

GREENPLY INDUSTRIES**INR 160*****In the slow lane*****ACCUMULATE**

June 23, 2008

FY08 results broadly in line

Greenply Industries' (GIL) consolidated FY08 results were broadly in line with our expectations. Net sales were up 45% Y-o-Y to INR 6.3 bn; EBITDA and net profit stood at INR 805 mn and INR 390 mn, respectively. Sequentially, gross margins declined by 130 bps which was due to an increase in raw material cost in Q4FY08. But we believe the company will be able to pass on the hike with a lag, thus maintaining margins, going ahead.

Capex to enhance laminate capacity 62% and venture into MDF

GIL has decided to set up a laminate plant at Himachal Pradesh. The plant will have a capacity of 3.3 mn sheets, of which 54,000 sheets will be compact laminates (to be used for bathroom cubicles). The Medium density fibre (MDF) plant will be set up at Rudrapur (Uttarakhand) with a total capacity of 0.18 mn cubic metre (cbm). The laminate plant, set up at a cost of INR 1.2 bn, will come on stream by Q3FY10E, whereas the MDF plant, set up at a cost of INR 2.5 bn, will come on stream by Q4FY10E. The capex will be funded through a mix of 70% debt and balance through equity and internal accruals. We have incorporated the capex plans in our estimates and also assumed an equity dilution of ~13.1% in FY10E.

Outlook and valuations: Slow earnings growth; downgrade to 'ACCUMULATE'

As GIL will be in capex mode over FY09-10E, interest and depreciation costs will be booked once the plants are operational. We expect the laminate plant to be on stream in Q410E, and thus do not see any major impact on profitability in FY09 and FY10 on account of capex-related interest and depreciation costs. GIL has already hit a peak fixed asset turnover of 4x in FY08 and with no further capacity additions in the next two years, we expect GIL's revenue and net profit to grow at a CAGR of 15% and 19% for FY09E and FY10E, respectively. Also, with the incorporation of the US subsidiary, we expect an increase in debtor days going ahead.

At CMP of INR 160, the stock is trading at 5.8x FY09E EPS of INR 27.5 and 5.6x FY10E EPS of INR 28.8. Given the likelihood of slow earnings growth over FY08-10E, we downgrade the stock to '**ACCUMULATE**'.

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Bloomberg : GRPL IN

Market Data

52-week range (INR) : 419 / 151
Share in issue (mn) : 17.0
M cap (INR bn/USD mn) : 3.0 / 63.3
Avg. Daily Vol. BSE/NSE ('000) : 28.3

Share Holding Pattern (%)

Promoters : 54.9
MFs, FIs & Banks : 9.7
FIIs : 10.1
Others : 25.2

Relative Performance (%)

	Sensex	Stock	Change
1 month	(15.4)	(0.3)	15.1
3 months	(2.8)	(0.4)	2.4
12 months	(0.5)	0.1	(0.4)

Financials

Year to March	Q408*	Q407*	% change	Q308*	% change	FY08	FY09E
Net revenues (INR mn)	1,644	1,215	35.3	1,525	7.8	6,394	7,443
EBITDA (INR mn)	205	132	55.7	211	(2.5)	805	934
Net profit (INR mn)	87	67	29.1	98	(11.9)	390	468
EPS (INR)	5.1	4.1	25.0	5.8	(12.0)	23.0	27.5
P/E (x)						7.0	5.8
EV/EBITDA (x)						5.3	6.3
ROAE (%)						30.5	27.9

* Standalone

Realisations and volumes in line; pre-lam unit yet to stabilise

During FY08, plywood volumes were up 22.5% Y-o-Y, laminates were up 8% Y-o-Y, and there was an improvement in capacity utilisation for pre-lam particle boards. Realisations improved across product categories except for pre-lam particle board where there was 37% Y-o-Y decline in growth as GIL was manufacturing only plain particle boards. We understand that there has been a stabilisation issue at the pre-lam unit, which should be solved during FY09. This will result in GIL manufacturing only plain particle boards in FY09E.

EBIT margins improve on back of increase in realizations and volumes

For FY08, EBIT margins for plywood and allied products improved by 460bps Y-o-Y, whereas laminates' EBIT margin improved by 760bps Y-o-Y. For the year, plywood realisation increased by 8.7% Y-o-Y, whereas realization for laminate and veneer improved by 9.4% Y-o-Y and 29% Y-o-Y, respectively.

