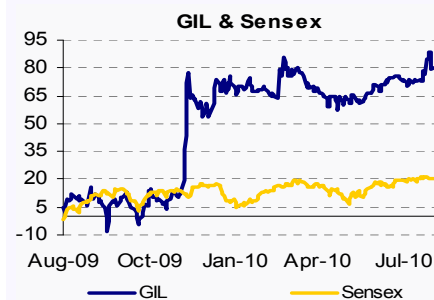


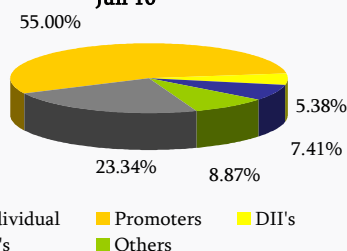
Greenply Industries Limited

AUGUST 25, 2010
STOCK INFO

Sector	Plywood
Listing	NSE/BSE
Bloomberg	MTML IN
Reuters	GRPL.BO
Sensex (August 25, 2010)	18,179.64
Market cap (Rs mn)	4,442.54
Free float (percent)	45.00
Average last six month vol.	22,600
52 week H/L (Rs)	213.80/100.00
Beta	0.890
Face value (Rs)	5.00

RELATIVE PERFORMOMANCE

KEY RATIOS

EPS (Rs)	20.08
BV (Rs)	99.94
Price/Earning (x)	10.01
Price/BV (x)	2.01
Dividend yield (percent)	0.75

SHAREHOLDING PATTERN
Shareholding Pattern as on Jun 10

SHWETA RATHI
NIKHIL SABOO
research@kredent.com
Company Background

Greenply Industries Limited (GIL), promoted by Mr. Shiv Prakash Mittal, is an interior infrastructure company engaged in the business of manufacturing plywood and allied products, laminates, particle boards and medium density fibreboards.

Investment Rationale

- ▶ GIL holds around 35 percent share of India's organised plywood market and 21 percent of India's organised laminates market. Hence, it is well positioned to reap the benefit of expected boom in real estate sector
- ▶ GIL has become the largest laminate company in Asia and 5th largest globally in terms of capacity after the commission of new laminate plant in Himachal Pradesh
- ▶ With the commission of Medium Density Fibreboard MDF plant, GIL is the only company in the industry to cater to all the segments of interior infrastructure industry
- ▶ GIL's biggest strength is its large network of dealers and sub dealers in the market and the dealers' and sub-dealers' high knowledge level and market share
- ▶ GIL has India's largest capacities for plywood, laminates, decorative veneers and MDF which help it becoming a low cost producer
- ▶ GIL enjoys 100 percent corporate tax and excise exemptions for its plants set up at Nagaland, Uttarakhand and Himachal Pradesh

Key Risks

- ▶ The Indian plywood and laminate industries are highly fragmented. The unorganised sector accounts for around 80 percent of the plywood industry and 50 percent of the laminates industry, from which GIL can face intense competition

Exhibit: Key Financials
Figures in Millions

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	4,035.69	5,884.20	7,731.60	8,990.24
PAT	225.92	390.11	356.09	406.80
PAT Margins (%)	5.60	6.63	4.61	4.52
Diluted EPS	13.85	22.63	21.59	20.08
P/E (x)	7.79	13.12	1.92	9.61
P/BV (x)	2.03	3.92	0.43	1.93
Debt / Equity Ratio (x)	1.36	1.18	1.47	1.68
ROE (%)	25.85	30.34	21.72	18.42
EV/EBITDA (x)	6.72	8.26	4.07	9.20

Source: Company Data, Kredent Research Advisors

Company Background

GIL is the largest interior infrastructure company in India, engaged in the business of manufacturing and marketing Plywood and allied products, Laminates, Decorative Veneers and Particle boards. It operates through 32 branches across India and has a strong dealer/distributor/sub-dealer/retailer network of over 12,000 and a presence in over 300 cities. GIL manufactures its products through its ultra modern production units in six states located in Nagaland, West Bengal, Uttarakhand, Rajasthan, Himachal Pradesh and Gujarat. 'Greenlam', its flagship Decorative Laminate brand is exported to more than 50 countries including Thailand, Indonesia, Taiwan, Canada, Bahrain, Hong Kong, Malaysia, Singapore, Kenya, Dubai, Russia, Syria, USA, Australia, Mexico, Saudi Arabia, China and Israel.

Product Range

GIL operates in three segments named plywood and allied products, laminates and allied products. It has largest capacity in the plywood, laminate (including decorative veneer) and MDF in India.

Plywood and allied products

The plywood and allied products division is the company's largest revenue generator and its 24 million square meters (mn sq. mtr) cumulative capacity across its four manufacturing facilities is India's highest plywood capacity. The product portfolio comprises of Green Club Premium plywood, Green Club Plus plywood, Green Marine plywood, Green Flexibly, Green Film Faced Shuttering plywood, Green Flush Doors, Green Block Board, Optima Red plywood, Greenply plywood, Green Fire Retardant plywood and Ecotec plywood. This segment largely targets the premium segment and mid-segment where the cost is Rs 45 to Rs 65 per sq. ft.

During FY10, the company's production of plywood and allied products totalled 26.36 mn sq. mtr with an average capacity utilisation of 110 percent.

