# GREENPLY INDUSTRIES LTD.

24th August, 2010.

SENSEX: 18312
NIFTY : 5505

Recommendation: BUY
Target Price : Rs 242

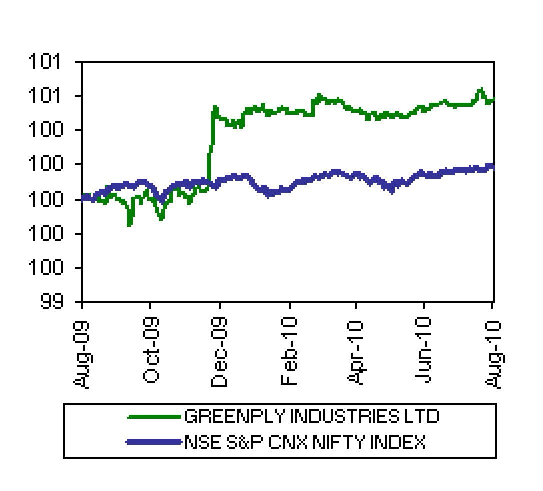
| Key Statistics | |
|---|---|
| Latest Price | 194.3 |
| 52 Week High | 213.8 |
| 52 Week Low | 99.8 |
| Traded on | BSE,NSE |

| Share Holding Pattern | |
|---|---|
| Promoters | 55.0% |
| FIIs | 7.4% |
| DIIs | 5.4% |
| Others | 32.2% |

| Market Data | |
|---|---|
| PE Ratio | 10.7 |
| EPS | 18.2 |
| Market Cap (Cr) | 429.2 |
| Outstanding Shares(Cr) | 2.2 |
| Book Value/Share(Rs) | 118.6 |
| Beta | 0.9 |
| Face Value | 5.0 |

| Technical Indicators | |
|---|---|
| 200 day MA | 176.7 |
| 100 day MA | 187.3 |
| 50 day MA | 191.8 |

Nifty Vs Stock Movement



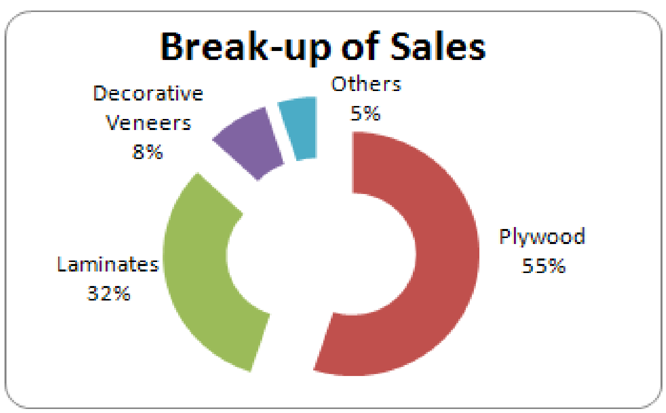

## Company Overview:

Greenply Industries was established as a small unit in Nagaland by Mr. Shiv Prakash Mittal in 1984. It is the only company in India to cater to all segments of interior infrastructure industry. The Company manufactures interior infrastructure products like: Plywood, Block board, Flush doors, decorative veneers, laminates and medium density fireboards (MDF).

Popular brands include Greenply plywood, Greenclub premium ply, Greenlam laminates, Green Decowood and Ecotech. The Company's flagship decorative laminate brand 'Greenply' is exported to more than 50 countries. Currently, Greenply has become the largest laminate company in Asia and the 5th largest globally in terms of capacity.

The Company has 7 manufacturing facilities located across India at Tizit (Nagaland), Kriparampur (West Bengal), Nalagarh (Himachal Pradesh) and 2 units at Pantnagar (Uttarakhand).

