BUILDING MATERIALS SECTOR

Multiple tailwinds for a cheerful new year!

Building Materials

This report covers 15 major building material companies within the three categories of wood panel, tiles, and plastic pipes. The demand outlook for these materials is positive due to factors like urbanisation, increased investment towards infrastructure projects, and a rebound in the housing and commercial real estate markets. The wood panel segment, in particular, is expected to see strong growth in the coming years, with major opportunities in the MDF and particle board markets. The exports of tiles and laminates are expected to pick up again after a muted 2022, and MDF export is already gaining traction. Additionally, the cool-off in natural gas and chemical prices and the sharp fall in PVC resin prices should help these companies recover their margins. The report includes initiation coverage on Century Ply (BUY, TP 715), Greenpanel (BUY, TP 430), and Greenlam (ADD, TP 360) in the wood panel segment, running coverage on Kajaria (BUY, TP 1,430) and Somany (BUY, TP 800) in the tiles segment, and coverage on Supreme Ind (ADD, TP 2,580), Astral (REDUCE, TP 1,940), and Prince Pipes (BUY, TP 705) in the plastic pipes segment.

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Building Materials

Multiple tailwinds for a cheerful new year!

This report covers 15 major building material companies within the three categories of wood panel, tiles, and plastic pipes. The demand outlook for these materials is positive due to factors like urbanisation, increased investment towards infrastructure projects, and a rebound in the housing and commercial real estate markets. The wood panel segment, in particular, is expected to see strong growth in the coming years, with major opportunities in the MDF and particle board markets. The exports of tiles and laminates are expected to pick up again after a muted 2022, and MDF export is already gaining traction. Additionally, the cool-off in natural gas and chemical prices and the sharp fall in PVC resin prices should help these companies recover their margins. The report includes initiation coverage on Century Ply (BUY, TP 715), Greenpanel (BUY, TP 430), and Greenlam (ADD, TP 360) in the wood panel segment, running coverage on Kajaria (BUY, TP 1,430) and Somany (BUY, TP 800) in the tiles segment, and coverage on Supreme Ind (ADD, TP 2,580), Astral (REDUCE, TP 1,940), and Prince Pipes (BUY, TP 705) in the plastic pipes segment.

- **Multiple tailwinds:** The building material sector in India is experiencing strong growth due to various favourable factors, including the country's urbanisation, a rebound in the real estate market, and growth in the hospitality and healthcare sectors. Affordable home loan rates and government investment in infrastructure projects are also driving demand for products like tiles, pipes, and wood panels. The demand for wood panels, specifically, is being fueled by an increase in the production of furniture made from plywood, MDF, and particle board. Additionally, India is seeing an increase in its share in global exports of tiles, laminates, and MDF. Overall, the outlook for the building material sector in India remains bright.

- We **initiate coverage on the wood panel sector**, focusing on the market leaders. These companies are well-equipped with modern manufacturing facilities and large distribution networks and are expanding into the high-growth MDF and particle board segments to capitalise on the expected 3x growth of the Indian furniture market over the next 15 years. We have analysed the performances of seven major players, excluding Balaji Action Buildwell (Action Tesa), whose financial details are not available.

- **Tiles—gas price decline and export recovery to boost pricing power:** The Indian market is experiencing strong demand, but export volume fell ~20% YoY in 10MCY22. This limited pricing power for domestic market-focused tiles majors like Kajaria, Somany, and Prism. Additionally, high gas prices have negatively impacted margins. However, gas prices are expected to decline Q3 onwards, providing relief. We anticipate that exports will rebound in CY23 due to India's cost and quality advantage, which should support increased volume and margin recovery for the tiles majors.

- **Plastic pipes—pent-up demand and margin recovery in the offing:** Despite volatile prices during 2021-2022, volumes of major players' are better than the pre-COVID levels. As PVC resins/pipes prices have cooled off, pent-up demand should boost revenue and profitability, in our view. Adjusted for the large, one-off inventory losses, EBITDA margins in H1FY23 for the major players are better off than their pre-COVID levels.

Companies	Rating	TP (INR)
Wood panel		
Century Ply **	BUY	715
Greenpanel **	BUY	430
Greenlam **	ADD	360
Greenply	N R	-
Stylam Ind	N R	-
Rushil Decor	N R	-
Merino India	*Unlisted*	-
Tiles		
Kajaria	BUY	1,430
Somany	BUY	800
Prism Johnson	N R	-
Exxaro Tiles	N R	-
Plastic Pipes		
Supreme Ind^^	ADD	2,580
Astral	REDUCE	1,940
Prince Pipes	BUY	705
Finolex Ind	N R	-

***Coverage initiation, NR= NOT RATED, ^^ Rating downgrade from BUY*

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Financial and valuation snapshot

Annual estimates

	Net Sales (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			Adj. PAT (INR bn)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Century Ply	36.27	40.54	46.37	5.74	6.84	7.99	*15.8*	*16.9*	*17.2*	3.68	4.16	4.63
Greenpanel Ind	18.90	19.62	22.52	4.28	3.93	4.38	*22.7*	*20.0*	*19.5*	2.34	2.41	2.61
Greenlam Industries	18.87	23.23	28.31	2.14	2.71	3.34	*11.3*	*11.7*	*11.8*	1.04	1.30	1.30
Kajaria Ceramics	47.88	57.57	65.41	6.73	9.12	10.67	*14.1*	*15.8*	*16.3*	4.17	5.86	6.84
Somany Ceramics	25.10	28.32	31.30	1.96	2.56	2.99	*7.8*	*9.0*	*9.6*	0.64	0.95	1.18
Supreme Ind	84.28	92.32	100.69	10.47	12.98	14.41	*12.4*	*14.1*	*14.3*	7.05	8.70	9.54
Astral Limited	55.08	67.08	77.39	8.03	10.87	12.56	*14.6*	*16.2*	*16.2*	4.96	6.95	8.23
Prince Pipes	23.67	25.86	30.19	1.95	3.35	4.04	*8.3*	*12.9*	*13.4*	0.80	1.81	2.27

Source: Company, HSIE Research, $ - Consol numbers

	NPM (%)			RoCE pre tax (%)			RoE (%)			Net D:E (x)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Century Ply	*10.2*	*10.2*	*10.0*	*25.5*	*23.1*	*21.0*	*21.5*	*20.3*	*19.1*	0.1	0.1	0.2
Greenpanel Ind	*12.4*	*12.3*	*11.6*	*26.7*	*21.7*	*20.7*	*22.2*	*18.9*	*17.4*	(0.0)	(0.0)	0.0
Greenlam Industries	*5.5*	*5.6*	*4.6*	*12.2*	*11.0*	*11.3*	*13.0*	*12.9*	*11.6*	0.5	0.8	0.6
Kajaria Ceramics	*8.7*	*10.2*	*10.5*	*22.9*	*29.1*	*30.4*	*18.1*	*22.6*	*23.3*	(0.1)	(0.1)	(0.1)
Somany Ceramics	*2.5*	*3.3*	*3.8*	*8.9*	*11.2*	*12.2*	*7.4*	*10.3*	*11.7*	0.6	0.6	0.6
Supreme Ind	*8.4*	*9.4*	*9.5*	*19.2*	*22.3*	*22.3*	*17.5*	*19.5*	*19.2*	(0.1)	(0.1)	(0.2)
Astral Limited	*9.0*	*10.4*	*10.6*	*23.3*	*26.7*	*26.7*	*18.6*	*21.3*	*21.2*	(0.2)	(0.3)	(0.3)
Prince Pipes	3.4	7.0	7.5	*8.4*	*17.2*	*19.1*	*6.1*	*12.8*	*14.3*	(0.1)	(0.1)	(0.2)

