

Greenply Industries

CMP: Rs 125

Target: Rs 180

BUY

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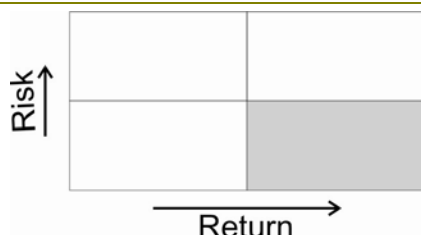
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 BSE Code 526797
 NSE Code GREENPLY

Risk-return profile



Company data

Particulars	
Market cap (Rs bn / US\$ mn)	2.1/ 51.8
Outstanding equity shares (mn)	17.0
Free float (%)	46.6
52-week high/low (Rs)	141.9 / 77.1
Quarterly average daily volume	11,471

Stock performance

Returns (%)	1-mth	3-mth	6-mth
Greenply	13.4	(3.9)	26.4
Sensex	8.4	(3.3)	6.1

Shareholding pattern

(%)	Mar-07	Dec-06
Promoters	53.4	53.4
FIs	7.3	5.7
Banks & FIs	3.2	1.8
Public	36.0	39.0

Source: BSE

Building success

Well-established player in India's plywood industry

- ❖ Major player in the domestic plywood and laminate industry with a presence spanning over two decades and a substantial 25% market share in the organised segment
- ❖ Domestic construction boom to elevate demand for plywood and laminates. Greenply's current installed capacity totals 18.9mn sq mt for plywood and 5.3mn sheets for laminates
- ❖ Operates three plywood units, of which two are in excise duty and tax-exempt zones. Excise duty reductions announced in the FY08 budget would result in further cost savings
- ❖ Expected ramp-up in capacity utilisation would enhance margins. Carbon trading likely to develop into a revenue stream from FY08 (expected contribution of Rs 20mn p.a), which would further drive profitability
- ❖ We initiate coverage with Buy and have an end-FY08 target price of Rs 180, an appreciation of 44%

Financial snapshot

(Rs mn)	Sales	PAT	FDEPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY07	4,249.4	215.2	12.7	9.9	8.1	23.5
FY08E	5,346.6	321.0	18.9	6.6	5.5	24.1
FY09E	5,984.1	400.4	23.6	5.3	4.5	22.3

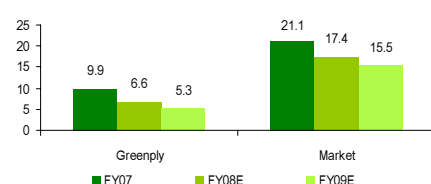
Source: Company, Religare Research

Growth profile

(%)	Sales	EBITDA	PAT	FDEPS
FY07	52.0	46.9	52.8	22.4
FY08E	25.8	41.9	49.1	49.1
FY09E	11.9	14.4	24.8	24.8

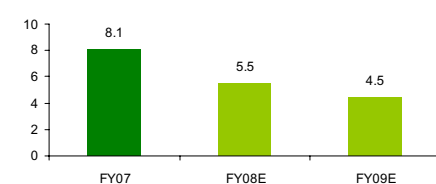
Source: Religare Research

P/E multiple (x)



Source: Religare Research

EV/EBITDA multiple (x)



Source: Religare Research

Business overview

Over 20 years of experience in the domestic plywood industry

Well-established domestic presence

Greenply Industries has an established presence spanning over two decades in India's plywood and laminate industry. The company is a major player in the organised market, commanding a 25% market share. India's organised plywood and laminate sectors are each estimated at Rs 9bn-10bn and are growing at 15-20% p.a. Greenply has a plywood capacity of 18.9mn sq mt, with a laminate capacity of 4mn sheets (which will be expanded to 5.3mn by July this year). The company has also set up a particle board division recently. This, along with its decorative and commercial veneer segments, currently contributes a minor portion of revenues.