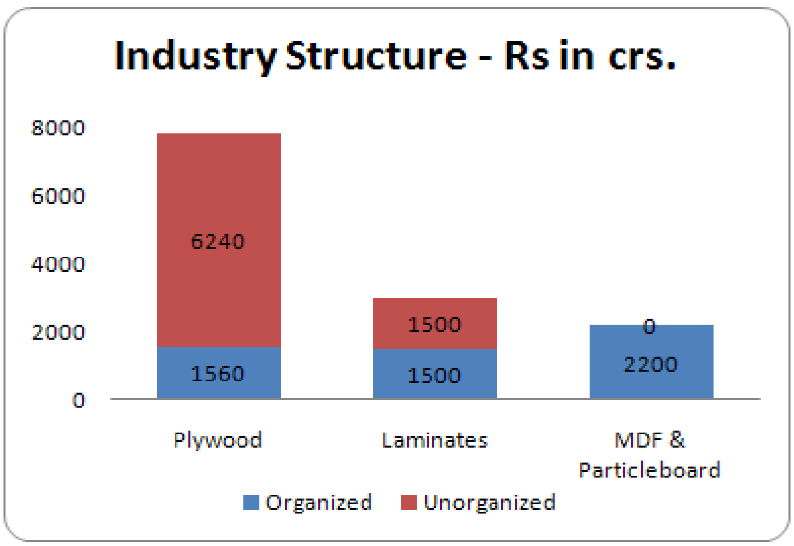
Greenply Industries Ltd. has more than 32 marketing offices across all state capitals and major cities of India. It has a strong network of more than 12000 distributors, dealers, sub-dealers and retailers. The Company holds almost 30% share of India's organized plywood market and 18% of India's organized laminates market.



## Industry Overview:

According to industry estimates, the Indian interior infrastructure industry is poised to grow at the rate of 10% p.a. over the foreseeable future. Plywood consists of around 60% of the interior infrastructure industry and hence, is all set to gain maximum benefit from this growth. Further, India’s real estate sector is expected to grow from USD 14 billion to around USD 50 billion by 2020. This will increase the share of real estate in India’s GDP from the current 5% to 6% in the coming 5 years.

India’s per capita income has doubled over the past 7 years and is expected to increase to USD 2000 by 2016-17 and USD 4000 by 2025. Increasing per capita income has boosted consumption of lifestyle products like furniture. Further, traditionally people in India have always invested heavily in real estate assets. Buying a home has become more feasible due to easy availability of loans and double income families. All this augurs well for interior infrastructure companies which will grow hand in hand with India’s growth story.




## Investment Rationale:

### 1. Financial Performance:

- **1st Quarter ended June 2010:** For the 1st Quarter ended June 2010, Sales of Greenply Industries Ltd rose 47.7% to Rs. 262 crore as against Rs. 178 crore during the previous quarter ended June 2009. The Company registered an EBITDA growth of 29% YoY, while operating margins dropped to 11.7% from 13.4%, due to increase in cost of raw materials. Net profit of the Company declined by 5% YoY to Rs 10.39 cr in 1QFY11 as compared to Rs 10.93 in 1QFY10, while EPS dropped to Rs 4.7 from Rs 6.4 over the same period. The reason for this degrowth was the increase in depreciation charges due to commencement of new manufacturing facilities during the quarter.

- **Full Year ended March 2010:** For the full year ended March '10, the Company's Net revenue increased by 20.22% to Rs 871 cr from Rs 725 cr. EBITDA decreased marginally by 1% to Rs 93.5 cr from Rs 94.8 cr. This decline was due to volatility in the currency markets and increased ad spends. Greenply Industries reported a 33% increase in Net Profits to Rs 50 cr in FY10 from Rs 37 cr in FY09. The Net Profit margin strengthened by 54 basis points to 5.69% from 5.15% over the period of a year.

  Some Key Highlights for the year under Review:

  1. Production of plywood increased by 15% YoY to 26.36 mn. sq. mtr. in FY10 from 22.97 mn sq. mtr. in FY09, with an average capacity utilization of 110%.
  2. Production of laminates increased by 26% YoY to 7.20 mn. sheets in FY10 from 5.72 mn sheets in FY09, with an average capacity utilization of 107%.
  3. However, production of decorative veneer decreased by 5% YoY to 1.19 mn. sq. mt. in FY10 from 1.25 mn. sq. mt. in FY09, with an average capacity utilization of 28%.
  4. The Company's Nalgarh unit became operational with a 4.68 mn sheets per annum cumulative laminates capacity.