Laminates and allied products

The laminates are manufactured in two units with a cumulative annual production capacity of 10.02 million sheets and there is a cumulative annual capacity of 4.20 mn sq. mtr for manufacturing decorative veneers in Behror, Rajasthan. GIL's major brands comprise Greenlam, Green Touch, Greenlam Supertuf, Green Gloss, Green Flexilam, New Mika, New Pointeight and Green Decowood.

During FY10, GIL introduced more than 100 new designs, finishes and dimensions in laminates and decorative veneers. The company's production of laminates and allied products totalled 7.20 million sheets with an average capacity utilisation of 107 percent, while decorative veneer production decreased to 1.19 mn sq. mtr with an average capacity utilisation of 28 percent in FY10.

Medium Density Fibreboard (MDF)

MDF is a very versatile product with wide applications, primarily in panelling, wide range of furniture, windows & doors frames, handicraft industry, display or exhibition stands and signage's, false ceiling, toys, carving & moulding panels, partitions, shoe industry and educational equipment. This segment caters to India's growing mid-income and rural segments, largely dominated by unorganised plywood industry and

As on March 31st, 2010 the segment contributed nearly 59 percent of the total revenue

GIL commenced plywood export across 10 countries during FY10

GIL's Nalagarh unit became operational during FY10 with a 4.68 million sheets per annum cumulative laminates capacity

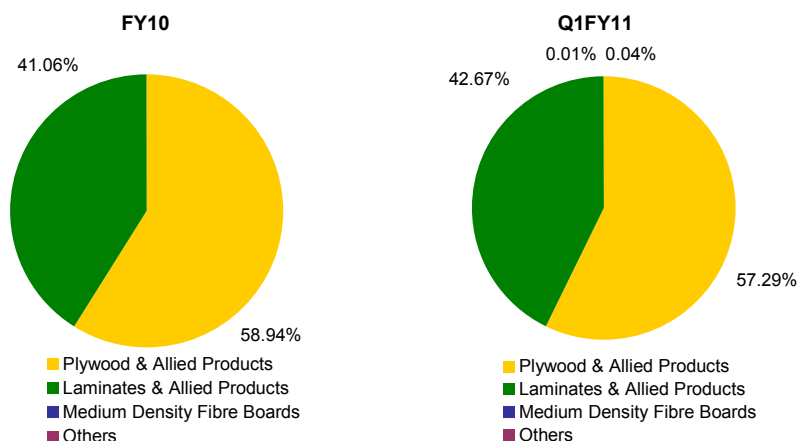
For the fiscal year ended FY2010, the segment contributed 41 percent of total sales largely on account of increased capacity

MDF segment commenced operation as on March 31st, 2010 with an annual capacity of 0.18 mn cu. mtr.

it holds the potential to generate Rs 3,750 million of annual revenue at full capacity.

Around 80 percent of the global wood panel market comprises MDF and particleboard products (plywood 20 percent). In India, the scenario is the opposite. With the Indian government controlling new plywood licenses, there is a growing demand for engineered panel products (like MDF) with active encouragement of the government.

Exhibit: Segmental Revenue



Source: Company, Kredent Research Advisors

Subsidiaries

GIL has wholly owned subsidiaries, Greenlam America Inc. at Miami, U.S.A. and Greenlam Asia Pacific Pte Ltd. at Singapore, having centralized warehouse for direct supplies and distribution in U.S.A., Canada, South America, Caribbean, south east and far east Asian countries and also taking care of promotions of Greenlam brand in respective regions.

Greenlam America Inc.

Greenlam America Inc., a wholly owned subsidiary of GIL, is situated at Miami, U.S.A. for the purpose of distributing decorative laminates of the highest quality for the office and home improvement, as well as the construction industry.

Greenlam Asia Pacific Pte Ltd.

Greenlam Asia Pacific Pte Ltd., a wholly owned subsidiary of GIL, is situated Singapore. The principal activities of the company are trading of sawn timber, plywood, decorative laminate and related products.

Exhibit: GIL's Subsidiaries

Name of the Company	% of controlling interest	Location	Facility
Greenlam America Inc.	100.00	Miami, USA	Trading of high pressure laminates
Greenlam Asia Pacific Pte Ltd.	100.00	Singapore	Trading of plywood, laminates and allied products

Source: Company Data, Kredent Research Advisors

Indian Furniture Industry

The Indian furniture industry is pegged at Rs 360,000 million. Indian furniture, reputed for its design, fashion and technology quality, is exported worldwide. Around 85 percent of the industry is unorganised while 15 percent comprises organised manufacturers and exporters.

The industry is dominated by the unorganized sector, which constitutes 85 percent of the market and the balance 15 percent is comprised by organised manufacturers and exporters

The fast emerging concept of standard lifestyle, interior designing, sense of comfort and architecture empowers the industry to be termed as great manufacturers and exporters of grand quality furniture in terms of art, style, technology and beauty. It is no more a surprise that foreign manufacturers are making huge investments in the furniture industry of India along with Indian furniture manufacturers and exporters, for example: Godrej & Boyce Manufacturing Co. Ltd., Furniturewala, Zuari, Yantra, Renaissance, N R Jasani & Company, Furniture Concepts, Durian, Kian, Millenium Lifestyles, Truzo, PSL Modular Furniture, BP Ergo, Tangent, Featherlite and Haworth. Globalization has impacted a lot and this leads to the growth in demand of furniture.