Source: Company, HSIE Research, $ - Consol numbers

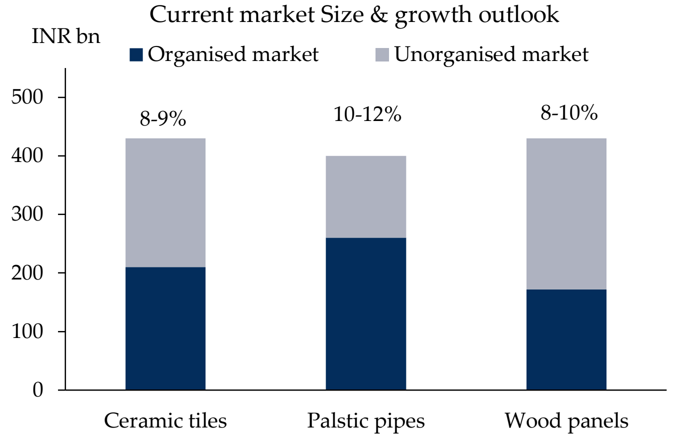
Rating and target price summary

Company	Mcap (INR bn)	CMP (INR/sh)	Rating	TP (INR)	Up/down side %	EV/EBITDA (x)			P/E (x)		
						FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Century Ply	114.8	516	BUY	715	39	20.2	17.2	14.9	31.2	27.6	24.8
Greenpanel Ind	41.8	341	BUY	430	26	9.6	10.6	9.6	17.8	17.4	16.0
Greenlam Industries	40.1	332	ADD	360	8	22.2	18.7	14.9	40.7	32.7	32.6
Kajaria Ceramics	183.1	1,150	BUY	1,430	24	26.8	19.8	16.9	43.9	31.3	26.8
Somany Ceramics	20.1	473	BUY	800	69	13.5	10.6	8.7	31.4	21.2	17.1
Supreme Ind	301.7	2,375	ADD	2,580	9	28.4	22.7	20.3	42.8	34.7	31.6
Astral Limited	404.9	2,011	REDUCE	1,940	(4)	49.8	36.4	31.1	81.5	58.2	49.2
Prince Pipes	66.2	599	BUY	705	18	33.2	19.2	15.6	83.3	36.6	29.2

Source: Company, HSIE Research ^Valuation is based on EV/EBITDA basis, on Mar'25E. CMP as on date Jan 3, 2023

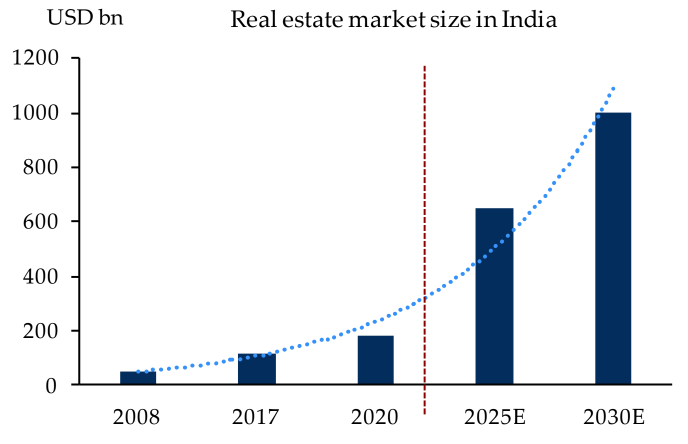
Story in Charts

All three building material segments estimated to grow at healthy pace



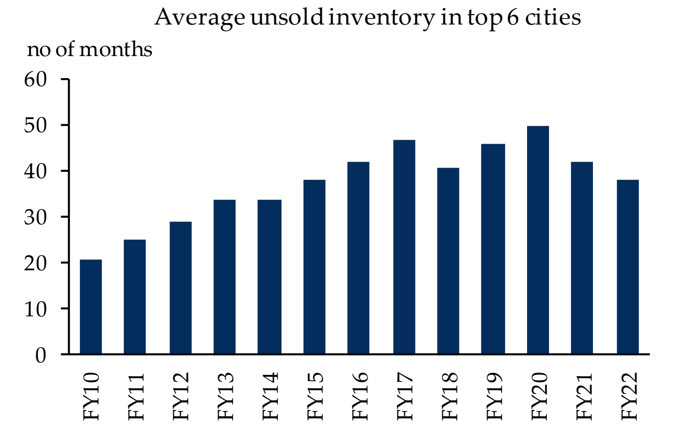
Source: Industry, HSIE Research

Indian real estate market expected to grow multi-fold in this decade



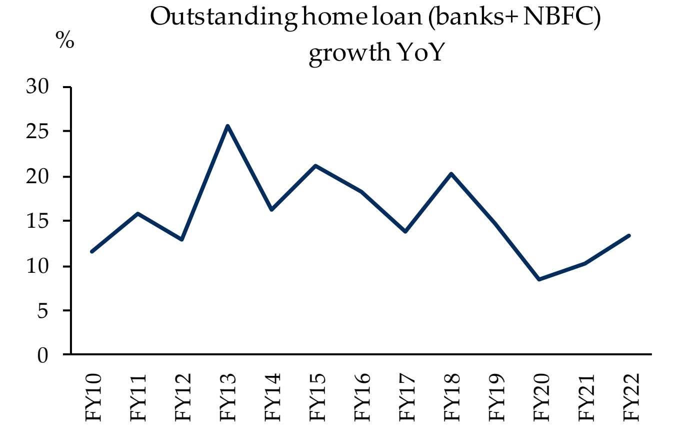
Source: Industry, HSIE Research

Unsold home inventories fallen to multi-year lows on robust sales; new constructions to pick up



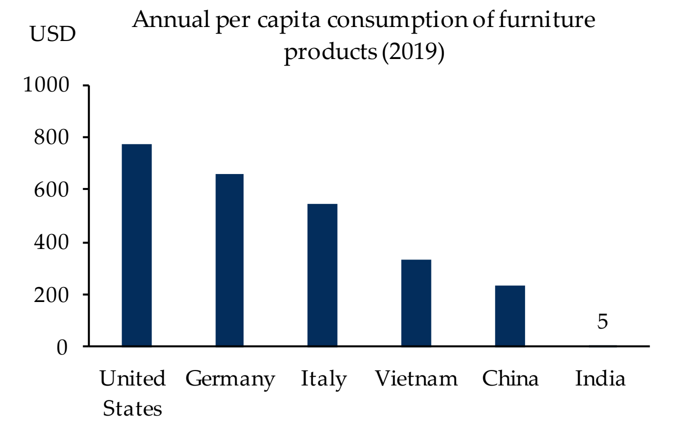
Source: Liases Foras, HSIE Research, Data for top-6 cities in India

Home loans continue to grow in double digits, barring in FY20 (hit by COVID)



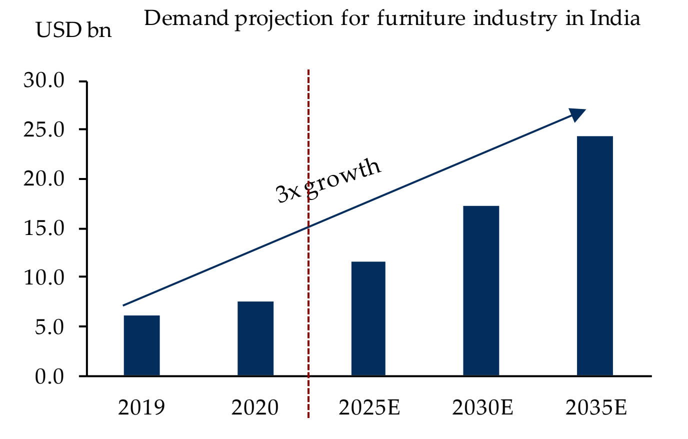
Source: Industry, RBI, HSIE Research

India significantly lags on its furniture products consumption intensity!