Net margins up by 100bps Y-o-Y; forex loss booked during Q4FY08

GIL's net margins improved by 100bps Y-o-Y. The rise was not in line with a 210bps Y-o-Y improvement in EBITDA margins due to forex loss of INR 30 mn, which resulted in negative other income in Q4FY08.

Capacity at existing plants enhanced

GIL increased its plywood capacity in Q4FY08 by 3 mn cbm, taking the total capacity to 24 mn cbm (including the Gujarat unit). We also understand that GIL is in the process of enhancing its decorative veneer capacity by 100%, taking its total capacity to 4.2 mn sheets. The decorative veneer capacity will come on-stream during Q2FY09E.

Incorporation of US subsidiary to increase debtor days

The company has incorporated a subsidiary, Greenlam America, to directly sell laminates in the US. We believe this will increase debtor days, going ahead, as the company will take ~6-12 months to penetrate the US market.

Carbon credits to accrue FY09E onwards

GIL will earn other income of INR 20 mn and INR 10 mn in FY09E and FY10E, respectively, due to carbon credits (CER) from the Behror unit. The company is still awaiting approval for CER at its Rudrapur plant. We will incorporate the income from CER (from the Rudrapur plant) once the company receives approval for the same.

Capex details

Product	Capacity	Expected time to come-onstream	Cost (INR mn)	Means of Funding (INR mn)	
				Debt	Equity & Internal accruals
Laminate (Himachal Pradesh)	3.3 mn sheets	Oct-09	1,200	840	360
MDF (Uttaranchal)	0.18 mn cbm	Mar-10	2,500	1,750	750

Source: Company, Edelweiss research

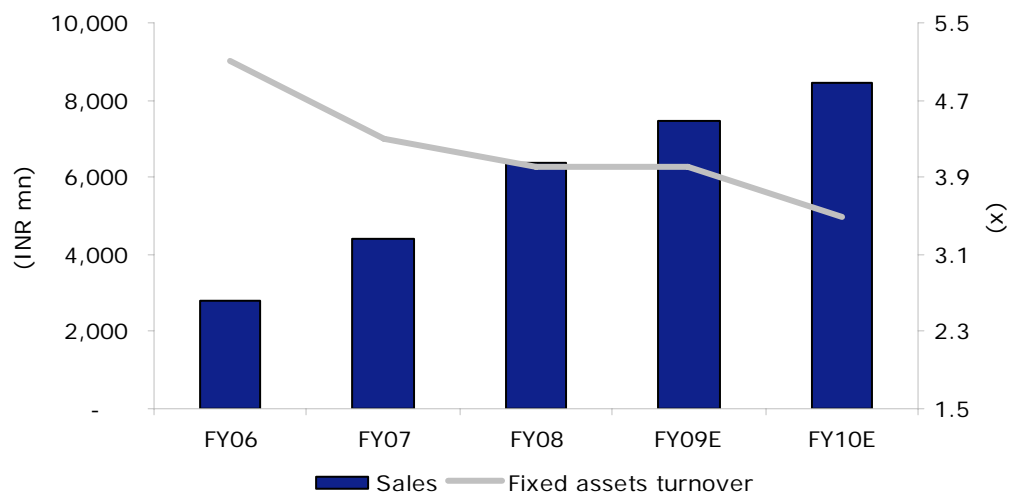
Due to the capex plan, GIL's laminate capacity will increase 62% from the current 5.34 mn sheets. Of this, 54,000 sheets will be compact laminates, which will be partly consumed in-house for bathroom cubicles Q4FY10 onwards and the balance will be sold in the market. GIL plans to manufacture laminates of different dimensions at the Himachal unit, thus diversifying its product portfolio.

The company is venturing into the manufacture of MDF with an outlay of INR 2.5 bn. MDF plant will be in Uttranchal and likely to come on-stream by Q4FY10E .

GIL plans to fund the total capex of INR 3.7 bn through 70% would be through debt whereas the balance through equity/internal accruals. We have assumed a dilution of ~13.1% in FY10E assuming a price of INR 200/share.

Outlook and valuations: Slower earnings growth; downgrade to 'ACCUMULATE'

Fixed assets turnover ratio reaching its peak in FY08



Source: Company, Edelweiss research

As seen from the chart above, we believe GIL has already reached its peak fixed asset utilisation across product categories in FY08. For FY10E, we have also incorporated revenues as well as interest and depreciation from the laminate plant for Q4FY10E. Thus for FY09E and FY10E, we believe the current asset are utilised optimally.