Installed capacity

	Rajasthan	Kolkata	Uttaranchal	Nagaland	Total
Plywood (mn sq mt)		6.0	8.4	4.5	18.9
Laminates (mn sheets)	5.3				5.3
Decorative veneer (mn pcs)	0.7				0.7
Particle board (cbm)			30,000.0		30,000.0
Commercial veneer (mn sq mt)		30.0			30.0

Source: Company

Plywood

Production units eligible for tax exemptions

The company's plywood manufacturing is spread across three units located at Kolkata, Uttaranchal and Nagaland. The units at Uttaranchal and Nagaland fall within the tax-free zone. The Uttaranchal unit was commissioned in the first quarter of FY07 and operated at around 50% utilisation at the end of December 2006. The management has indicated that utilisation at this facility would rise to around 90% by the end of FY08.

High demand for economy plywood...

The domestic plywood industry is currently estimated at Rs 60bn and is growing at 15-20% annually. The industry is dominated by unorganised players who command a cumulative market share of 85-90%. Further, mid-range or economy plywood products constitute 60% of the total market.

...which Greenply intends to tap through Eurotech

The company previously operated in the high-end market segment, but with the commissioning of the Uttaranchal unit, it plans to extend its presence to the mid-range segment through its Eurotech brand. Realisations in this segment are almost 25-30% lower as compared to premium products, but since revenues from this unit are eligible for excise duty and direct tax exemptions, profitability would not be compromised.

Locational benefits in raw material procurement

The Nagaland and Uttaranchal units utilise timber from local forests, whereas the Kolkata plant meets its raw material requirements mainly through imports. The Nagaland forests are an abundant source of raw material and are privately owned by village councils, resulting in lower procurement costs. Uttaranchal too is rich in soft wood, used in the manufacture of mid-range plywood. Imports for the Kolkata unit come mainly from Southeast Asian countries like Burma, Indonesia and Bangladesh. The facility's proximity to ports allows for savings in transportation costs.

Plans to extend presence in the mid-range segment through the Eurotech brand

Laminates

Laminate capacity utilisation in excess of 100% over the past few quarters

Capacity expansion underway

Greenply's laminate manufacturing facility is located near Alwar in Rajasthan and has an installed capacity of 3.96mn sheets per annum. For the last few quarters, capacity utilisation at this division has been more than 100%, and the management expects this trend to continue. Consequently, capacity is being ramped up to 5.3mn sheets, expected to be operational by July 2007. The expansion is being undertaken at a total capex of Rs 350mn, including Rs 100mn towards working capital requirements.

Organised players have cornered most of the market

The laminate industry is currently estimated at Rs 15bn and is growing at an annual rate of around 15-20%. As compared to the plywood segment, the share of organised players in laminates is higher at around 60%.

Rise in paper prices a key risk to margins

The major raw materials for laminates are paper (kraft and design) and phenol (a chemical used to give thickness and firmness to the kraft paper). Kraft paper is sourced domestically from leading manufacturers. Design paper is imported from Europe and Japan, whereas phenol is sourced from both domestic as well as international markets. Paper constitutes around 50% of the total raw material cost whereas phenol – whose prices are linked to crude – accounts for another 25%. Thus, any increase in paper prices could adversely impact operating margins of the division.

Particle board

Small beginnings but strong potential

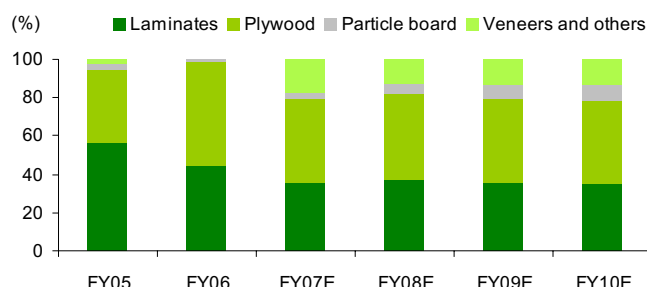
The particle board division currently constitutes a small proportion of total revenues, but this segment holds tremendous potential considering that 50% of India's demand for the product is met through imports. Greenply commissioned its particle board unit alongside its plywood production line at Uttaranchal in October 2006. Capacity utilisation is expected to gradually step up to around 80-85% by FY09.