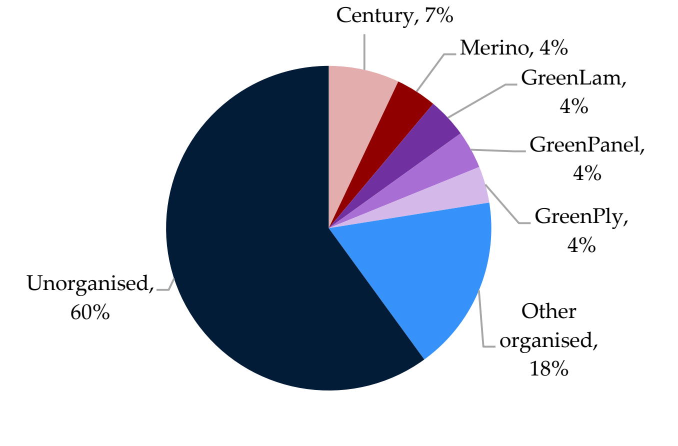
Source: HIS Markit, IKEA report, HSIE Research

Indian furniture market is expected to expand 3x during 2019-2035E, implying strong opportunity



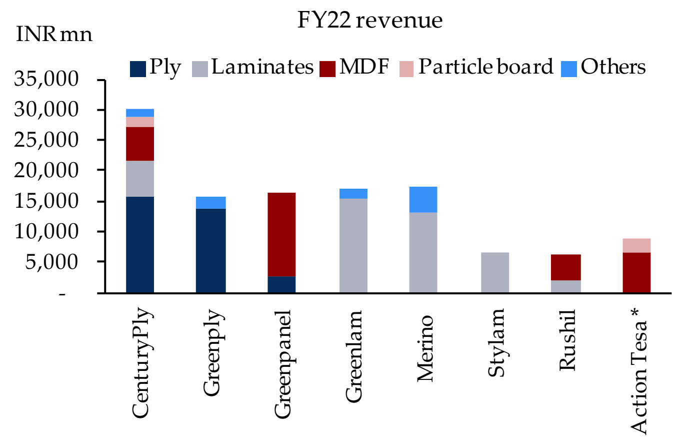
Source: PwC analysis, IKEA report, HSIE Research

Wood panels: top-5 players accounted for ~22% of total market in FY22



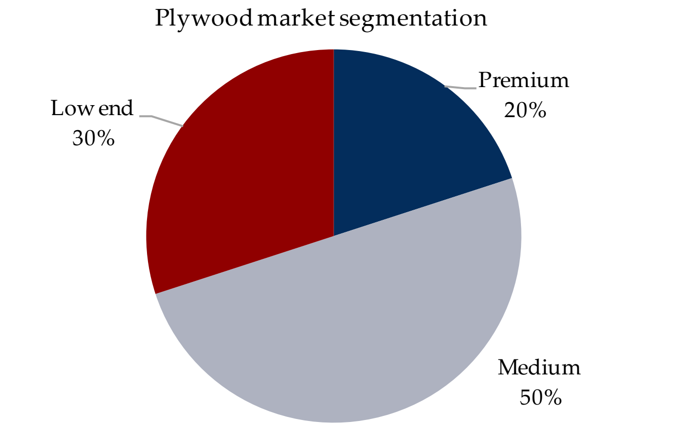
Source: Industry, HSIE Research

Revenue split of wood panel sector: Century Ply is the market leader and is present across multiple segments



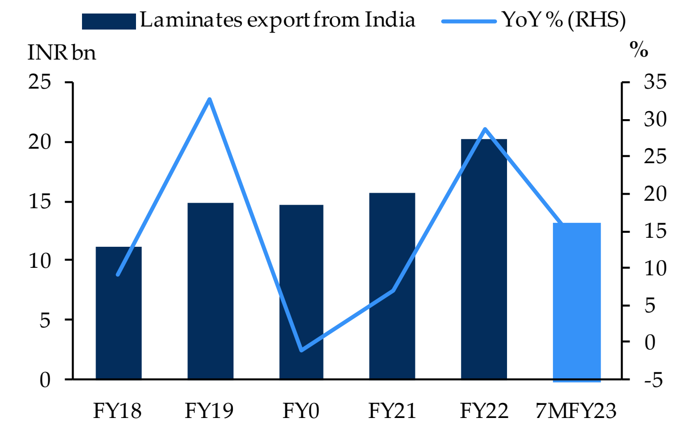
Source: Company, HSIE Research, *Action Tesa data pertains to FY20

Plywood: the low-end ply market is highly competitive and is facing replacement risk from MDF



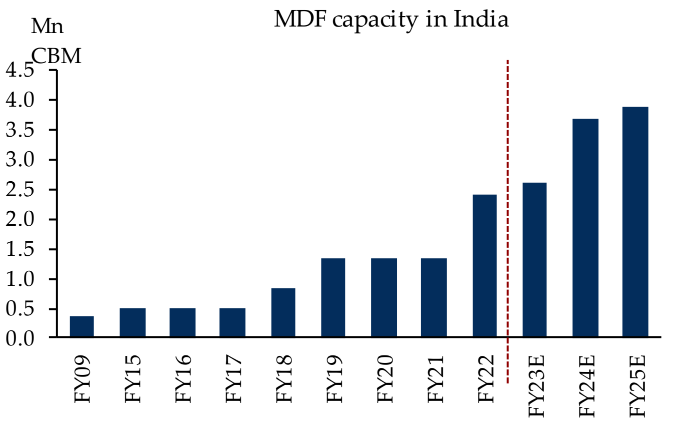
Source Industry, Companies, HSIE Research

Exports account for one-third of total revenues for Indian laminates sector



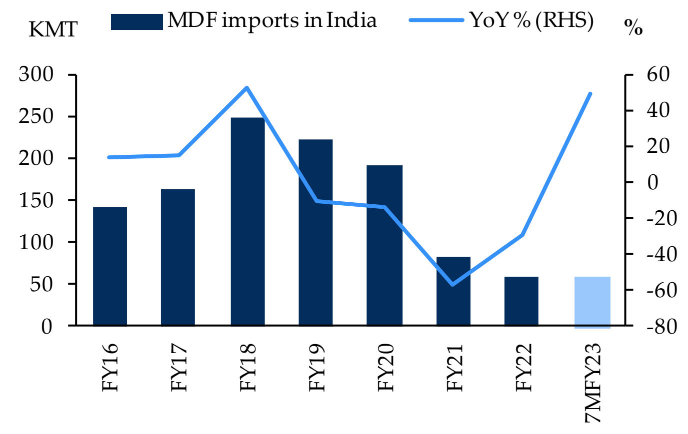
Source: GoI, HSIE Research

India is expanding MDF capacity at a fast pace; led by the major wood-panel companies



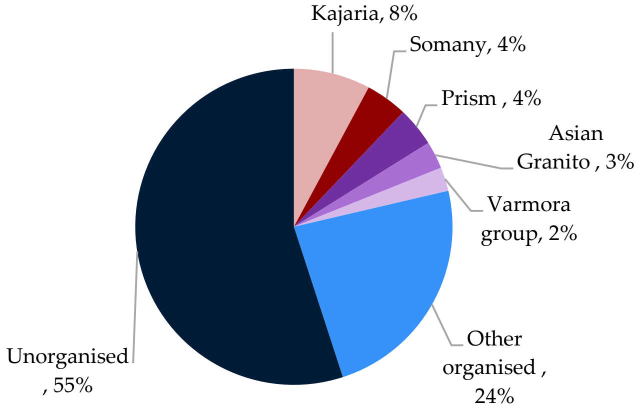
Source: Industry, HSIE Research

While MDF imports have started to pick up, it is still well below pre-COVID and hence less concerning