Backed by a growing real estate, tourism and hospitality sectors on the one hand and rising per capita income and lifestyle product consumption on the other, the Indian furniture manufacturing industry is expected to grow 13-15 percent over the next five years.

Indian Interior Infrastructure Industry

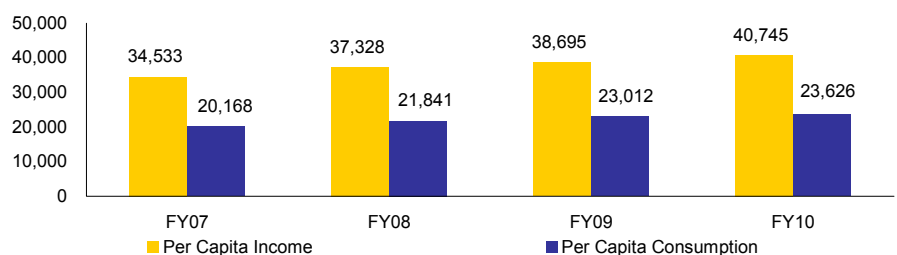
The interior infrastructure sector comprises wood panel and decorative surfacing products, tiles, marble, all kinds of granite, paints, sanitary ware, gypsum boards, glass, plywood, decorative veneers, decorative laminates, particle boards and medium density fibreboard (MDF), carpets, ready made furniture, wooden flooring, electrical fittings and air conditioners, among others

Though India's present share in the international furniture trade is insignificant at 0.25 percent, due to predominance of unorganised players, the industry is catching up fast with the booming realty business, and the surge in the infrastructure and construction initiatives

The fragmented Rs 130,000 million Indian plywood and laminate industry is growing at 8 percent annually. Although the unorganised sector accounts for around 80 percent of the plywood industry and 50 percent of the laminates industry, the organised sector's 25 percent annual growth outperformed overall industry growth.

India's population is projected to reach 1,300 million by 2020. The Indian middle class population is destined to grow to 114 million by 2025 from 83.4 million in 2010, making it the largest country with middle class population. By 2025, India is estimated to climb from its current position as the world's 12th largest consumer market to become the world's 5th largest consumer market. It is also expected that more than 291 million people would move out of poverty to a more sustainable lifestyle, further creating a huge opportunity for the market players.

Exhibit: Per Capita Consumption & Income



Source: CSO, Kredent Research Advisors

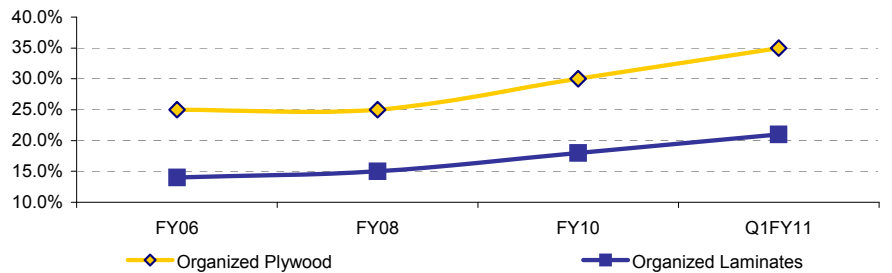
Investment Rationale

Market leader, with the highest market share among peers

With the expected boom in real estate sector, GIL, the market leader in the Interior infrastructure Industry, is well positioned to profit from that. As on July 2010, GIL holds around 35 percent share of India's organised plywood market and 21 percent of India's organised laminates market.

Exhibit: Market Share

GIL holds around 35 percent share of India's organised plywood market and 21 percent of India's organised laminates market



Source: Company, Kredent Research Advisors

Sales and net profit of GIL have grown at a 3 year compounded annual growth rate (CAGR) of 30.25 percent and 21.2 percent, respectively. The company has been able to wither away the tough economic conditions with innovative products and expansion of production units. The upbeat real estate sector and growing India's middle class have resulted in the net sales of GIL maintain its growth trajectory. With the addition of new laminate plant and commissioning of the MDF plant would substantially boosts revenues and profits going forward.

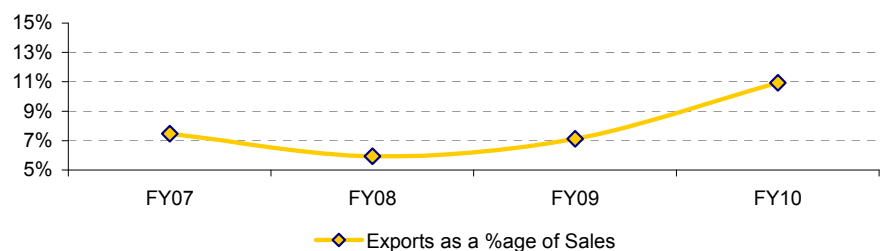
Enhanced laminates capacity and production to be revenue accretive

GIL will focus will be on stabilising Nalagarh operations and achieving 100 percent capacity utilisation at which the expected revenue from the plant is Rs 2,750 million

Greenply is a market leader in India's organised laminate industry with a market share of around 18 percent. Besides, it also enjoys a significant export presence to more than 60 countries. GIL has two, fully-owned subsidiaries, Greenlam Asia Pacific and Greenlam America to market and distribute its products internationally. It appointed 31 dealers in overseas market, exported to 12 new countries and introduced more than 100 new designs, finishes and dimensions in laminate and decorative veneer during FY10.