Revenue distribution

Laminate division currently contributes bulk of revenues...

The laminate division contributed 56% of total revenues in FY05, whereas plywood contributed 39%. With the increase in plywood capacity, this proportion is gradually changing. The particle board segment is a marginal contributor to total revenues.

Shift in segmental revenues



Source: Company, Religare Research

...but product mix to shift towards plywood by FY09

By FY09, the management expects revenue contribution from plywood to be at 50%, with laminates bringing in 40% and particle boards contributing the remaining 10%.

Key growth drivers

Construction boom to fuel demand for plywood and laminates

The domestic construction industry is in a boom phase and future growth momentum is assured, considering the country's strong economic growth. An increase in residential units as well as commercial buildings like retail showrooms and malls will result in huge demand for both plywood and laminates.

Duty cuts to result in substantial cost savings

The excise duty cuts announced in the FY08 Union Budget have proven very beneficial for the company. Among the key announcements was a reduction in excise duty for plywood from 16% to 8%. Further, a reduction in peak customs duty and phase-out of central sales tax would benefit the company. The management has indicated that it would pass on the benefit of excise reduction to customers to the extent of 3-3.5%.

Duty cuts translate into monthly savings of Rs 5.6mn

Cost savings from duty cuts announced in the Budget

Particulars	Savings (Rs mn)
Reduction in customs duty	3.3
Reduction in excise duty	2.7
CST reduction	0.7
Reduction in export incentives	(1.1)
Total savings per month	5.6

Source: Company

Revenue potential from carbon credits...

Greenply utilises mustard husk for captive power generation at its Rajasthan unit. This qualifies the company's power plant as a Clean Development Mechanism (CDM) project, or one that results in a reduction in greenhouse gas, as defined by the Kyoto Protocol. However, UN approval certifying the company's plant is awaited. Once approved, Greenply can sell CERs (Certified Emission Reduction) to companies in developed countries who fail to meet emission norms.

Carbon trading expected to rake in annual revenues of Rs 20mn

...with peak annual revenues pegged at Rs 28mn

Greenply has already signed a Carbon Emission Purchase agreement with a private investment fund for delivery of CERs, valid till 2012. Approval from the UN is expected in May 2007 and revenues are likely to start flowing in from H1FY08. The management expects the sale of CERs to bring in revenues of Rs 20mn annually, with peak revenues placed at Rs 28mn.

Operating margins to strengthen

Greenply's operating margin for 9mFY07 was around 11% and is expected to remain stable at the very least, if not move up. The management has indicated that it intends to hike plywood product prices in the coming months. This hike coupled with excise duty cuts would offset the pressure of increasing input prices, if any. Further, the management has guided that capacity utilisation at the Uttaranchal unit, which is currently operating below optimum levels, will touch 80-85% by the end of FY08. This points to higher operating profits from the unit.

Lower effective tax rate

Considering that two of the three plywood units are located in tax-exempt zones, the effective tax rate for the next three to four years is expected to be around 20%.

Financial review: 9mFY07

9mFY07 revenues grew 49% led by higher volumes and better realisations

Strong growth in net sales

During 9mFY07, net sales grew 49% to Rs 3.1bn due to higher volumes and better realisations. Capacity utilisation of the plywood division at Uttaranchal remained stagnant, however, at around 50%.

EBITDA margins down due to higher marketing and admin costs

Operating margins dipped to 10.7% from 11.5% a year ago on account of higher marketing and administration expenses in H1FY07. During Q3FY07, margins had improved substantially to 13.2% from 11.4% a year ago and from 8.8% in Q2FY07.