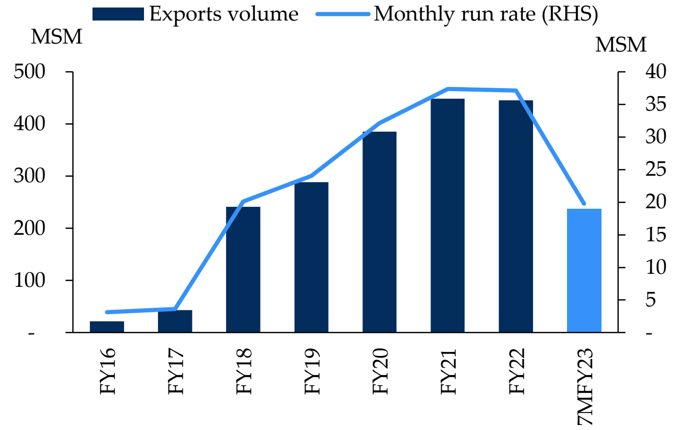
Source: GoI, HSIE Research

Ceramic tiles: top-5 players accounted for ~21% of total market in FY22



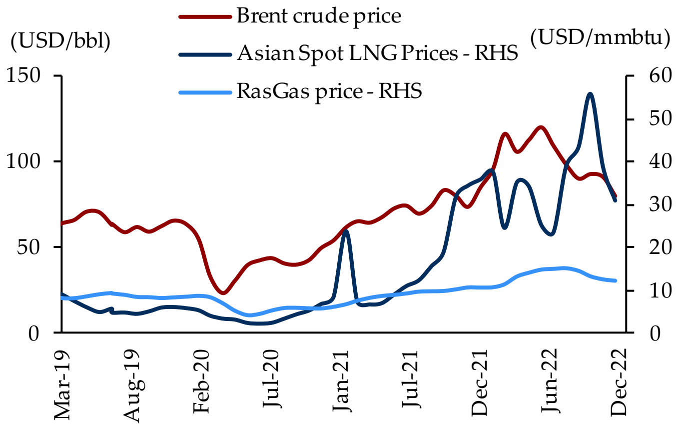
Source: Industry, HSIE Research

While tiles export volumes from India surged at a fast pace until FY21, it has come off ~17% YoY in 7MFY23



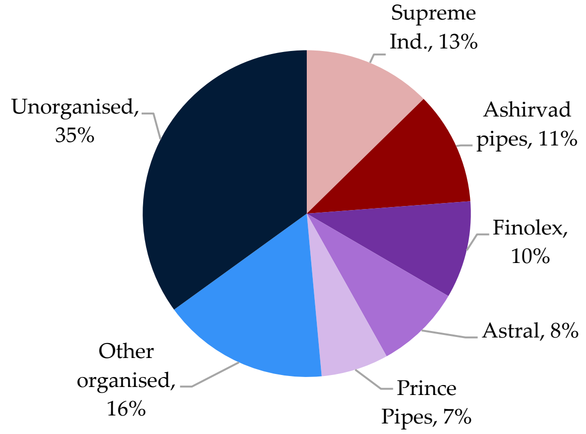
Source: CWR, HSIE Research

Tiles companies to benefit from the cool off in natural gas prices seen in Q3FY23



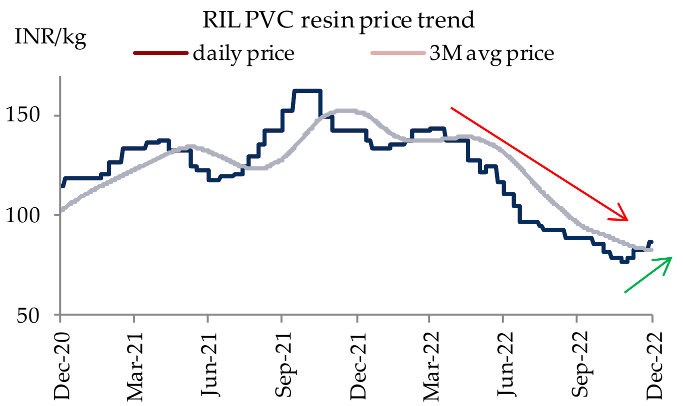
Source: Bloomberg, HSIE Research

Plastic pipes: top-5 players accounted for ~49% of total market in FY22



Source: Industry, HSIE Research

PVC prices have been volatile in the past one year; Post a major slump since Apr-22, it has stabilized recently



Source: Industry, HSIE Research

Inventory losses dented H1FY23 margins and impacted sales; Adjusted for the same, margins remain strong

H1FY23	Reported Inv Loss INR mn	Sales volumes K MT	Inventory loss INR/kg	Reported EBITDA INR/kg	Adjusted EBITDA INR/kg
Supreme	2,300	159	14.5	15.7	30.2
Finolex	1,181	131	9.0	2.4	11.4
Astral	700	77	9.1	31.7	40.7
Prince	850	70	12.2	4.7	16.9
Apollo	170	30	5.7	7.5	13.2

Source: Companies, HSIE Research

Contents

Executive summary of 15 companies ... 7
Strong outlook for India's building material sector ... 10
Indian furniture market—large room to grow ... 13
Initiating coverage on the wood panel sector ... 14
Plywood—mid and premium segments drive growth ... 15
Laminates—margins to rebound; exports remain buoyant ... 16
MDF segment expected to grow the fastest ... 168
Particle boards—major players to take over the market ... 22
Key trends for wood panel companies ... 23
Ceramics Tiles – trends and outlook ... 25
Exports on a super high; domestic demand steady ... 25
Elevated gas prices drag tile margins down ... 26
Margin recovery in sight ... 27
Key operating trends for tiles companies ... 27
Plastic Pipes: trends and outlook ... 30
Resin prices bottoming out ... 30
Demand for pipes should rebound ... 31
Key operating trends for the Pipes companies under coverage ... 32
Wood Panel Companies ... 304
Century Ply ... 35
Greenpanel Industries ... 49
Greenlam Industries ... 63
Greenply Industries ... 76
Stylam Industries ... 77
Rushil Decor ... 78
Merino India ... 79
Tiles Companies ... 80
Kajaria Ceramics ... 81
Somany Ceramics ... 84
Prism Johnson ... 87
Exxaro Tiles ... 88
Plastic Pipes Companies ... 89
Supreme Industries ... 90
Astral ... 93
Prince Pipes ... 96
Finolex Industries ... 99

Executive summary of 15 companies

Wood panel sector

- **Century Ply - Firing on all cylinders:** We initiate coverage on Century Ply with a BUY rating and a target price of INR 715/sh (20x its Mar'25E consolidated EBITDA). We like Century for its strong franchise (pan-India distribution, aggressive marketing, and a wide range of SKUs), leadership presence in most wood segments and healthy return ratios. Enthused by demand tailwinds, the company is aggressively expanding in all segments (without stressing its balance sheet), which should maintain its leadership position as well as drive robust earnings growth (EBITDA/PAT 15/14% CAGRs during FY22-25E). It is expanding its MDF and particle board businesses (both high-margin) aggressively. Both segments are likely to grow at a faster rate within the wood panel industry.

