

As expected, on the back of enhanced capacity and improvement in realization, GIL reported robust number for Q2FY08. It reported a growth of 39.4% yoy in net sales at Rs.1,484 mn and profit growth of 135.6% at Rs.112 mn.

Plywood production grew by 41.8% to 4.46 mn sq mt. The company was able to run its units at 95% utilization including at its new plant in Uttarakhand. Its laminate segment reported 18% growth in production to 1.4 mn sheets. Average realization of plywood increased by 12.4% to Rs.173 per sq mt, while that of laminates increased by 7.2% to Rs.429 per sheet. Plywood and particleboard contributed 48% and 3% of revenues at Rs.743 mn and at Rs.53 mn. Laminates and veneers contributed 36% and 12% to the revenues at Rs.554 mn and Rs.189 mn. The company was able to improve utilization of its newly commissioned Uttarakhand plant, which lead to lower overhead cost enabling 577bps yoy improvement in EBIDTA margin to 14.6%. It's EBIDTA increased by 130.7% yoy to Rs.216 mn. As against our net profit estimate of Rs.392 mn for FY08, the company has already delivered Rs.203 mn for first half.

Recent updates

GIL acquired two plywood units in Gujarat with installed capacity of 3 mn sq mt for Rs.38.5 mn. 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. It would spend another Rs.60 mn to upgrade the capacity. The acquisition will be funded through a mix of internal accruals and debts. The company expects these units to start operation by end of this financial year and reach optimum utilization by Q2FY09. At optimum utilization it would generate revenues 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. GIL is also setting up a new laminate unit in Himachal Pradesh. However, details of these projects are not finalized. We expect company to have internal accrual of Rs.469 mn and Rs.585 mn in FY08 and FY09 and can leverage upto 1.5x. Thus, the company can incur capex of Rs.1.3 -1.5 bn over next one year, without any equity dilution.

Future outlook

On account of higher capacity utilization and strong demand growing at CAGR of 15-20%, we expect the company should surpass our guidance. We will update our forecast once the details of MDF and laminate units are finalized in a month's time. As the stock has already given 30% returns since our recommendation at Rs.191 in span of three months. In view of the margin expansion and consistent growth visibility in the segment, we are revising our price target to Rs.335 discounting FY09 earnings of Rs30.8 by 11x. We maintain our BUY rating.

Quarterly performance

Y/E, 31 st March (Rs. mn)	Q2 FY07	Q2 FY08	YoY(%)	Q1 FY08	QoQ (%)	FY07
Net sales	1,065	1,484	39	1,272	17	4,292
Total expenditure	971	1,267	31	1,104	15	3,831
Operating profit	94	216	131	168	29	461
OPM (%)	8.8	14.6	-	13.2	-	10.7
Interest	23	49	118	43	16	118
PBDT	71	167	13	125	12	344
Depreciation	19	33	78	29	16	87
Other income	4	23	475	17	33	8
PBT	56	156	178	114	(36)	266
Tax	9	45	411	23	90	41
Adjusted PAT	47	112	136	91	23	225
NPM (%)	4.5	7.5	-	7.1	-	5.2
EPS (Rs.)	2.9	6.6	128.1	5.3	23.4	13.7
Equity	82	85	3	85	-	82

Source: Company, MF Global PCG Research

Sensex	18,771
Nifty	5,569

Stock Data

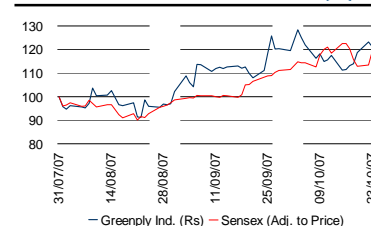
BSE Code	526797
NSE Code	GREENPLY
Bloomberg	MTLM@IN
Reuters	GRPL.BO

Shares Issued (mn)	16.6
Market Cap (Rs mn)	4,084
52 Wk H/L (Rs)	272/90
Face Value (Rs)	5
Avg. daily vol. (12-mths)	15,607

Absolute Returns (%)