Operating performance for 9mFY07

(Rs mn)	9mFY07	9mFY06	% chg
Net sales	3,077.7	2,065.9	49.0
Total Expenditure	(2,748.3)	(1,829.1)	50.3
EBDITA	329.4	236.8	39.1
Depreciation	(59.6)	(46.8)	27.3
EBITA	269.7	189.9	42.0
Interest	(88.5)	(70.0)	26.4
EBT	181.2	119.9	51.1
Other income	6.5	5.5	18.0
PBT	187.7	125.4	49.7
Taxes	(29.6)	(22.3)	33.1
Net profit	158.1	103.2	53.2
EBITDA margin (%)	10.7	11.5	

Source: Company, Religare Research

Financial outlook

Revenues to grow 52% in FY07 and 26% in FY08

FY07 revenues expected to grow at 52%

As per our estimates, net sales for FY07 would grow 52% YoY to Rs 4.2bn, accompanied by net profit growth of 52.8% to Rs 215mn. EPS for the fiscal is likely to touch Rs 12.7.

Stronger operational performance in FY08

We estimate that Greenply will end FY08 with net sales of Rs 5.3bn, a growth of 26%, considering increased contribution from the Uttaranchal unit and availability of incremental laminate capacity. The operating margin would also improve due to lower excise and customs duty, besides which income from carbon credits would also begin to flow in. Consequently, net profits are expected to grow strongly at around 50%. As per our estimates EPS for FY08 would be Rs 18.9.

Valuation

Peer comparison not feasible

Greenply and Century Plyboard (CPL) together control 40-45% of the domestic organised plywood market. However, a relative comparison of Greenply with CPL would not be appropriate since more than 50% of CPL's consolidated revenues accrue from business segments other than plywood and laminates.

Comparative parameters

Particulars	Greenply	Manglam Timber	Uniply Ind
Sales (Rs mn)	4,249.4	700.3	1,097.7
Operating Profit (Rs mn)	433.4	55.5	91.1
Net Profit (Rs mn)	215.2	36.4	50.1
O/s Shares (mn)	17.0	18.3	12.5
EBITDA margin (%)	10.2	7.9	8.3
RONW (%)	23.5	21.7	19.4
EPS (Rs)	12.7	2.0	4.0
Price (Rs)	125.0	19.3	38.0
P/E (x)	9.9	9.7	9.5

Source: Religare Research

DCF valuation yields a target of Rs 180

We have valued the company using a discounted cash flow (DCF) model (see table for assumptions). At the current price of Rs 125, the stock is trading at a P/E of 6.6x on FY08E earnings. We initiate coverage with a Buy recommendation and a target price of Rs 180, an appreciation of 44% from the current levels.

DCF assumptions

Particulars	Assumptions
Risk free rate	8.0%
Market return	7.0%
Beta	0.9
Cost of equity	14.3%
Cost of debt adjusted for tax	7.8%
WACC	11.6%
Terminal Growth rate	3.0%

Source: Religare Research

Our target of Rs 180 represents an upside of 44% from current levels

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07E	FY08E	FY09E
Revenues	2,795.3	4,249.4	5,346.6	5,984.1
Growth (%)	61.9	52.0	25.8	11.9
EBITDA	295.1	433.4	614.9	703.1
Growth (%)	72.5	46.9	41.9	14.4
Depreciation	63.3	79.7	131.3	134.8
EBIT	231.8	353.8	483.6	568.4
Growth (%)	79.0	52.6	36.7	17.5
Interest	76.4	108.5	129.6	112.8
Other income	10.0	12.5	35.0	45.0
EBT	165.4	257.7	389.0	500.5
Growth (%)	114.7	55.8	50.9	28.7
Tax	24.6	42.5	68.1	100.1
Effective tax rate	14.9	16.5	17.5	20.0
Adj net income	140.9	215.2	321.0	400.4
Growth (%)	166.8	52.8	49.1	24.8
Shares outstanding (mn)	13.4	17.0	17.0	17.0
FDEPS (Rs)	10.3	12.7	18.9	23.6
DPS (Rs)	2.0	2.3	3.5	4.0
CEPS (Rs)	15.1	17.3	26.6	31.5