- **Greenpanel Industries - Leading the high-growth MDF segment:** We initiate coverage on Greenpanel with a BUY rating and a target price of INR 430/sh (12x its Mar'25E consolidated EBITDA). We like Greenpanel for its leadership positioning in the high-growth MDF segment, superior margin, and working capital profile (most efficient among peers). Even on a high base of FY22, we estimate Greenpanel would deliver 11% MDF volume CAGR until FY25E, maintaining its industry lead. The company is also expanding the share of value-added products (VAP), retail sales and marketing spend to counter the medium-term competition impact on supply influx.

- **Greenlam Industries - Mega expansion in laminates, particle board:** We initiate coverage on Greenlam with an ADD rating and a target price of INR 360/sh (16x its Mar'25E consolidated EBITDA). We like Greenlam for its leadership positioning in laminates (both in exports and domestic). Its large laminates capacity expansions in FY23 will accelerate segmental growth during FY23-25E. The company is also foraying into the high-growth particle board market in Q4FY24 with modern machinery to meet the rising demand from furniture OEMs. It is also entering plywood market in Q4FY23, with focus on high-end plywood. These should drive up its FY22-25E revenue/EBITDA CAGRs to 18/21%.

- **Greenply (NOT RATED) - Leading player in plywood; rentry in MDF:** Greenply is the second-largest plywood company in India (capacity spread across east, Gujarat and Uttar Pradesh) and it is re-entering the MDF business through a 240K CBM greenfield expansion in Gujarat by FY23-end. During FY23, Greenply is also expanding its plywood capacity by 40%, which should boost segmental revenue FY24E onwards. Greenply's leverage ratio should stretch in FY23 amidst ongoing MDF expansion but should moderate FY24 onwards as the plant starts contributing.

- **Stylam Industries (NOT RATED) - Fastest-growing laminates company in India:** Stylam Industries has been the fastest-growing laminates company during FY17-22, making it both the third-largest laminates manufacturer in India and the third-largest exporter. During FY17-22, Stylam delivered revenue/EBITDA/APAT CAGRs of 18/18/25% respectively. It expects to maintain industry-leading growth and is expanding its capacity for value-added laminates by 20-25% in FY23. Additionally, its solid acrylic panel unit is expected to ramp up H2FY23 onwards, accelerating the overall revenue growth.

- **Rushil Decor (NOT RATED) - MDF ramp-up boosting margin and balance sheet:** Rushil Decor became the third largest MDF company in India in FY22, post its greenfield expansion in Vizag. It also has a laminates business. In FY22, MDF share in revenue soared to 70% and the rest came in mainly from laminates. Rushil expects to deliver 30%+ revenue growth in FY23 along with >20% EBITDA margin, driven by continued ramp-up of its MDF plant. This should continue to reduce gearing in FY23 (vs 11/11/6x of net debt to EBITDA in FY20/21/22). In Dec'22, it announced a rights issue of upto INR 1.24bn to reduce debt and fund its laminates expansion.

- **Merino India (UNLISTED) - A leader in laminate; expanding in particle board:** Merino India is the second-largest laminates producer and the largest seller in India. It is commissioning a large, greenfield particle board plant (complementary business to laminates) in Gujarat in Q1FY24 and is also debottlenecking its laminate capacity by 15% in FY23 to support the upcoming particle board plant. Merino is targeting 25% revenue growth YoY in FY23.

Tiles companies

- **Kajaria Ceramics - Industry leading growth to continue:** We maintain a BUY rating on Kajaria with a revised TP of INR 1,430/sh (21x its Mar-25E consolidated EBITDA). We continue to like the company for its industry-leading growth and robust free cash flow outlook. Kajaria has been aggressively expanding its footprint across tier-2/3 markets and enjoys premium positioning. The company has consistently delivered industry-leading margins. We expect gas prices peaked out in Q2FY23. The rebound in exports (from Morbi) should reduce pressure in domestic markets, thereby further boosting Kajaria's margin.

- **Somany Ceramics - Focus on capacity ramp-up, product mix enhancement:** We maintain BUY rating on Somany with a revised TP of INR 800/sh (13x its Mar-25E consolidated EBITDA). We continue to like the company for its strong volume growth (new capacity ramp-up, demand tailwinds), improving product mix (new capacities to increase GVT sales share). The company plans to increase its value added and retail share to improve margins. It has tightened its working capital, boosting cash flows.

- **Prism Johnson (tiles) (NOT RATED) - Trying to get back in shape:** Prism Johnson is present across cement, tiles and ready-mix concrete businesses in India. A decade ago, it was the market leader in tiles in India; it lost market share thereafter to fast-growing Kajaria and Somany Ceramics. However, in the past three years, the company has been able to arrest its market share fall and all three leaders grew at a similar pace. Focus on distribution, utilization (five year high of 69% in FY22) and cost rationalization in the past three years has also led to segmental operating margin of tiles, bath, kitchen division (TBK) climbing to 9-11% FY21-22 vs sub-5% in the preceding eight years. The company has also let go its inefficient plants (20% capacity reduction) and is adding new plants (11MSM) during FY22-24. Going forward, the management is focusing on improving product mix, expanding distribution network and implementing timely Capex plans.

- **Exxaro Tiles (NOT RATED) - Small player with major focus on niche tiles:** Exxaro Tiles is a domestic-focused tiles manufacturer, based in Gujarat. The company mainly sells high-value GVT (60% of revenue) that helps it deliver the best-in-industry EBITDA margin (similar to industry leader Kajaria's). After almost seven years, Exxaro expanded its capacity by 10% in Oct-22 to 14.6MSM. This can potentially double its GVT revenue by FY25E and buoy its EBITDA margin.

Plastic Pipes

- **Supreme Industries - Market leader in pipes; healthy outlook:** Supreme Industries (SIL) continues to increase its value added product offerings in the pipes segment to deliver strong growth and retain its market leadership. The company also continues to generate superior return ratios and free cash flows. While EBITDA margin will be adversely impacted in FY23 by the sharp fall in PVC resin prices, the impact should moderate, owing to its varied product offerings and high share of value-added products. We estimate SIL to deliver revenue/EBITDA CAGRs of 9/5% during FY22-25E. The stock has run-up recently, limiting upside over next one year. Hence, we cut our rating on SIL to ADD (from BUY), with a revised SOTP target price of INR 2,580/sh.

- **Astral - Industry-leading growth factored in high valuation:** We maintain REDUCE rating on Astral owing to expensive valuation, with a revised TP of INR 1,940/sh (30x its Mar-25E consolidated EBITDA, implying 48 P/E). Astral is among India's fastest-growing pipe companies and its adhesive segment is growing at a healthy pace. We like Astral for its leadership presence in the CPVC segment, strong retail franchise, superior revenue/earnings growth, and healthy return ratios. Astral has also forayed in paints and bathware businesses in FY23. Aided by market share gains in the existing business and additional contribution from new business, we estimate Astral's revenue/EBITDA/APAT would grow at 21/18/19% CAGR during FY22-25E.

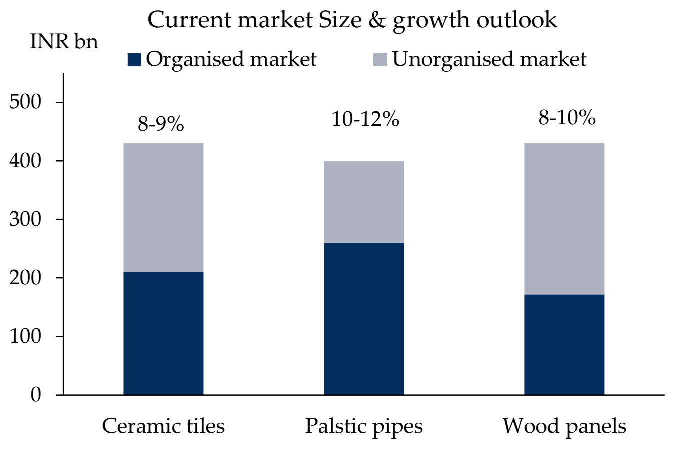
- **Prince Pipes - Strong growth momentum:** We maintain our BUY rating on Prince Pipes, with a revised target price of INR 705/sh (18.5x its Mar-25E EBITDA). Prince Pipes is the fifth-largest plastic pipes manufacturer in India, with ~7% market share. Over the past 10 years, Prince's pipes volume has grown at 10% CAGR, gaining market share. Strong demand has also boosted margin, leading to revenue/EBITDA/APAT CAGRs of 18/32/39%. The company continues to focus on expanding its capacity, distribution and on new product launches to maintain its robust growth, with a focus on building materials/plumbing segments (>65%). Prince is also entering the bathware segment to leverage its brand and distribution.