**DETAILS OF MANUFACTURING UNITS**

| Unit | Capacity (Sq. Mtr.) | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | Actual Capacity | Capacity Utilisation (%) | Actual Capacity | Capacity Utilisation (%) | Actual Capacity | Capacity Utilisation |
| Tizit, Nagaland | 45 lac | 92% | 45 lac | 102% | 45 lac | 100% |
| Kriparampur, West Bengal | 60 lac | 101% | 60 lac | 106% | 60 lac | 108% |
| Bamanbore, Gujarat | N.A. | N.A. | 30 lac | 67% | 30 lac | 121% |
| Pantnagar, Uttarakhand | 105 lac | 76% | 105 lac | 95% | 105 lac | 112% |
| Behror, Rajasthan | 53 lac | 91% | 53 lac | 107% | 53 lac | 111% |
| Behror, Rajasthan (Decorative veneers) | 21 lac | 65% | 42 lac | 34% | 42 lac | 28% |
| Nalagarh, Rajasthan | N.A. | N.A. | N.A. | N.A. | 46 lac | 90% |

## 2. MFD to drive growth:

Medium Density Fireboard (MDF) is widely used by furniture manufactures globally, as it is cost-effective, easier to apply and more flexible than plywood. However, furniture manufacturers in India use plywood rather than MDF and particleboard products. But, more recently, the Government has reduced the issue of new licenses on addition of new capacities for production of plywood. This will result in shortage and thus lift up the prices of plywood. In the coming years, demand for plywood is expected to increase at a CAGR of 5-7%. This increasing demand will have to be met by MDF. Greenply will be the first company in India to produce substitutes for imported MDF, thus giving the Company a competitive edge.

The reasons for growth of MDF are as follows:

- Around 70% of the current demand is met by imports.
- Only 5 organized players produce MDF.
- Government has imposed anti-dumping duty on MDF.

Further, significant trade barriers like Central Govt. control on issue of new licenses, considerable amount of start-up capital required and frequent non-availability of raw materials deter new entrants in this industry. However, established players like Greenply can only benefit from the increase in demand for MDF.

Greenply Industry Ltd's customers include Godrej Boyce, BlowPlast and Featherlite, who are among the leading modular furniture manufacturers in India.

**3. Expanding through subsidiaries:**

Greenply Industries currently export to more than 15 countries. Exports constitute to nearly 11% of total revenues of the Company. Greenply Industries has recently launched massive advertisement campaign to promote its 'Greenlam' brand. The Company is also in the process of establishing this brand internationally by appointing distributors in the middle-east countries and Russia. Representative offices have been opened in Singapore and Dubai to promote the brand and strengthen the marketing network. It has acquired Greenlam Asia Pacific Pte Ltd, as a wholly owned subsidiary, to explore new markets for laminates in south-east Asian countries. GIL has also promoted Greenlam America, Inc. as a wholly owned subsidiary, for marketing and distributing laminates in North America. All these subsidiaries are expected to contribute to growth of the Company in the near future.

## Key Concern:

**Foreign Exchange Fluctuations:** The Company imports almost 36% of the raw materials from US & Europe. Greenply also earns significant portion of revenues from exports. This acts as a natural hedge against fluctuations in foreign exchange. 40% of the imports are naturally hedged against exports, but the rest of the raw materials of not hedged. However, off late the company has commenced hedging its net outstanding foreign exchange exposure.