During FY10, all the four presses at the new Nalagarh unit with a cumulative capacity of 4.68 million sheets started operation with a capital outlay of Rs.1,200 million. This plant has contributed Rs.490 million turnover in FY10 and enjoys fiscal benefits (tax exemption). This will help GIL to increase its international presence, as it plans to export 65 percent of the total new production capacity to countries like United States, Europe, South Africa, Australia etc.

Exhibit: Export as a Percentage of Sales



Source: Company, Kredent Research Advisors

GIL enjoys a cumulative capacity of 10.02 million sheets across all its manufacturing locations, enabling it to enjoy economies of scale. The laminate plant situated at Behror is proximate to the growing northern and western Indian markets. Kraft paper, a key raw material, is mostly procured within a 300-km radius. Also, proximity to the Mumbai and Kandla ports provide the company with an easy accessibility to key raw materials, imported or sourced indigenously.

Exhibit: Manufacturing units

Units	Capacity (Sheets for laminates and sq. mtr for decorative veneers)					
	2008		2009		2010	
	Actual Capacity	Capacity Utilization	Actual Capacity	Capacity Utilization	Actual Capacity	Capacity Utilization
Behror, Rajasthan	5.34 million	91 percent	5.34 million	107 percent	5.34 million	107 percent
Behror, Rajasthan (decorative veneers)	2.10 million	65 percent	4.20 million	34 percent	4.20 million	28 percent
Nalagarh, Rajasthan	N.A.	N.A.	N.A.	N.A.	4.68 million	90 percent

Source: Company Data, Kredent Research Advisors

Introduction of MDF production to address market gap

With tremendous growth in real estate sector such as residential, commercial and retail and rise in the disposable income of the country's middle class, there is an anticipated exponential growth in the demand for interior infrastructure products. The government's restriction on plywood has also resulted in the additional growing demand of the panels to be met by engineered panel products like MDF (medium density fibreboard) and particle boards. The fact that these engineered panels have very high utilization of raw material resources as opposed to plywood, and considering India's scarce supply of raw material, has resulted in the government strongly promoting the manufacturing of these products.

Looking at the large potential ahead in the Indian market for engineered panel products like Medium Density Fibre Boards (MDF) and particle boards, Greenply set up India's largest MDF plant (Brand name – PANELMAX) with an annual capacity of 1.8 lakh Cubic Meters at a cost Rs.2,500 million. This plant is based on the latest Continuous Press Technology supplied by world leader M/s Diffenbacher, Germany. GIL's MDF unit is located in Pantnagar, proximate to agro-forestry resources like Eucalyptus and Poplar trees and enjoy fiscal benefits (excise exemption for 10 years). The versatile product enjoys extensive applications in the country's interior infrastructure industry.

Increased brand penetration adds considerable mass

GIL is the only integrated manufacturer offering products related to interior infrastructure industry with product presence across all price points. GIL has 32 sales offices in all state capitals and major cities of India. It has widest sales and distribution network of over 12,000 distributor, dealer and retailer across India, which is one the key driver of this sector. During FY10, GIL spent a total of 4.84 percent on advertisement and sales promotion. The company has seven stores of Green Studio, an exclusive retail store that provides a world-class shopping experience and plans to open five more in FY11. Another store, Greenply Esplanade is designed to create the image of a grass avenue along a sea shore. Average realizations have increased by 3.28 percent to Rs189 per sq. mtr for plywood and by 10.89 percent for decorative

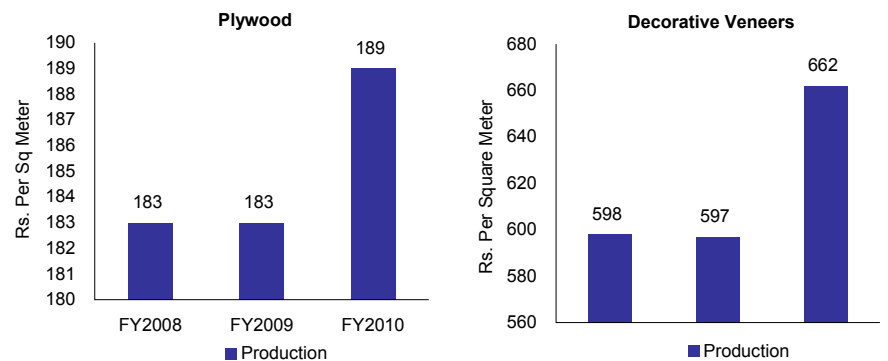
GIL's plant has the highest single-unit MDF capacity in India

MDF unit is located in Pantnagar, proximate to agro-forestry resources like Eucalyptus and Poplar trees and enjoy fiscal benefits

GIL possesses the widest and deepest distribution in rural India, which is a vast under-penetrated market at a time when incomes are rising

veneers to Rs 662 per sq mtr in FY2010

Exhibit: Average Realization



Source: Company, Kredent Research Advisors

India's largest capacities for plywood, laminates, decorative veneers and MDF translate into a lower cost structure

Proximity to raw material availability leads to low cost

The major raw materials consumed by GIL comprised wood and chemicals used in plywood manufacture and paper and chemicals used in laminate manufacture.