Further, we expect an increase in debtor days due to incorporation of the US subsidiary.

GIL's profit over the last two years (FY06-08) has grown at CAGR of 66%. However, going ahead, as the asset utilization reaches a peak we expect GIL's revenue and net profit to grow at a CAGR of 15% and 19%, respectively, over FY08-10E. At CMP of INR 160, the stock is trading at 5.8x FY09E EPS of INR 27.5 and 5.6x FY10E EPS of INR 28.8. Given the slower earnings growth over FY08-10E, we downgrade the stock to 'ACCUMULATE'.

Financial statement						(INR mn)		
Year to March	Q408*	Q407*	% change	Q308*	% change	FY08	FY09E	FY10E
Net revenues	1,644	1,215	35.3	1,525	7.8	6,394	7,443	8,442
Raw materials	823	615	33.8	740	11.2	3,002	3,610	4,136
Staff costs	112	90	24.0	108	3.9	419	484	549
Purchase of finished goods	66	10	534.1	60	9.7	544	558	591
Administrative & selling exp.	366	296	23.5	348	5.1	1,356	1,544	1,731
Other expenditure	72	71	1.3	58	22.7	268	313	355
Total expenditure	1,438	1,083	32.9	1,315	9.4	5,589	6,509	7,361
EBITDA	205	132	55.7	211	(2.5)	805	934	1,081
Interest	44	29	50.9	46	(4.2)	182	203	208
Depreciation	33	27	24.7	36	(6.7)	133	151	189
Other income	(29)	2	(1678.1)	3	(1135.9)	15	35	25
PBT	99	78	27.4	132	(24.7)	505	615	709
Tax	13	11	16.6	33	(62.2)	115	148	156
Adjusted net profit	87	67	29.1	98	(11.9)	390	468	553
Net profit	87	67	29.1	98	(11.9)	390	468	553
Equity Capital (FV INR 5)	85	82	3.3	85	0.1	85	85	96
No. of shares (mn)	17.0	16.5	3.3	17.0	0.1	17.0	17.0	19.2
EPS (INR)	5.1	4.1	25.0	5.8	(12.0)	23.0	27.5	28.8
P/E (x)						7.0	5.8	5.6
EV/EBITDA (x)						5.3	6.3	6.9
Market Cap / Revenues (x)						0.4	0.4	0.3

as % of net revenues

Raw material	54.1	51.5		52.5		55.5	56.0	56.0
Staff expenses	6.8	7.4		7.1		6.5	6.5	6.5
Admin and selling exp.	22.3	24.4		22.8		21.2	20.8	20.5
Other expenses	4.4	5.8		3.8		4.2	4.2	4.2
EBITDA	12.5	10.9		13.8		12.6	12.6	12.8
Net profit	5.3	5.5		6.5		6.1	6.3	6.6

* Standalone

Segmental break-up

	Q408	Q407	% change	Q308	% change	FY08
Revenue (INR mn)						
Plywood & allied products	1,018	675	50.7	898	13.4	3,982
Laminates & allied products	692	640	8.0	729	(5.1)	2,877
EBIT						
Plywood & allied products (INR mn)	204	82	150.7	170	20.2	713
EBIT margin (%)	20.1	12.1	-	19.0	-	17.9
Laminates & allied products (INR mn)	175	109	60.8	131	33.3	573
EBIT margin(%)	25.3	17.0		18.0		19.9

Company Description

GIL, incorporated in 1984, is India's largest interior infrastructure company. It is a market leader in India for organised plywood and laminates with a market share of ~25% and ~15%, respectively. The company has units located at West Bengal, Nagaland, Rajasthan, and Uttaranchal for manufacturing plywood, decorative veneers, laminates, and particle boards. Recently, it acquired two Gujarat-based plywood units. GIL has 26 branches, 8,360 dealers, distributors and sub-dealers, in India and an export presence in 18 countries across the globe.

Investment Theme

One of the largest organised players in the interior infrastructure space, GIL has (over FY06-08) grown at 66% CAGR in terms of profit. The improvement in margins has been aided by the company shifting from low-margins products like sawn timber to value-added products like decorative veneers. GIL is increasing its laminate capacity by 62% also venturing into MDF at cost of INR 3.7 bn. GIL plans to fund the capex plan through a mix of debt (70%) and equity and internal accrual (30%). GIL has reached a peak asset turnover in FY08 and with the company in capex mode; we believe GIL's market price performance would track the earnings growth and thus downgrade it to '**ACCUMULATE**'.

