

As per our expectation Greenply Industries (GIL) has delivered very strong performance. It has given 66% return since our coverage in July, 07 at Rs.191. We expect that capacity expansion and contribution from acquisition would continue propelling the growth, giving a CAGR of 25.3% in sales from FY07-FY10. We thus continue to remain positive on the future prospects of the company. The company is operating its units at 95% utilization, including its newly commissioned Uttarakhand plant. Within a short span, it has been able to build strong brand name and given a run for money to its competitors in the industry including Century Plywood. Recently the company has acquired two small plywood plants in Gujarat, is venturing into MDF business and setting up new laminate unit. Based on these new developments we are revising our forecasts upward.

Rational for revision

GIL acquired two plywood units in Gujarat with total installed capacities of 3 mn sq mt. This will increase its plywood capacity by 16.6% to 21 mn sq mt. The company is planning to produce high quality plywood from these units. Total capex requirement would be Rs.200 mn, which includes Rs.38.5 mn for acquisition, Rs.20 mn for repaying liabilities, Rs.60 mn for new machinery & equipments and Rs.80 mn for working capital. The acquisition will be funded through a mix of internal accruals and debts. The company expects these units to start operation by end of current financial year and reach optimum utilization by Q2FY09. At optimum utilization it would generate revenue of Rs.450-500 mn per year.

The company is also planning to venture into MDF business. It is setting up MDF manufacturing line in its existing unit at Pantnagar, Uttarakhand. Since the company has land available for this expansion at its existing plant it should reduce capex and logistic cost. GIL is also setting up a new laminate unit in Himachal Pradesh. However, the company is still finalizing details of these projects, we expect the company to spend around Rs.2-2.5 bn for these expansion. We expect company to have internal accrual of Rs.773 mn and Rs.707 mn in FY08 and FY09 and it can borrow another Rs.1bn. Considering these facts, the company can easily fund the capex without any major equity dilution. The capex should generate Rs.4-5 bn top line. These should help its net profit to grow by 50% plus CAGR from FY07 to FY10E.

Sensex	19,796
Nifty	5,569

Stock Data

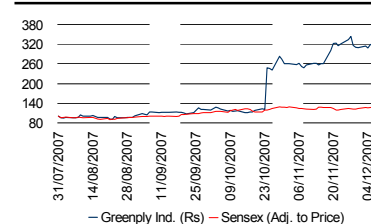
BSE Code	526797
NSE Code	GREENPLY
Bloomberg	MTLM@IN
Reuters	GRPL.BO

Shares Issued (mn)	16.6
Market Cap (Rs mn)	5,279
52 Wk H/L (Rs)	388/90
Face Value (Rs)	5
Avg. daily vol. (12-mths)	14,873

Absolute Returns (%)

	1 m	3 m	12 m
Absolute	25.2	38.1	218.7
Rel. to Sensex	22.6	11.1	176.8

Recommended Returns (%)



Old Estimates

(Rs mn)	FY07	FY08E	FY09E
Net sales	4,292	5,398	6,129
Op. profit	461	718	858
Net profit	225	392	523
EPS (Rs)	13.7	23.0	30.8

Valuation summary

Y/E, 31 st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales (Rs. mn)	2,758	4,292	5,398	6,507	8,439
Adj PAT (Rs. mn)	146	225	410	593	777
Adj EPS (Rs)	10.7	13.7	24.1	34.9	45.7
EPS growth (%)	4.3	27.6	76.0	44.9	30.9
P/E (x)	29.6	23.2	13.2	9.1	7.0
Dividend yield (%)	0.6	0.6	0.9	1.3	1.7
RoCE (%)	13.4	16.8	21.9	25.6	27.0
RoNW (%)	27.7	25.8	31.7	33.9	33.1
P/BV (X)	6.5	4.8	3.6	2.7	2.0
EV/EBIDTA (x)	20.3	14.2	8.6	6.3	5.3
EV/Sales (x)	2.0	1.5	1.2	0.9	0.8