Timber which is the most important raw material for the production of plywood is sourced from within 100-200 km manufacturing units in Nagaland and Uttarakhand, saving logistics costs. The raw materials used in laminates manufacture comprise kraft, decorative paper, phenol and melamine. Kraft paper is sourced domestically while high-end and premium decorative papers are imported from Japan, Germany, France and other EU nations. Phenol and melamine are sourced from domestic and overseas markets, depending on price and credit terms. MDF is made from fine wood dust mixed with a binder and heat-pressed into panels. The MDF plant, located in Pantnagar, shares its premises with the plywood unit, which ensures easy raw material availability. It is also proximate to agro-forestry resources like Eucalyptus and Poplar trees which are ideal raw material for manufacturing MDF.

Tax benefits to boost profit margins

The plant at Nagaland enjoys 100 percent corporate tax and excise exemptions for ten years, from FY06 onwards. This plant has a total production capacity of 4.5 mn sq. mtr, which accounts for an 18.8 percent share of the total plywood production. The plant at Uttarakhand also enjoys the same exemptions, but its corporate tax exemption is likely to come down to 30 percent in FY12E. This plant has a total production capacity of 10.5 mn sq. metres, which accounts for nearly 43.8 percent of the total plywood production. The two plants together account for around 62.6 percent of the total plywood production capacity of GIL.

The new laminate plant at Nalagarh and MDF plant at Pantnagar enjoy 100 percent central excise duty waiver for 10 years and 100 percent corporate tax exemption for the first five years and 30 percent for the next five years.

The new laminates and MDF capacities were created in fiscally-friendly zones in FY10. Consequently, the proportion of revenues to be derived from these zones will increase from 39.34 percent in FY10 to an estimated 50 percent in FY12

Quarterly Result Analysis

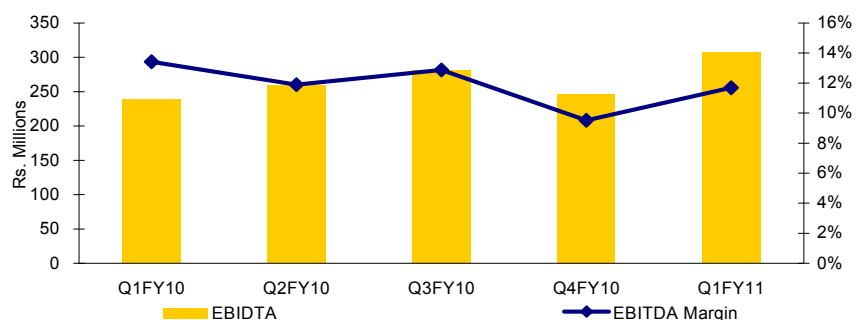
For the quarter ended June 2010, GIL reported an increase of 47.72 percent y-o-y and 1.31 percent q-o-q in net sales to Rs. 2,623.70 million as against Rs. 1,776.13 million reported in Q1FY10. The increase in the sales y-o-y was mainly driven by better capacity utilisation and additional growth in volume from the new laminate unit which started in FY10.

EBITDA margin contracted by about 174 bps y-o-y to 11.69 percent in Q1FY11 from 13.43 percent in Q1FY10 mainly on account of increase in raw material cost which increased by nearly 55 percent to Rs. 1,508.64 million. EBIT margin registered a decline of nearly 288 bps y-o-y to 7.93 percent in Q1FY11 from 10.81 percent in Q1FY10 primarily due to more than 110 percent increase in depreciation expense which stood at Rs. 98.63 million as compared to Rs. 46.52 million in Q1FY10.

MDF plant is expected to generate revenues to the tune of Rs. 3750 million by 2014 when it achieves 100 percent capacity utilization

Raw material cost as a percentage of sales increased from 55.01 percent in Q1FY10 to 57.50 percent in Q1FY11 leading to lower EBITDA margins

Exhibit: Trend in EBITDA & EBITDA Margin

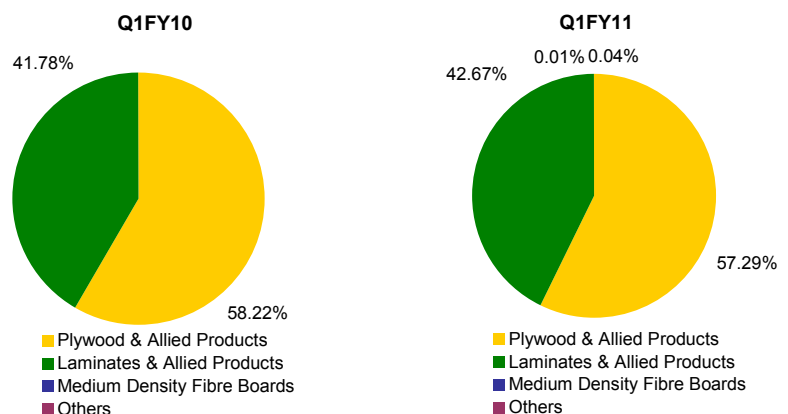


Source: Company, Kredent Research Advisors

Net profit, during Q1FY11, was down 4.89 percent y-o-y and 21.73 percent q-o-q to Rs.103.91 million as compared to Rs. 109.25 million reported in Q1FY10. The decline in the profit was on account of very high interest costs which increased 58.98 percent and 57.10 percent q-o-q to Rs. 87.44 million. The increase in the interest cost was on account of huge capital expenditure, which GIL incurred over last few years to set up new plants and enhance capacity additions