Key Risks

Any slowdown in the economy.

Fluctuations in raw material prices of timber, phenol, and paper.

A change in government policies pertaining to timber procurement/production.

Financial Statements (Consolidated)

Income statement		(INR mn)				
Year to March	FY06	FY07	FY08	FY09E	FY10E	
Income from operations	2,795	4,406	6,394	7,443	8,442	
Total operating expenses	2,500	3,943	5,589	6,509	7,361	
Materials costs	1,613	2,358	3,002	3,610	4,136	
Manufacturing expenses	135	212	268	313	355	
Employee cost	147	298	419	484	549	
Purchase of finished goods	8	120	544	558	591	
Selling & administration expenses	598	956	1,356	1,544	1,731	
EBITDA	295	463	805	934	1,081	
Depreciation and amortisation	63	87	133	151	189	
EBIT	232	376	672	783	892	
Interest	76	118	182	203	208	
Total other income	10	8	15	35	25	
Profit before tax	165	266	505	615	709	
Provision for tax	25	40	115	148	156	
Current tax	19	27	57	148	156	
Deferred tax	3	10	65	-	-	
Fringe benefit tax	3	3	5	-	-	
Profit after tax	141	226	390	468	553	
Shares outstanding (mn)	13	16	17	17	19	
EPS (INR) basic	10.5	13.7	23.0	27.5	28.8	
Diluted shares (mn)	13.4	16.4	17.0	17.0	19.2	
EPS (INR) diluted	10.5	13.7	23.0	27.5	28.8	
Dividend per share (INR)	2.0	2.5	3.0	3.0	3.0	
Dividend payout (%)	22.9	13.9	15.3	12.7	12.2	

Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08	FY09E	FY10E
Operating expenses	89.4	89.5	87.4	87.5	87.2
Material cost	57.7	53.5	47.0	48.5	49.0
Manufacturing expenses	4.8	4.8	4.2	4.2	4.2
Employee cost	5.3	6.8	6.5	6.5	6.5
Depreciation and amortisation	2.3	2.0	2.1	2.0	2.2
Interest expenditure	2.7	2.7	2.9	2.7	2.5
EBITDA margins	10.6	10.5	12.6	12.6	12.8
Net profit margins	5.0	5.1	6.1	6.3	6.6

Growth metrics (%)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues	61.9	57.6	45.1	16.4	13.4
EBITDA	72.4	56.8	74.0	16.0	15.7
PBT	114.6	61.1	89.5	21.9	15.2
Core net profit	166.5	60.5	72.7	19.8	18.3
EPS	200.5	31.1	67.2	19.8	4.6

Balance sheet**(INR mn)**

As on 31st March	FY06	FY07	FY08E	FY09E	FY10E
Equity capital	67	82	85	85	96
Pref. capital	31	-	-	-	-
Reserves & surplus	562	1,005	1,389	1,797	2,653
Shareholders funds	660	1,087	1,473	1,881	2,749
Secured loans	1,038	1,268	1,368	3,013	4,158
Unsecured loans	200	212	212	212	212
Borrowings	1,238	1,480	1,580	3,225	4,370
Deferred tax (Net)	49	58	58	58	58
Sources of funds	1,947	2,625	3,112	5,165	7,177
Gross block	1,100	1,815	2,444	2,594	3,944
Depreciation	420	462	595	746	935
Net block	680	1,353	1,849	1,848	3,009
Capital work in progress	332	129	-	1,850	2,500
Investments	1	1	1	1	1
Goodwill	-	1	1	1	1
Inventories	845	1,143	1,463	1,717	1,947
Sundry debtors	508	738	1,051	1,264	1,434
Cash and bank balances	62	147	49	38	47
Loans and advances	173	260	315	306	347
Total current assets	1,587	2,288	2,878	3,325	3,775
Sundry creditors	580	1,024	1,452	1,704	1,932
Others	34	66	89	78	88
Provisions	39	57	78	78	88
Total current liabilities & provisions	653	1,146	1,618	1,860	2,109
Net current assets	934	1,141	1,261	1,465	1,666
Misc expenditure	0	0	0	0	0
Uses of funds	1,947	2,625	3,112	5,165	7,177
Book value per share (BV)	47	66	87	111	143

