India) are located near raw material sources or ports. The Tizit (Nagaland) and Pantnagar (Uttarakhand) plants are close to their raw material sources which helps these to source timber from the local farmers. The Kripampur (West Bengal) and Bamanbore (Gujarat) plants import wood from South East Asia and Africa. The tax-efficient locations (Nagaland and Uttarakhand) contribute 48% to the total plywood revenues of the company.
- Greenply has entered into a joint venture agreement to manufacture face veneer in Myanmar. The unit started production in October 2014 and has a capacity to manufacture 42 million sq.mt. of face veneer.
- In the plywood segment, the company sold 44.5 million square metres in for FY2014 of which 75% was manufactured in-house while 25% was outsourced and sold under the "Greenply" brand. The company's plywood brands are *Greenply*, *Green Ply Club*, *Optima Red*, *Ecotec*, *Naturals*, *Green FlexiPLY*, *Optima Flush Doors*, *Green Flush Door* and *Green Wood Panel*. *Greenply* and *Greenply Club* are premium brands manufactured by the company while brands like *Ecotec* and *Optima Flush* are mid- to low-range brands. *Ecotec* is largely outsourced.
- The MDF (medium-density fibreboard) business has 100% own manufacturing and is the largest facility in India. Currently, the unit is running at 95-100% capacity utilisation which can easily increase up to 120% in the next two years. Meanwhile, the company has planned to enhance its MDF manufacturing capacity for which it has planned a greenfield project of 3-3.6-lakh-cubic-metre facility at Andhra Pradesh. For the same the company has already purchased 185 acres of land and would start building the capacity once it gets the requisite permission from the authorities.
- The above mentioned capacity expansion would entail capital expenditure (capex) of Rs650-700 crore, which would be spent over a period of FY2016-19. The commercial production would start from FY2019 onwards. At the optimum level, the company expects to garner a turnover of Rs1,000 crore from the venture and the capex would be funded via a combination of debt (40%) and internal accruals (60%).

## Capacity

Place	State	Product category	Capacity (mn metre)
Kripampur metres	West Bengal	Plywood	6 mn sq
Bamanbore metres	Gujarat	Plywood	11.4 sq
Tizit metres	Nagaland	Plywood	4.5 mn sq
Pantnagar	Uttarakhand	Plywood & Reconstructed Vener	10.5 mn sq metres
Pantnagar	Uttarakhand	MDF meters	1.8 lakh cubic meters

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Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-6115000; e-mail: compliance@sharekhan.com • Contact: myaccount@sharekhan.com