- **Finolex Industries (NOT RATED) - Non-agri mix rising; cash pile soars amid no Capex:** Finolex Industries is the third-largest manufacturer of both PVC pipes and PVC resins in India. The company has largely focused on the price-sensitive agri pipes, which leads to its low margin in the pipes segment. However, the company is gradually increasing its plumbing sales as well as high-value CPVC and fittings to boost up margins. In resins, Finolex has higher margin owing to ~60% of its resins manufacturing through backward integrated EDC route. Finolex sells only ~30% of its resin externally and uses the rest for its PVC pipes manufacturing. During FY17-22, Finolex clocked revenue/EBITDA/PAT CAGRs of 12/13/14%, driven by resin division. Owing to no Capex in the past five years, net cash on books surged to INR 14bn in Mar-22.

Strong outlook for India's building material sector

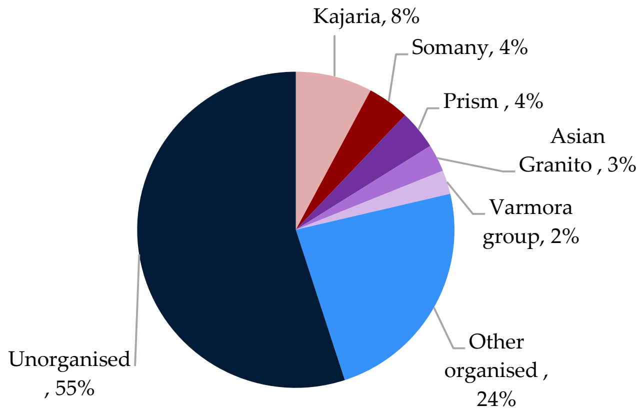
The Indian building material sector comprises various sub-segments, including paints, tiles, plastic pipes, wood panels, etc. While we already cover tiles and plastic pipe sectors, we initiate coverage on wood product companies. Incidentally, all three segments have similar revenue sizes currently, at around ~INR 400bn.

All three building material segments estimated to grow at healthy pace



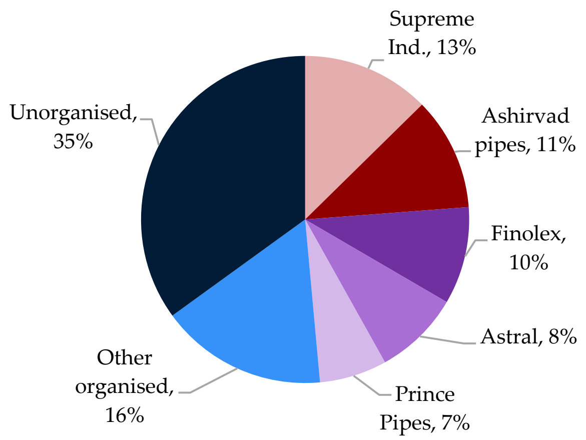
Source: Industry, HSIE Research

Ceramic tiles: top-5 players accounted for ~21% of total market in FY22



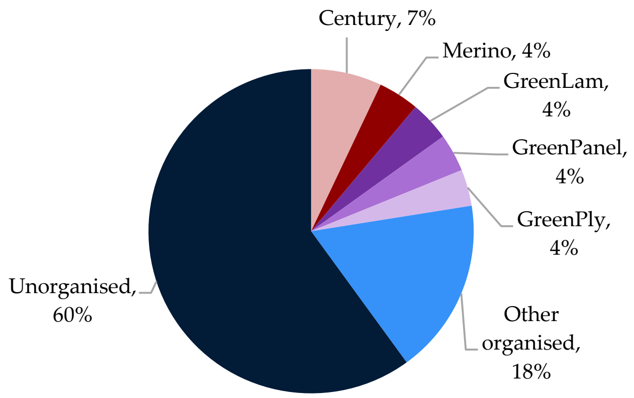
Source: Industry, HSIE Research

Plastic pipes: top-5 players accounted for ~49% of total market in FY22



Source: Industry, HSIE Research

Wood panels: top-5 players accounted for ~22% of total market in FY22



Source: Industry, HSIE Research

All the three building material segments should grow at a healthy pace of 8-12% for the next 4-5 years, given various demand triggers: India's urbanization drive, rebound in real estate market, healthy outlook for hospitality and health care sectors, and rising discretionary spends. While India's population growth has slowed down, disposable incomes are on the rise and the population of young people is also growing. These are leading to increased spending on new homes and home renovations.

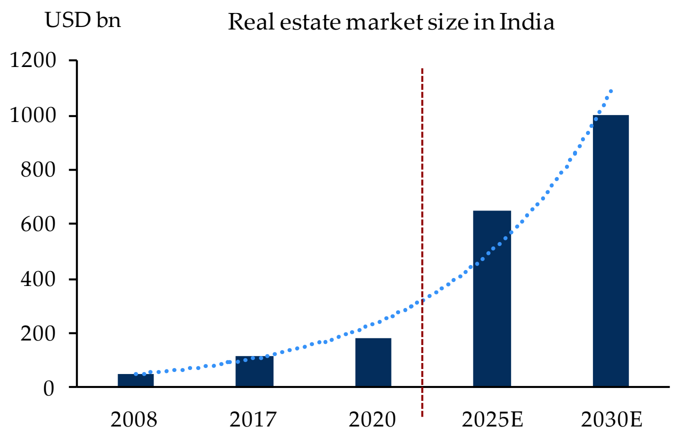
The government's thrust on infrastructure, roads, railways, metros, and airports is leading to better connectivity and driving India's urbanisation efforts. As per the industry estimates, ~38% of Indian population would occupy Indian cities by 2025 vs 33% currently. By 2030, ~80% of the Indian population would be classified as middle-class, vs 50% currently.

The organised real estate sectors— residential as well as commercial—have been recovering 2021 onwards and are expected to continue to grow. Home loans are growing in double digits. While interest rates have increased recently to curb inflation, they are still way below the earlier peaks and, hence, loans are affordable. This, in turn, would continue to boost real estate construction.

The healthcare sector in India is gaining traction. According to a CBRE report, India will require an additional 1.3bn sq ft healthcare space by 2030 to reach the global hospital beds-to-population average. Even the hospitality industry is on an upswing, owing to increase in global mobility, improved logistics connectivity, and government focus on tourism. These, in turn, are supporting construction of hotels, resorts, etc.

