

## Greenply Industries

 BSE code: 526797  
 NSE code: GREENPLY

**CMP: Rs 162**
**Target: 252**
**BUY**

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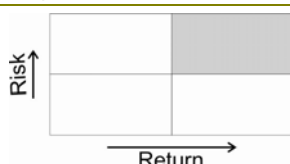
### Company data

Particulars	
Market cap (Rs mn / US\$ bn)	2753/65.2
Outstanding equity shares (mn)	17.0
52-week high/low (Rs)	420/135
2-month average daily volume	12650

### Financial snapshot

Particulars	FY08	FY09E	FY10E
Revenues (Rs mn)	5,418	6,730	7,945
Growth (%)	38.1	24.2	18.0
Adj net inc (Rs mn)	387	470	553
Growth (%)	71.8	21.5	17.7
FDEPS (Rs)	22.8	27.7	32.5
Growth (%)	64.9	21.5	17.7
P/E (x)	7.1	5.9	5.0
ROE (%)	30.1	28.1	26.3

### Risk-return profile



### Shareholding pattern

(%)	June-08	Mar-08
Promoters	54.9	54.9
FII's	13.9	10.1
Banks & FI's	9.5	9.7
Public	21.7	25.3

### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Greenply	162	(4.2)	(38.0)	(48.2)
Sensex	14,275	3.4	(16.1)	(21.4)

**Company website** [www.greenply.com](http://www.greenply.com)

## Operational performance strong, forex losses mar PAT

Greenply Industries' (GIL) results have come in ahead of our estimates on the operational level as robust growth in plywood and laminate volumes coupled with increased trading in the plywood segment aided a 48% YoY sales growth. Price hikes across segments enabled the company to pass on the increased cost of raw materials, thereby protecting the EBITDA margin on a sequential basis. However, MTM forex losses resulted in a 23% YoY decline in net profits to Rs 69.6mn as against Rs 120mn expected.

GIL plans to increase outsourcing (trading) operations in the plywood division besides commencing trade in MDF (medium density fibre board) in order to establish a market for its own product. Trading operations could drag down margins, though the company is contemplating further price hikes of its existing products to stabilise margins at current levels. Completion of the capex for its MDF and laminate plants would boost revenues from FY11 onwards. We maintain a Buy with a DCF-based target price of Rs 252. At this price, the stock would trade at 7.8x FY10E EPS.

### Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	1,715.6	1,540.1	11.4
EBITDA	234.1	207.9	12.6
Net profit	69.6	119.9	(42.0)
FDEPS (Rs)	4.09	7.1	(42.0)

Source: Religare Research

### Quarterly results

(Rs mn)	Q1FY09	Q1FY08	% Chg YoY	Q4FY08	% Chg QoQ
Net sales	1,715.6	1,160.0	47.9	1,509.7	13.6
Total expenditure	1,546.8	978.4	58.1	1,304.2	18.6
Consumption of RM	1,105.9	703.9	57.1	988.3	(211.9)
Inc/(dec) in Stk in trade	76.0	45.3	67.6	99.2	(176.6)
Staff cost	126.2	84.8	48.8	112.0	(212.7)
Other expenditure	325.4	248.7	30.8	303.1	(207.4)
Forex gain /( loss)	(65.3)	13.6	(579.4)	-	-
EBITDA	168.8	181.6	(7.0)	205.5	(17.9)
Depreciation	38.2	28.7	33.2	33.5	14.0
EBIT	130.6	152.9	(14.6)	172.0	(24.1)
Interest	46.9	42.5	10.4	43.7	7.4
Other income	0.5	3.7	(86.3)	28.9	(101.8)
EBT	84.2	114.1	(26.2)	99.4	(15.3)
Taxes	14.6	23.4	(37.6)	12.6	15.4
<b>Net profit</b>	<b>69.6</b>	<b>90.7</b>	<b>(23.3)</b>	<b>86.8</b>	<b>(19.8)</b>
EBITDA margin (%)*	13.6	14.5	-	13.6	-

Source: Company, Religare Research \* Excludes forex loss

## Result highlights

### Plywood contributed 58% of sales from 51% in Q1FY08

#### Healthy volume-led sales growth

GIL has registered a surge in plywood and laminate volume sales during Q1FY09, leading to a 48% YoY growth in revenues. Trading operations constituted 10% of the total plywood sales for the quarter, raising the segment's revenue contribution to 58% from 51% in Q1FY08. The laminate division operated at 113% capacity utilisation, resulting in a 31% increase in segmental revenues. The veneer and particleboard segments registered a lower revenue share owing to a change in product mix.

GIL plans to increase the trading in plywood to 15% of the segment's sales. It also intends to trade in MDF in order to establish a market for its own product which will be launched in FY11. The company is contemplating further price hikes across products which would compensate for the margin pressures resulting from trading operations.