Source: Company, Religare Research

Cashflow statement

(Rs mn)	FY06	FY07E	FY08E	FY09E
Net income	140.9	215.2	321.0	400.4
Depreciation	63.3	79.7	131.3	134.8
Other adjustments	-	-	-	-
Changes in WC	(117.2)	(356.1)	(273.6)	(173.9)
Operating cash flow	86.9	(61.2)	178.6	361.3
Capital expenditure	(654.1)	(468.5)	(25.0)	(50.0)
Investments	(0.0)	0.0	-	-
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(654.1)	(468.5)	(25.0)	(50.0)
Free cash flow	(567.2)	(529.7)	153.6	311.3
Issue of equity	157.3	374.6	-	-
Issue/repay debt	462.8	155.0	-	(125.0)
Dividends paid	32.5	43.2	67.3	76.9
Others	21.6	6.1	5.0	-
Financing cash flow	609.2	492.5	(62.3)	(201.9)
Beg. cash & cash eq	20.2	62.3	25.1	116.4
Chg in cash & cash eq	42.1	(37.2)	91.3	109.4
Closing cash & cash eq	62.3	25.1	116.4	225.8

Source: Company, Religare Research

Recommendation history

Date	Event	Target (Rs)	Reco
7-May-07	Initiating Coverage	180	Buy

Source: Religare Research

Balance sheet

(Rs mn)	FY06	FY07E	FY08E	FY09E
Cash and cash eq	62.3	25.1	116.4	225.8
Accounts receivable	507.5	815.0	1,054.7	1,180.4
Inventories	844.6	1,150.0	1,451.9	1,620.5
Others current assets	173.1	92.0	77.0	77.0
Current assets	1,587.6	2,082.0	2,700.0	3,103.7
LT investments	1.1	1.1	1.1	1.1
Net fixed assets	680.5	1,350.8	1,269.5	1,184.8
CWIP	331.5	50.0	25.0	25.0
Total assets	2,600.6	3,483.9	3,995.6	4,314.5
Payables	579.7	784.1	1,037.1	1,157.5
Others	73.8	45.0	45.0	45.0
Current liabilities	653.5	829.1	1,082.1	1,202.5
LT debt	1,238.0	1,393.0	1,393.0	1,268.0
Other liabilities	48.9	55.0	60.0	60.0
Equity capital	98.6	85.0	85.0	85.0
Reserves	561.6	1,121.8	1,375.5	1,699.0
Net Worth	660.2	1,206.8	1,460.5	1,784.0
Total liabilities	2,600.6	3,483.9	3,995.6	4,314.5
BVPS (Rs)	46.8	71.0	85.9	105.0

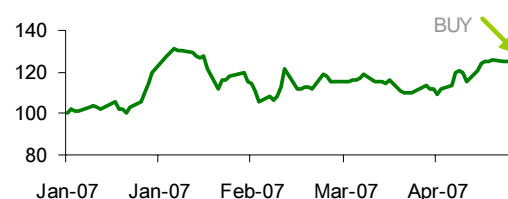
Source: Company, Religare Research

Financial ratios

(Rs mn)	FY06	FY07E	FY08E	FY09E
EBITDA margin (%)	10.6	10.2	11.5	11.8
EBIT margin (%)	8.3	8.3	9.0	9.5
Net profit margin (%)	5.0	5.1	6.0	6.7
EPS growth (%)	98.7	22.4	49.1	24.8
Receivables (days)	66.3	70.0	72.0	72.0
Inventory (days)	123.3	110.0	112.0	112.0
Payables (days)	84.6	75.0	80.0	80.0
Current ratio (x)	2.4	2.5	2.5	2.6
Interest coverage (x)	3.0	3.3	3.7	5.0
Debt/equity ratio (x)	1.9	1.2	1.0	0.7
ROE (%)	28.0	23.5	24.1	22.3
ROCE (%)	13.4	13.4	15.6	16.2
ROAE (%)	14.7	15.4	17.4	18.9
EV/Sales (x)	1.0	0.8	0.6	0.5
EV/EBITDA (x)	9.7	8.1	5.5	4.5
P/E (x)	12.1	9.9	6.6	5.3
P/BV (x)	2.7	1.8	1.5	1.2
P/CEPS (x)	8.3	7.2	4.7	4.0

Source: Company, Religare Research

Stock performance



Source: Religare Research

RELIGARE RESEARCH

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