## Peer Comparison:

| Company | Latest Price | Equity Base (Cr) | FY 2010 (Rs in Cr) | | PAT Margins | EPS |
|---|---|---|---|---|---|---|
| | | | Sales | PAT | | |
| GREENPLY INDUSTRIES LTD | 194.3 | 11.0 | 959.9 | 40.7 | 4.2% | 18.2 |
| CENTURY PLYBOARDS INDIA LTD | 64.0 | 22.2 | 1,162.5 | 146.1 | 12.6% | 6.6 |

## Financial Performance:

(Rs. In Cr.)

| ANNUAL RESULTS | 201003 (12) | 200903 (12) | 200803 (12) | 200703 (12) |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Operating Income | 959.9 | 833.3 | 635.3 | 436.6 |
| Total Income | 981.1 | 855.6 | 659.1 | 454.8 |
| Operating Profit | 97.9 | 83.0 | 83.4 | 47.8 |
| Gross Profit | 70.5 | 60.0 | 63.8 | 35.3 |
| Profit Before Tax | 48.1 | 42.7 | 50.5 | 26.6 |
| Net Profit | 40.7 | 35.6 | 39.0 | 22.6 |
| Adjusted Net Profit | 40.6 | 35.7 | 39.0 | 22.8 |
| EPS (Rs) | 18.2 | 19.3 | 20.9 | 12.4 |
| Book Value (Unit Curr.) | 118.2 | 105.0 | 86.7 | 65.0 |
| Debt equity Ratio | 1.7 | 1.5 | 1.2 | 1.4 |
| **Balance Sheet** | | | | |
| **SOURCES OF FUNDS :** | | | | |
| Share Capital | 11.1 | 8.5 | 8.5 | 8.2 |
| Reserves Total | 251.1 | 171.0 | 139.9 | 99.9 |
| Total Shareholders Funds | 262.2 | 179.5 | 148.4 | 108.2 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Secured Loans | 399.4 | 198.2 | 137.5 | 126.8 |
| Unsecured Loans | 41.2 | 65.4 | 37.5 | 21.2 |
| Total Debt | 440.6 | 263.6 | 175.0 | 148.0 |
| Net Deferred Tax | 19.0 | 12.6 | 12.3 | 5.8 |
| ***Total Liabilities*** | ***721.8*** | ***455.7*** | ***335.7*** | ***262.0*** |
| **APPLICATION OF FUNDS :** | | | | |
| Net Block | 544.1 | 199.9 | 180.7 | 135.4 |
| Capital Work in Progress | 13.5 | 51.7 | 5.1 | 12.9 |
| Investments | 0.1 | 0.1 | 0.1 | 0.1 |
| Total Current Assets | 453.3 | 391.5 | 305.3 | 228.8 |
| Total Current Liabilities | 289.6 | 188.0 | 155.5 | 115.2 |
| Net Current Assets | 163.7 | 203.6 | 149.8 | 113.6 |
| Miscellaneous Expenditure Not w/of | 0.4 | 0.5 | 0.1 | 0.0 |
| ***Total Assets*** | ***721.8*** | ***455.7*** | ***335.7*** | ***262.0*** |

* Results for all years are on consolidated basis

** Company Annual Reports

## Valuation:

Based on fundamental analysis, at an estimated EPS of Rs. 22 for FY11E and PE of 11x, we recommend a 'BUY' on Greenply Industries with a target price of Rs. 242, a potential upside of 24%.

## Technical Analysis:

Source: Bloomberg, weekly Chart, Greenply Industries.

Technically, Greenply Industries is consolidating in narrow range over a period of 6 months. The stock is currently trading well above its 50 & 100 week exponential moving average (i.e. standing respectively at 169 &153). Relative strength Indicator is in neutral area. This configuration is mixed. So, we advise long term investors to accumulate this scrip around 175 -180 levels for target of 232 levels.

Note:

Recommendations that are given are purely based on technical analysis. While utmost care has been taken to give the recommendation, the analyst or the organization does not take any responsibility for the consequences of this recommendation. Investors who trade on the basis of these recommendations do so purely at their own risk.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**Disclosure of Interest Statement in Greenply Industries Ltd. as on 24th August 2010:**

| | |
|---|---|
| 1. Name of the analyst | : Praveen Kumar Dodda, Priyanka Damle |
| 2. Qualifications of the analysts | : B.E., MBA; B.Com, C.A. |
| 3. Analysts' ownership of any stock related to the information contained | : NIL |
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