During Q1FY11, plywood and allied products accounted for 57.29 percent of total revenues. The segment registered a 48.25 percent y-o-y increase to Rs. 1,704.63 million as compared to Rs. 1,149.84 million in Q1FY10. Average capacity utilization increased to 124 percent from 98 percent in Q1FY10 while average realisations increased to Rs. 198 per sq mtr as compared to Rs. 174 per sq mtr in Q1FY10.

Exhibit: Segmental Revenue



Source: Company, Kredent Research Advisors

During Q1Y11, MDF boards segment contributed just 0.04 percent i.e. Rs. 1.13 million as the plant started operation in this quarter only

During Q1FY11, laminates and allied products accounted for 42.67 percent of total revenues. The segment registered a 53.85 percent y-o-y increase to Rs. 1,269.61 million as compared to Rs. 825.22 million in Q1FY10. Average capacity utilization decreased to 86 percent from 105 percent in Q1FY10 in spite of capacity addition. However, Average utilisation of the laminate segment increased to Rs 471 per sheet versus Rs 441 per sheet in Q1FY10. The MDF segment during the same period contributed just 0.04 percent i.e. Rs. 1.13 million as the plant commenced operation in this quarter only.

Exhibit: Quarterly Profit & Loss Account

Figures in Millions

Particulars	Q1FY11	Q1FY10	Q4FY10	%Chg (y-o-y)	%Chg (q-o-q)
Total Income	2,623.70	1,776.13	2,589.80	47.72	1.31
Total Expenditure	2,316.89	1,537.54	2,343.19	50.69	(1.12)
EBITDA	306.81	238.59	246.61	28.59	24.41
EBITDA Margin (%)	11.69	13.43	9.52	-173.9bps	217.1bps
Depreciation	98.63	46.52	62.58	112.02	57.61
EBIT	208.18	192.07	184.03	8.39	13.12
EBIT Margin (%)	7.93	10.81	7.11	-287.9bps	82.9bps
Other Income	0.00	0.00	0.03	-	-
Interest	87.44	55.00	55.66	58.98	57.10
PBT & Extraordinary Items	120.74	137.07	128.40	(11.91)	(5.97)
PBT Margin (%)	4.60	7.72	4.96	-311.5bps	-35.6bps
Extraordinary Items	0.00	0.00	0.00	-	-
Profit before Tax & Extraordinary Items	120.74	137.07	128.40	(11.91)	(5.97)
Tax	16.83	27.82	-4.35	(39.50)	(486.90)
Profit After Tax but before Minority Interest	103.91	109.25	132.75	(4.89)	(21.73)
Minority Interest	0.00	0.00	0.00	-	-
Profit After Tax (PAT)	103.91	109.25	132.75	(4.89)	(21.73)
PAT Margin (%)	3.96	6.15	5.13	-219.1bps	-116.5bps
Diluted EPS	4.31	6.43	5.50	(32.97)	(21.64)

Source: Company Data, Kredent Research Advisors

Comparative Valuation

Exhibit: Comparative Landscape

Figures in Millions

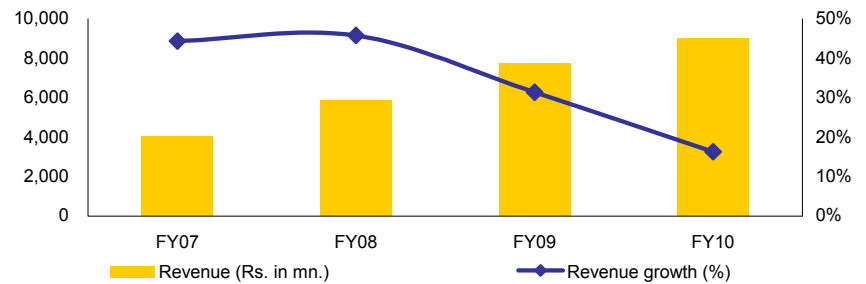
Particulars	Greenply Industries	Century Plyboards	Uniply Industries	Jolly Board
Total Income	8,990.24	12,623.00	868.54	1,308.76
EBIDTA	919.79	2,455.76	6.33	792.78
EBIDTA Margin (%)	10.23	19.45	0.73	60.57
Net Profit	406.80	1,831.83	(33.27)	513.67
Net Profit Margin (%)	4.52	14.51	(3.83)	39.25
Diluted EPS (Rs)	20.08	8.24	(2.67)	112.42
BVPS (Rs)	99.94	24.15	11.88	203.29
CMP (25-August-2010)	201.80	66.85	14.00	505.00
P/E (x)	10.05	8.11	-	4.49
P/BV (x)	2.02	2.77	1.18	2.48
Interest Coverage Ratio (x)	2.90	7.97	-	135.51
Debt/Equity (x)	1.68	0.86	3.67	0.04
ROE (%)	18.42	34.14	-	55.57
EV/EBIDTA (x)	9.20	7.82	35.12	2.22
EV/Total Income (x)	0.94	1.52	0.26	1.34