### Sales trend

Segment	Sales (Rs mn)			Sales Qty (mn sq m)			Realisation (Rs/unit)		
	Q1FY09	Q1FY08	% Chg	Q1FY09	Q1FY08	% Chg	Q1FY09	Q1FY08	% Chg
Plywood	1,035	602	72.0	5.96	3.80	56.9	173.7	158.4	9.6
Veneers	160	165	(2.9)	0.27	0.34	(19.7)	592.6	490.1	20.9
Particle Board	42	44	(5.2)	0.28	0.16	76.1	150.0	278.6	(46.2)
Laminates	661	504	31.0	1.42*	1.11*	27.7	465.5	453.7	2.6

Source: Company, Religare Research \*mn sheets

#### EBITDA margin declines 90bps

Operating profits excluding forex losses increased 39.4% YoY to Rs 234.1mn. While the EBDITA margin remained stable sequentially at 13.6%, it declined 90bps YoY. Trading operations earn lower margins of 8% as compared to 14.5% from manufactured product sales.

### MTM forex loss of Rs 650mn led to 23% YoY decline in PAT

#### MTM loss of Rs 650mn dents PAT

GIL has reported a mark-to-market (MTM) forex loss of Rs 650mn during the quarter resulting in net profits declining by 23% YoY to Rs 70mn. At the end of June 2008, the company had outstanding foreign currency creditors aggregating US\$ 13mn and Euro3.8mn. These creditors were accounted for at the rate of Rs 43.18/US\$ and Rs 68.71/Euro respectively. In case of rupee appreciation, these provisions could be reversed, resulting in higher profitability in coming quarters.

#### Capex of Rs 3.7bn towards new MDF and laminate plants

GIL has announced a capex of Rs 3.7bn to set up MDF and laminate plants in the states of Uttaranchal and Himachal Pradesh respectively. The MDF plant will have a capacity of 1.8mn cubic metres and is being set up at a cost of Rs 2.5bn (within the premises of the existing plywood unit in Rudrapur, Uttaranchal). Production from the MDF and laminate units is expected to commence in the second half of FY10.

## Valuation

**Revenues to grow at 24% and 18% in FY09 and FY10 respectively**

### Set to register steady growth

GIL has registered a good performance on the revenue front though profits contracted due to forex losses. We believe that these losses could be reversed if the rupee continues to appreciate. We expect the negative impact of trading operations on margins to be absorbed by a proposed increase in product prices, thereby keeping margins stable. We thus retain our estimates for FY09 and FY10. We expect revenues to grow at 24% and 18% in FY09 and FY10 respectively and in this we have not considered any revenues from trading.

### New projects to kick in from FY11; Maintain Buy

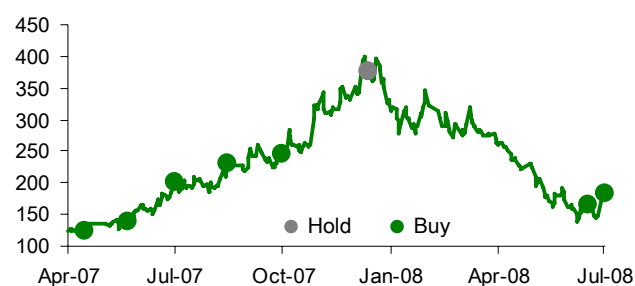
The company has entered into a capex mode and has announced that its laminate and MDF plants will become operational in Q3FY10 and Q4FY10 respectively. Revenues from these projects will thus kick in from FY11 onwards. We maintain a Buy on the stock with a DCF-based target price of Rs 252. At this price, the stock would trade at 8x FY10E EPS.

### Recommendation history

Date	Event	Reco price	Tgt price	Reco
8-May-07	Initiating Coverage	125	180	Buy
15-Jun-07	Results Update	139	180	Buy
25-Jul-07	Results Update	202	252	Buy
10-Sep-07	Company Update	230	288	Buy
24-Oct-07	Results Update	244	300	Buy
7-Jan-08	Quarterly Preview	375	335	Hold
10-Jul-08	Company Update	164	252	Buy
28-Jul-08	Results Update	162	252	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Consolidated financials