Source: Company, MF Global PCG Research

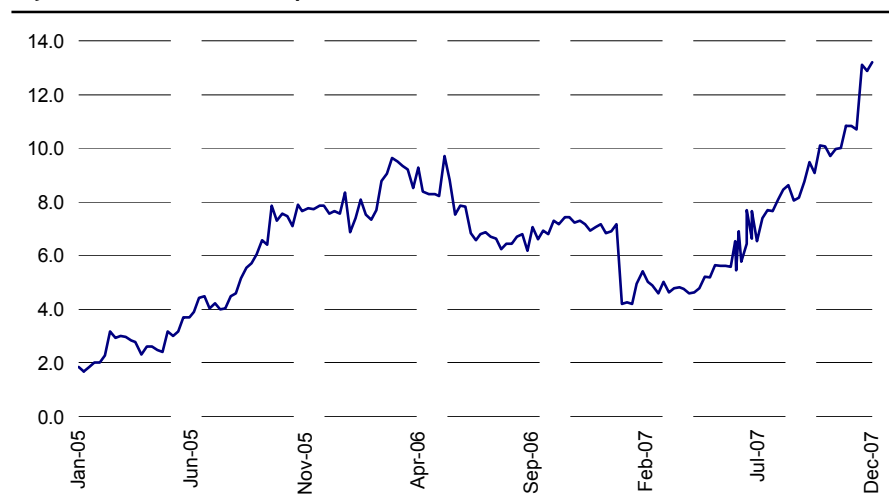
Valuations

Based on these initiatives we are revising our FY08 PAT by 4.5%, FY09E sales estimate by 6.2% to Rs.6.5 bn and net profit guidance by 13.5% to Rs.593 mn respectively. We are also including our FY10E estimates. Since capex plan are yet to be finalized, we have been conservative in FY10 estimates. Even after recent appreciation in stock price valuations look attractive, the stock discounts its FY09E by 9.1x and EV/EBIDTA of 6.3x. We expect company to grow at 50% plus CAGR till FY10.

In view of the strong infrastructure spending we have seen companies like Sintex, Asian Paints, Blue Star, etc. trading at multiple of more than 15x. The company gives an opportunity to play on the strong real estate boom and we expect a secular growth in the company for next 4-5 years.

The company has been able to build its brand and strong distribution network within a short span of time taking a dominating position in the industry. With strong brand name, sustainable growth momentum and improvement in margins leading to healthy RoCE and RoNW, we would not be surprised if GIL commands 15 plus P/E multiple. We are revising one-year price target to Rs.453 (from Rs.335) based on 13x FY09E earnings of Rs. 34.9.

1-year forward P/E multiple



Financials

Income statement (Rs mn)	FY07	FY08E	FY09E	FY10E	Balance sheet (Rs mn)	FY07	FY08E	FY09E	FY10E
Net sales	4,292	5,398	6,507	8,439	Equity capital	82	85	85	85
Raw materials	2,376	2,926	3,501	4,540	Reserves	999	1,411	1,923	2,593
Employee expenses	291	351	410	532	Networth	1,087	1,496	2,008	2,678
Other exp	1,163	1,382	1,653	2,143	Total debt	1,466	1,506	1,306	1,606
Op profit	461	740	943	1,224	Deferred tax	58	77	105	143
OPM (%)	10.7	13.7	14.5	14.5	Total liabilities	2,611	3,079	3,418	4,426
Other income	8	33	46	59	Gross fixed assets	1,811	2,190	2,230	3,297
Depreciation	87	131	134	198	Less: Cum depreciation	461	593	726	924
Interest	118	149	141	146	Net fixed assets	1,350	1,597	1,503	2,373
PBT	266	493	715	939	Capital WIP	129	40	67	99
Tax	41	83	122	163	Investments	11	100	200	300
PAT	225	410	593	777	Net current assets	1,121	1,341	1,672	1,655
Extraordinary item	–	–	–	–	Total assets	2,611	3,079	3,418	4,426
Adj PAT	225	410	593	777					
NPM (%)	5.2	7.6	9.1	9.2					

Cash flow (Rs mn)	FY07	FY08E	FY09E	FY10E	Ratios	FY07	FY08E	FY09E	FY10E
PBT & extraord. items	266	493	715	939	Growth (%)				
Add: Int, depn. & oth. exp.	214	280	274	343	Net sales	55.6	25.8	20.5	29.7
Cash flow from op.	479	773	989	1,283	Adj PAT	54.2	81.9	44.9	30.9
Net chg in w/c, tax, int.	(368)	(5)	(282)	(482)	Adj EPS	27.6	76.0	44.9	30.9
Net cash flow frm op.	111	768	707	801	Per Share Data (Rs)				
Capital expenditure	(557)	(290)	(67)	(1,099)	Adj EPS	13.7	24.1	34.9	45.7
Sale/ purchase of inv	5	(89)	(100)	(100)	Book value	66.1	88.0	118.1	157.5
Net cash from inv.	(552)	(379)	(167)	(1,199)	DPS	1.9	2.9	4.2	5.5
Issue of eq/pref sh/warr.	566	(53)	(341)	154	Valuation (x)				
Dividend paid	(40)	(56)	(82)	(107)	P/E	23.2	13.2	9.1	7.0
Net cash from financing	526	(109)	(422)	48	P/BV	4.8	3.6	2.7	2.0
Net chg in cash	85	280	118	(350)	EV/EBIDTA	14.2	8.6	6.3	5.3
Op. cash bal	62	148	428	546	Performance (%)				
Cl. cash bal	148	428	546	196	RoCE	23.2	13.2	9.1	7.0
					RoNW	14.2	8.6	6.3	5.3

BUY : > 20%

HOLD : > 5-20%

SELL : < 5%

Note: Ratings based on expected returns from current market price (on absolute basis).

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Analyst Holding in the recommended stock: NIL