Free cash flow

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net profit	141	226	390	468	553
Add : Non cash charges					
Depreciation	63	87	133	151	189
Deferred tax	3	10	65	-	-
Others	(3)	(10)	(65)	-	-
Gross cash flow	204	313	523	619	742
Less: Changes in working capital	118	122	217	216	191
Operating cash flow	86	190	306	403	550
Less: Capex	712	512	500	2,000	2,000
Free cash flow	(625)	(322)	(194)	(1,597)	(1,450)

Cash flow metrics

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Operating cash flow	86	190	306	403	550
Financing cash flow	667	408	96	1,585	1,459
Investing cash flow	(712)	(513)	(500)	(2,000)	(2,000)
NET CASH FLOW	42	85	(98)	(12)	10
Capex	(712)	(512)	(500)	(2,000)	(2,000)
Dividend paid	(32)	(31)	(60)	(60)	(67)
Share issuance/(Buyback)	164	219	56	-	382

Ratios

Year to March	FY06	FY07	FY08E	FY09E	FY10E
ROAE (%)	28.4	26.3	30.5	27.9	23.9
ROACE (%)	14.8	16.4	23.4	18.9	14.5
Inventory (days)	137	135	125	129	132
Debtors (days)	60	52	51	57	58
Payable (days)	79	109	118	129	131
Cash conversion cycle	117.8	77.7	57.3	57.8	59.3
Current ratio	2.4	2.0	1.8	1.8	1.8
Debt/EBITDA	4.2	3.2	2.0	3.5	4.0
Interest cover (x)	3.0	3.2	3.7	3.9	4.3
Fixed assets turnover (x)	5.1	4.3	4.0	4.0	3.5
Total asset turnover(x)	1.8	1.9	2.2	1.8	1.4
Equity turnover(x)	5.6	5.1	5.0	4.4	3.6
Debt/Equity (x)	1.9	1.4	1.1	1.7	1.6
Adjusted debt/Equity	1.9	1.4	1.1	1.7	1.6

Du Pont Analysis

Year to March	FY06	FY07	FY08E	FY09E	FY10E
NP margin (%)	5.0	5.1	6.1	6.3	6.6
Total assets turnover	1.8	1.9	2.2	1.8	1.4
Leverage multiplier	3.2	2.7	2.2	2.5	2.7
ROAE (%)	28.4	26.3	30.5	27.9	23.9

Valuation parameters

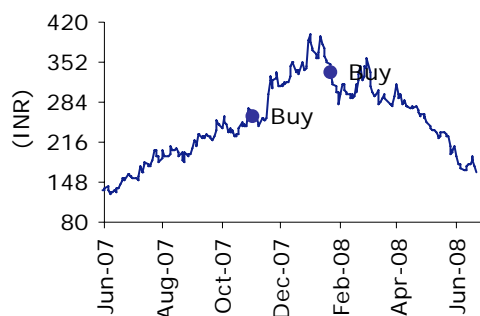
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Diluted EPS (INR)	10.5	13.7	23.0	27.5	28.8
Y-o-Y growth (%)	200.5	31.1	67.2	19.8	4.6
CEPS (INR)	15.4	19.6	34.6	36.4	38.6
Diluted PE (x)	15.3	11.7	7.0	5.8	5.6
Price/BV(x)	3.4	2.4	1.8	1.4	1.1
EV/Sales (x)	1.2	0.9	0.7	0.8	0.9
EV/EBITDA (x)	11.4	8.6	5.3	6.3	6.9
EV/EBITDA (x) +1 yr forward	7.3	4.9	4.6	5.5	
Dividend Yield (%)	1.2	1.6	1.9	1.9	1.9
Current market price	160	160	160	160	160
Market capitalisation	2155	2637	2724	2724	3080
EV	3361	3970	4254	5911	7403
EPS (INR) basic	10.5	13.7	23.0	27.5	28.8
Basic P/E (x)	15.3	11.7	7.0	5.8	5.6

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Coverage group(s) of stocks by primary analyst(s):

Greenply Industries Ltd, Ballarpur Industries Ltd, Riddhi Siddhi Gluco Biols, Mcleod Russel India , Ceat Ltd, Graphite India Ltd, Nucleus Software Exports Ltd & Bajaj Electricals

Greenply Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
04-Jun-08	McLeod Russel	Expensive valuations; <i>Result Update</i>	79	Reduce
02-Jun-08	Bajaj Electricals	High flyer; <i>Result Update</i>	450	Buy
06-May-08	BILT	Limited upside; <i>Result Update</i>	34	Accum.
02-May-08	Ceat	Tread with caution; <i>Result Update</i>	136	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	115	65	17	2	211

* 11 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	86	74	51

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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