Source: Company Data, Kredent Research Advisors

Performance of the Company

Revenue & Revenue Growth

Exhibit: Revenue vs Revenue growth

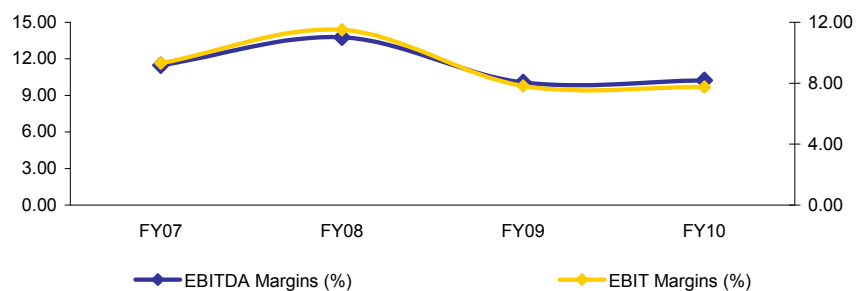


Over the last three, revenue has grown at a CAGR of 30.25 percent

Source: Company Data, Kredent Research Advisors

EBITDA & EBIT Margins

Exhibit: EBITDA Margins vs EBIT Margins

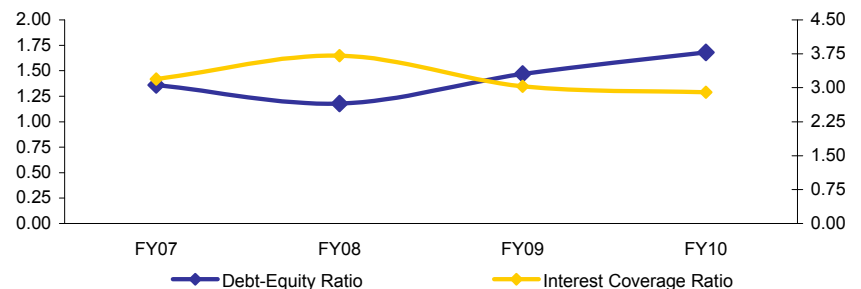


EBITDA margin improved marginally by 17 bps to 10.23 percent in FY10 on account of increased sales, while EBIT margin declined by 8 bps to 7.74 percent due to 29.35 percent increase in depreciation expense

Source: Company, Kredent Research Advisors

Debt / Equity Ratio & Interest Coverage Ratio

Exhibit: Debt Equity Ratio vs Interest Covaeage Ratio

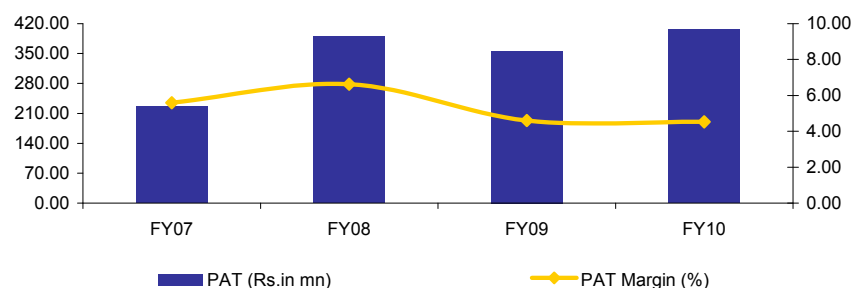


During FY10, debt equity ratio increased from 1.47 in FY09 to 1.68 in FY10 while interest coverage ratio decreased from 3.03x in FY09 to 2.90x in FY10

Source: Company, Kredent Research Advisors

PAT & PAT Margin

Exhibit: Trend in PAT and PAT Margin



Net profit margin of the company is in a declining phase over last three years due to higher ad spend, interest cost and depreciation expense

Source: Company, Kredent Research Advisors

GIL's plywood division targets the mid and premium segments where the cost is Rs 45 to Rs 65 per sq. ft. MDF costs less than half and will target consumers using low-quality non-branded plywood

The MDF plant commenced operations from March 31st, 2010 and is expected to achieve 45 percent capacity utilisation by the end of 2010-11

ROE of the company has been on a declining trend over the last three years

During FY10, GIL repaid Rs 264.2 million of debt and it intends to repay Rs 40 million in FY11

Financials

GIL revenue's for FY10, increased by 16.28 percent y-o-y to Rs.8,990.24 million as compared to Rs.7,731.60 million reported in FY09, largely owing to better rural penetration, improved realisations of both plywood and decorative veneers, enhanced laminates capacity and production and introduction of value-added products. EBIT margin declined by 8 bps to 7.72 percent in FY10 from 7.84 percent in FY09 on account of higher depreciation expense. Net profit for FY10 improved by 14.24 percent to Rs. 406.8 million from Rs. 356.09 million in FY09 as the effective tax rate decreased due to MAT credit entitlement, in spite of increased interest cost.