	1 m	3 m	12 m
Absolute	9.2	21.5	141.7
Rel. to Sensex	(0.6)	4.0	95.2

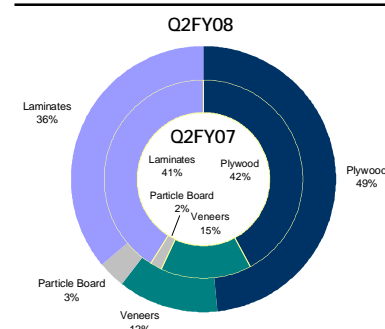
Recommended Returns (%)



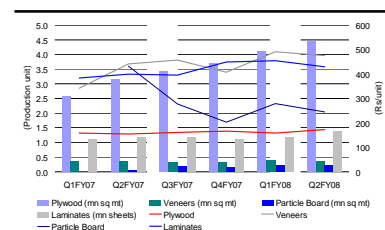
Financial Summary

(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
P/E (x)	17.9	10.6	8.0

Revenue breakup



Production and realization



Financials

Income statement (Rs mn)	FY06	FY07	FY08E	FY09E	Balance sheet (Rs mn)	FY06	FY07	FY08E	FY09E
Net sales	2,758	4,292	5,398	6,129	Equity capital	67	82	85	85
Raw materials	1,621	2,376	2,942	3,297	Reserves	562	999	1,396	1,847
Employee expenses	146	291	351	398	Networth	660	1,087	1,481	1,932
Other exp	723	1,163	1,387	1,575	Total debt	1,238	1,466	1,506	1,306
Op profit	269	461	718	858	Deferred tax	49	58	76	100
<i>OPM (%)</i>	<i>9.7</i>	<i>10.7</i>	<i>13.3</i>	<i>14.0</i>	Total liabilities	1,947	2,611	3,062	3,338
Other income	47	8	33	46	Gross fixed assets	1,100	1,811	2,190	2,230
Depreciation	63	87	131	134	Less: Cum depreciation	420	461	593	726
Interest	87	118	149	141	Net fixed assets	681	1,350	1,597	1,503
PBT	166	266	471	630	Capital WIP	332	129	40	67
Tax	25	41	79	106	Investments	1	11	100	200
PAT	141	225	392	523	Net current assets	934	1,121	1,325	1,567
Extraordinary item	(5)	—	—	—	Total assets	1,947	2,611	3,062	3,338
Adj PAT	146	225	392	523					
<i>NPM (%)</i>	<i>5.3</i>	<i>5.2</i>	<i>7.3</i>	<i>8.5</i>					

Cash flow (Rs mn)	FY06	FY07	FY08E	FY09E	Ratios	FY06	FY07	FY08E	FY09E
PBT & extraord. items	165	266	471	630	Growth (%)				
Add: Int, depn. & oth. exp.	141	214	280	274	Net sales	63.4	55.6	25.8	13.5
Cash flow from op.	306	479	751	904	Adj PAT	179.7	54.2	73.9	33.6
Net chg in w/c, tax, int.	10	(368)	(2)	(206)	Adj EPS	4.3	27.6	68.3	33.6
Net cash flow frm op.	316	111	749	698	Per Share Data (Rs)				
Capital expenditure	(544)	(557)	(290)	(67)	Adj EPS	10.7	13.7	23.0	30.8
Sale/ purchase of inv	29	5	(89)	(100)	Book value	49.1	66.1	87.1	113.7
Net cash from inv.	(515)	(552)	(379)	(167)	DPS	2.0	1.9	2.8	3.7
Issue of eq/pref sh/warr.	259	566	(53)	(341)	Valuation (x)				
Dividend paid	(17)	(40)	(54)	(72)	P/E	22.8	17.9	10.6	8.0
Net cash from financing	241	526	(106)	(412)	P/BV	5.0	3.7	2.8	2.2
Net chg in cash	42	85	264	119	EV/EBIDTA	16.6	11.6	7.2	5.5
Op. cash bal	20	62	148	411	Performance (%)				
Cl. cash bal	62	148	411	530	RoCE	13.4	16.8	21.2	23.3
					RoNW	27.7	25.8	30.5	30.7

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