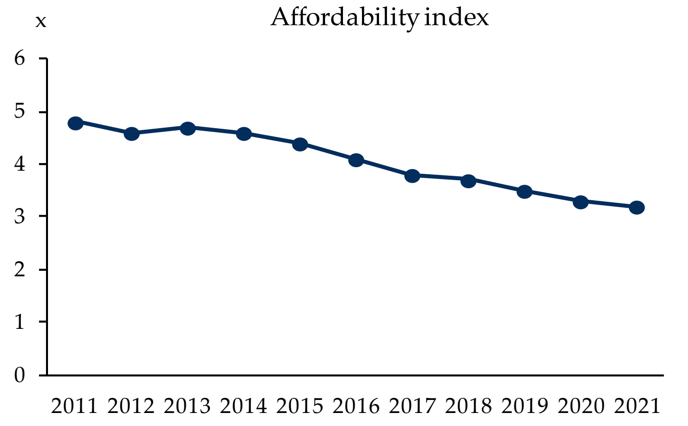
The above factors are expected to lift demand for tiles, wood products and tiles sector in India. Additionally, for the pipes sectors, the government of India's *Jal Jeevan Mission* to provide access to tap water across rural India by 2024 will boost the demand for pipes and fittings. The switch from metal to plastic piping systems is beneficial to the pipes industry as well.

Indian real estate market expected to grow at strong pace in this decade



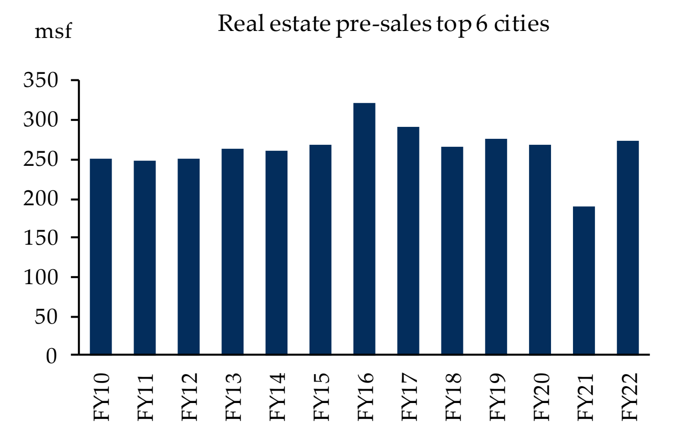
Source: Industry, HSIE Research

Increasing affordability to boost real estate demand in India



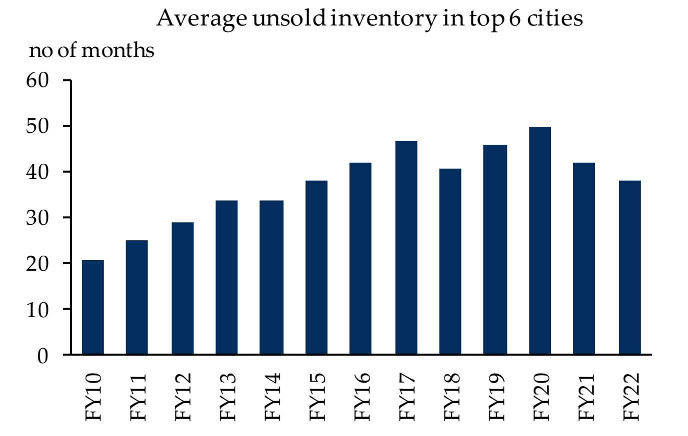
Source: HDFC Ltd, HSIE Research

Residential real estate pre-sales rebound to pre-COVID levels in FY22



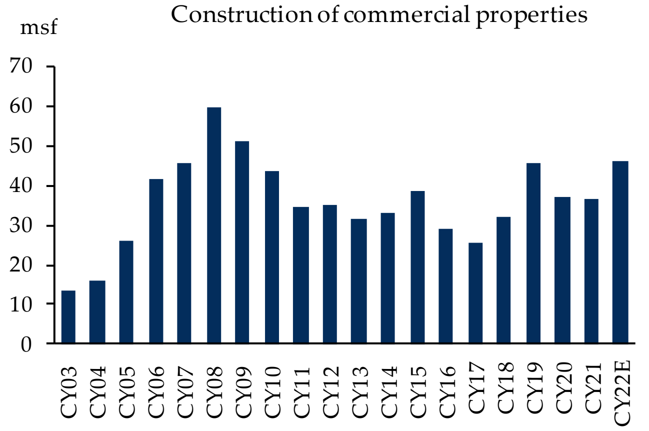
Source: Liases Foras, HSIE Research; Data for top-6 cities in India

Unsold home inventories fallen to multi-year lows on robust sales; new constructions to pick up



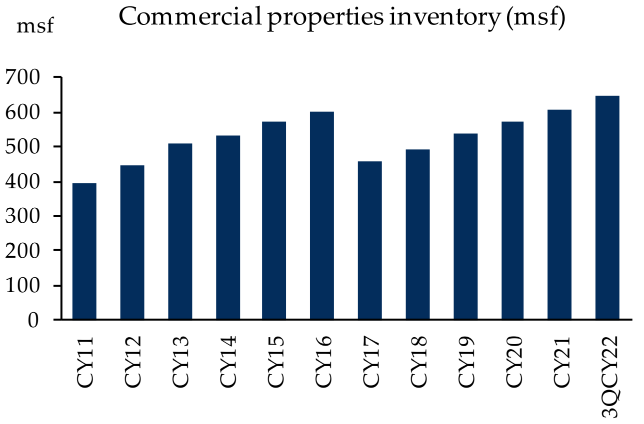
Source: Liases Foras, HSIE Research, Data for top-6 cities in India

Commercial real estate: New constructions are at expected to be decade high in 2022!



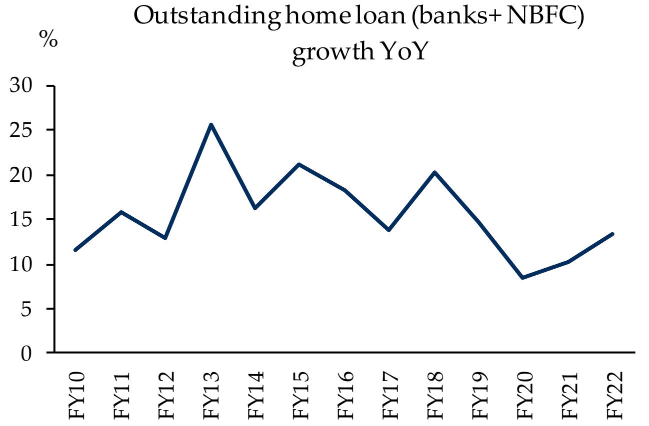
Source: Cushman & Wakefield, HSIE Research

However, even commercial properties inventory has been on a rise, owing to slower absorption



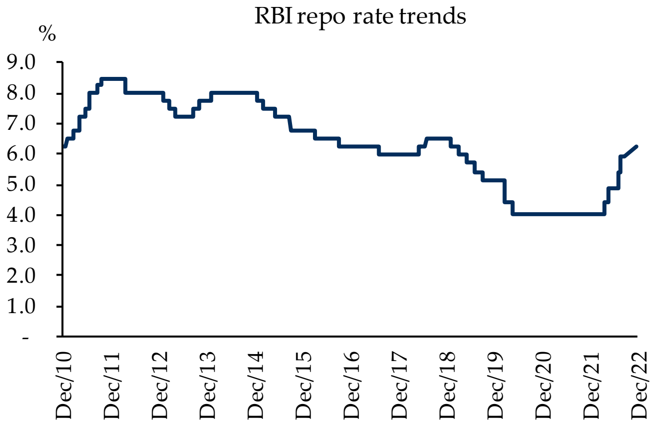
Source: Cushman & Wakefield, HSIE Research

Home loans continue to grow in double digits, barring in FY20 (hit by COVID)