During FY10, GIL commenced export of plywood to 10 new countries. GIL penetrated the largely untapped rural market by appointing 24 rural sales distributors in various states, who generated revenues to the tune of Rs 300 million in FY10. Further, GIL planned to foray into the technical plywood segment through the introduction of compressed plywood in the Gujarat unit (operation to commence in H2FY11). The MDF plant commenced operations from March 31st, 2010 and is expected to achieve 45 percent capacity utilisation by the end of 2010-11 (Rs 1,500 million approx topline) and 100 percent capacity utilisation by 2013-14.

ROE of the company has been on a declining trend over the last three years mainly due to lower net profit margins and higher debt equity ratio. Net debt equity ratio increased from 1.47 in FY09 to 1.68 in FY10 due to an increase in term loans to fund expansion. Interest coverage ratio declined from 3.03x in FY09 to 2.9x in FY10, in spite of 20.5 percent improvement in EBIT (Rs. 696.12 million), due to increase in interest cost by 15.1 percent to Rs. 240.15 million.

Exhibit: Annual Financials

Figures in Millions

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	4035.69	5884.20	7731.60	8990.24
<i>Growth (%)</i>	44.37	45.80	31.40	16.28
EBITDA	462.60	810.23	777.45	919.79
<i>EBITDA Margin (%)</i>	11.46	13.77	10.06	10.23
EBIT	375.83	677.26	604.54	696.12
<i>EBIT Margin (%)</i>	9.31	11.51	7.82	7.74
PBT	266.38	504.75	426.80	481.20
Tax	40.46	114.64	70.71	74.40
PAT	225.92	390.11	356.09	406.80
<i>PAT Growth (%)</i>	60.42	72.67	-8.72	14.24
PAT Margins (%)	5.60	6.63	4.61	4.52
Diluted Earning Per Share (EPS)	13.85	22.63	21.59	20.08
<i>EPS Growth (%)</i>	34.21	63.39	-4.60	-6.99
Book Value Per Share (BVPS)	53.12	75.64	96.45	99.94
P/E (x)	7.79	13.12	1.92	9.61
P/BV (x)	2.03	3.92	0.43	1.93
Interest Coverage Ratio (x)	3.19	3.71	3.03	2.90
Net Debt / Equity Ratio (x)	1.36	1.18	1.47	1.68
Current Ratio (x)	2.00	1.96	2.08	1.57
ROE (%)	25.85	30.34	21.72	18.42
ROA (%)	10.23	12.23	9.21	7.37
EV/EBITDA (x)	6.72	8.26	4.07	9.20
EV/Total Income (x)	0.77	1.14	0.41	0.94

Source: Company Data, Kredent Research Advisors

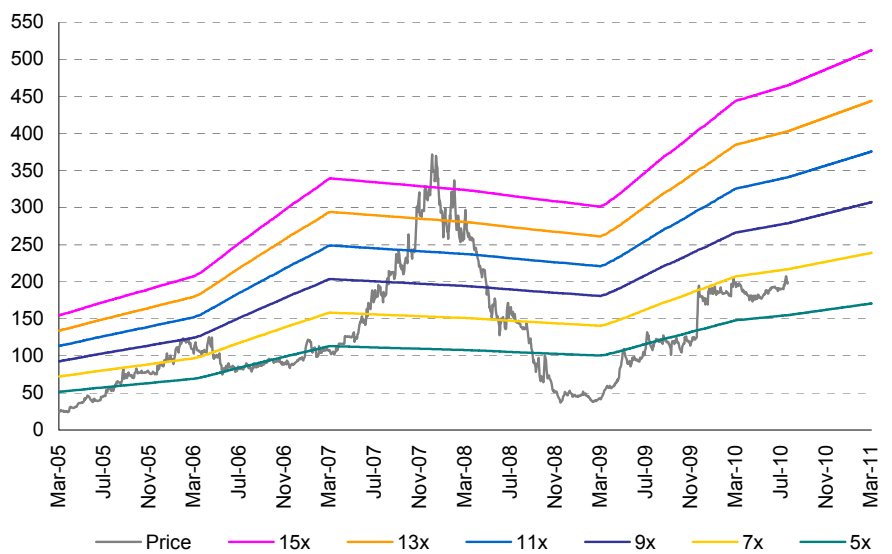
We arrive at a 9 month price target of Rs.273.20/share, reflecting an upside potential of 35.88 percent from current levels. So, we rate GIL a 'Buy' seeing its potentiality going forward

Valuation

Historically, over the last five years the company has traded at an average price earning multiple (P/E) of over 8.5x. Moreover, on an average it has also traded at a one year forward P/E band of 7-10x given its strong five year earning's CAGR of around 50.44 percent. As per Bloomberg estimates, GIL earnings for FY11 and FY12 is expected to grow at 48 percent and 15 percent to Rs.29.63/share and Rs.34.15/share respectively. Hence, given the expected growth rate of 48 percent in FY11, followed by 15 percent in FY12, we believe market to assign a forward P/E of around 8x with an EPS of over 34.15/share. Therefore, we arrive at a 9 month price target of Rs.273.2/share, reflecting an upside potential of 35.88 percent from current levels.

Price Earning (P/E) Band

Exhibit: One Year Forward P/E Band



Source: Company Data, Bloomberg Estimates, Kredent Research Advisors

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BUY	Analyst value of the stock is > 20 percent from the current market price
HOLD	Analyst value of the stock is between +20 percent and -20 percent from the current market price
REDUCE	Analyst value of the stock is < -20 percent from the current market price

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