### Profit and Loss statement

FYE March, Rs mn	FY07	FY08	FY09E	FY10E
Revenues	3,922	5,418	6,730	7,945
<i>Growth (%)</i>	<i>52.4</i>	<i>38.1</i>	<i>24.2</i>	<i>18.0</i>
EBITDA	461	800	925	1,088
<i>Growth (%)</i>	<i>56.3</i>	<i>73.4</i>	<i>15.7</i>	<i>17.6</i>
Depr & amort	86	132	171	198
EBIT	375	668	755	891
<i>Growth (%)</i>	<i>61.7</i>	<i>78.3</i>	<i>12.9</i>	<i>18.1</i>
Interest	117	182	187	211
Other income	8	14	20	20
EBT	266	501	588	700
Income taxes	40	114	118	147
<i>Effective tax rate (%)</i>	<i>15.2</i>	<i>22.8</i>	<i>20.0</i>	<i>21.0</i>
Extra-ordinary items	-	-	-	-
Min int / inc from assoc	-	-	-	-
Reported net income	225	387	470	553
Adjustments	-	-	-	-
Adjusted net income	225	387	470	553
<i>Growth (%)</i>	<i>59.9</i>	<i>71.8</i>	<i>21.5</i>	<i>17.7</i>
Shares outstanding (mn)	16.5	17.0	17.0	17.0
Religare EPS (Rs)	13.8	22.8	27.7	32.5
<i>Growth (%)</i>	<i>31.7</i>	<i>64.9</i>	<i>21.5</i>	<i>17.7</i>
DPS (Rs)	2.5	3.0	4.0	4.5

### Cash flow statement

FYE March, Rs mn	FY07	FY08	FY09E	FY10E
Net income + Depreciation	312	519	641	751
Non-cash adjustments	8	25	(78)	(26)
Changes in working capital	(196)	(319)	429	(118)
Cashflow from operations	123	225	992	607
Capital expenditure	(542)	(428)	(1,724)	(2,350)
Change in investments	(10)	(39)	-	-
Other investing cashflow	(13)	3	-	-
Cashflow from investing	(564)	(464)	(1,724)	(2,350)
Issue of equity	350	56	0	0
Issue/repay debt	128	245	850	2,000
Dividends paid	(40)	(58)	(14)	(55)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	(3)	4	104	202
Closing cash & cash eq	48	52	156	357

### Economic Value Added (EVA) analysis

FYE March	FY07	FY08	FY09E	FY10E
WACC (%)	11.9	12.2	12.8	12.8
ROIC (%)	14.3	18.0	16.0	12.8
Invested capital (Rs mn)	2,558	3,180	4,373	6,645
EVA (Rs mn)	62	184	139	(1)
EVA spread (%)	2.4	5.8	3.2	(0.0)

### Balance sheet

FYE March, Rs mn	FY07	FY08	FY09E	FY10E
Cash and cash eq	52	60	156	357
Accounts receivable	725	956	1,143	1,306
Inventories	1,129	1,446	1,511	1,691
Others current assets	354	535	150	150
Investments	11	50	50	50
Gross fixed assets	1,804	2,317	2,567	4,017
Net fixed assets	1,344	1,746	1,825	3,078
CWIP	129	26	1,500	2,400
Intangible assets	6	5	5	5
Deferred tax assets, net	(58)	(123)	(60)	(60)
Other assets	-	-	-	-
<b>Total assets</b>	<b>3,691</b>	<b>4,700</b>	<b>6,279</b>	<b>8,976</b>
Accounts payable	1,016	1,378	1,659	1,862
Other current liabilities	65	82	90	110
Provisions	57	48	98	108
Debt funds	1,466	1,711	2,561	4,561
Other liabilities	-	-	-	-
Equity capital	88	85	85	85
Reserves & surplus	999	1,395	1,786	2,250
Shareholder's funds	1,087	1,480	1,871	2,335
<b>Total liabilities</b>	<b>3,691</b>	<b>4,700</b>	<b>6,279</b>	<b>8,976</b>
BVPS (Rs)	71.4	92.1	115.1	142.4

### Financial ratios

FYE March	FY07	FY08	FY09E	FY10E
<b>Profitability &amp; Return ratios</b>				
EBITDA margin (%)	11.8	14.8	13.8	13.7
EBIT margin (%)	9.6	12.3	11.2	11.2
Net profit margin (%)	5.7	7.1	7.0	7.0
ROE (%)	26.3	30.1	28.1	26.3
ROCE (%)	14.3	18.0	16.0	12.8
<b>Working capital &amp; Liquidity ratios</b>				
Receivables (days)	57	57	57	56
Inventory (days)	126	124	113	103
Payables (days)	102	115	119	120
Current ratio (x)	2.1	2.1	1.7	1.8
Quick ratio (x)	0.7	0.7	0.7	0.7
<b>Turnover &amp; Leverage ratios</b>				
Gross asset turnover (x)	2.7	2.6	2.8	2.4
Total asset turnover (x)	1.3	1.3	1.2	1.0
Interest coverage ratio (x)	3.2	3.7	4.0	4.2
Adjusted debt/equity (x)	1.3	1.2	1.4	2.0
<b>Valuation ratios</b>				
EV/Sales (x)	1.3	1.0	0.8	0.6
EV/EBITDA (x)	11.2	6.4	5.6	4.7
P/E (x)	11.7	7.1	5.9	5.0
P/BV (x)	2.3	1.8	1.4	1.1

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn

**Religare Securities**

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