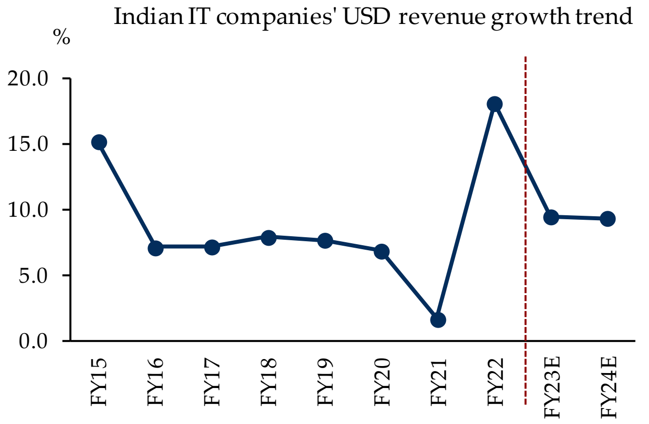
Source: Industry, RBI, HSIE Research

While interest rates rebounded, they are still way below earlier peaks



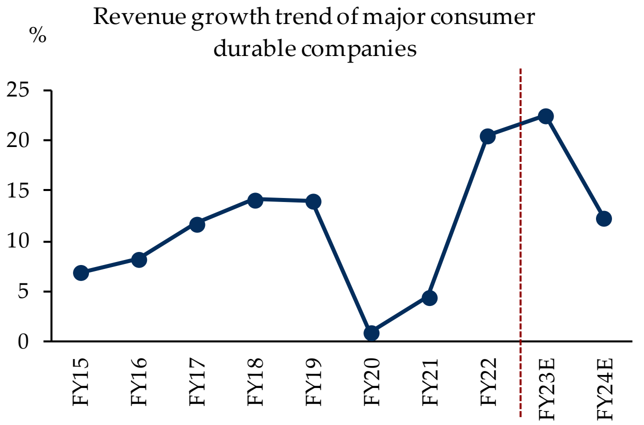
Source: Industry, RBI, HSIE Research

Indian IT sector is a major driver for real estate demand. IT companies' revenue growth outlook remains buoyant



Source: Industry, HSIE Research

Similarly, consumer durables sales in India expected to remain strong, indicating high discretionary spends



Source: Industry, HSIE Research

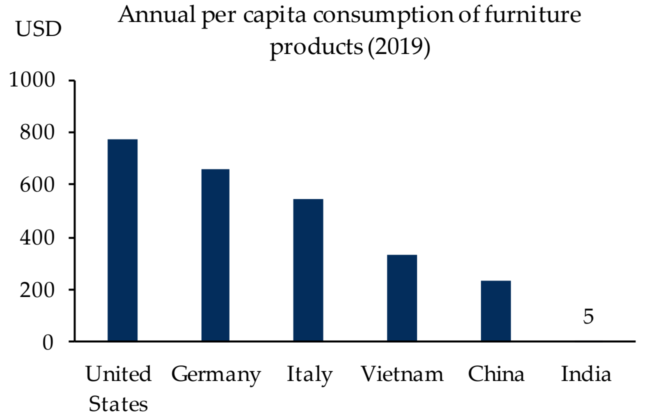
Indian furniture market—large room to grow

Despite a large and growing population in India, furniture manufacturing and consumption is low in India. The per capital consumption of furniture is much below that of many countries. Further, organised furniture players have only 20% market share and demand is also met through imports.

However, the Indian furniture market is estimated to grow 3x during the 2020-2035 period, implying strong outlook for domestic manufacturers of plywood, laminates, MDF, and particle board in India. In addition, many large players like IKEA, Pepperfry, Urban Ladder, and The Home Dekor are gaining traction. Hence, demand for quality wood panels will further accelerate and should benefit companies with modern and large manufacturing infrastructure and strong distribution network.

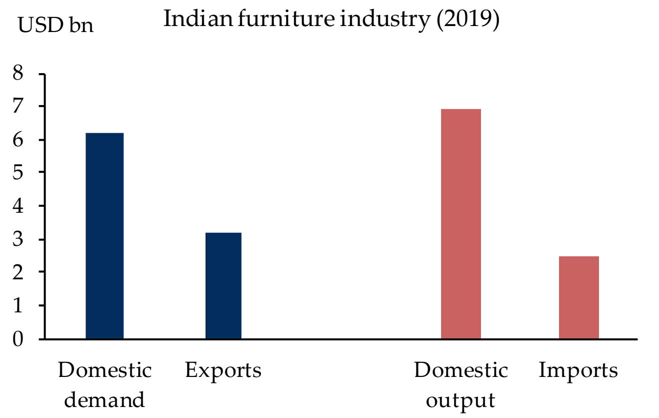
Furniture manufacturing is shifting from manual to semi-automatic and automatic manufacturing modes to design aesthetically superior furniture, both for residential and commercial use. Changing consumer preferences and rising adoption of wood alternatives to lower the deforestation rate and improve the life of the furniture are expected to drive growth of the Indian furniture market.

India significantly lags on its furniture products consumption intensity!



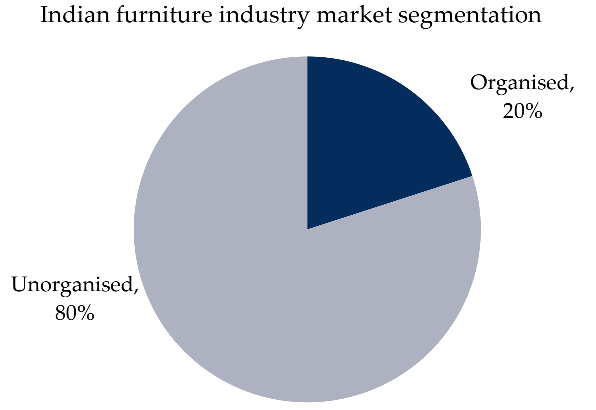
Source: HIS Markit, IKEA report, HSIE Research

Indian furniture market—demand and supply trend in 2019



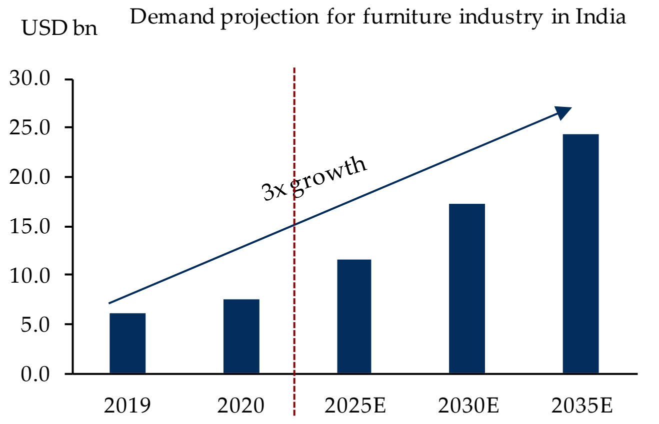
Source: PwC analysis, IKEA report, HSIE Research

Almost 80% of Indian furniture market is unorganised, which should reduce, going ahead



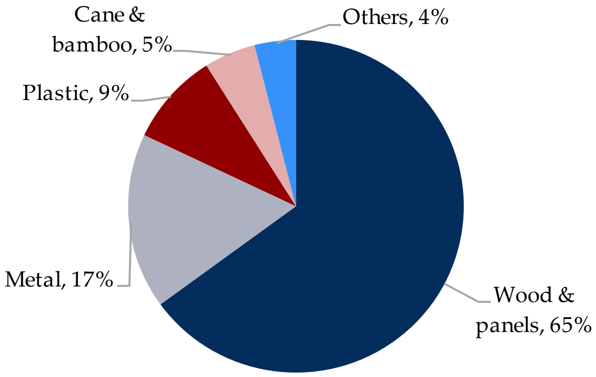
Source: IKEA report, HSIE Research

Indian furniture market is expected to grow by 3x during 2019-2035E, implying strong opportunity



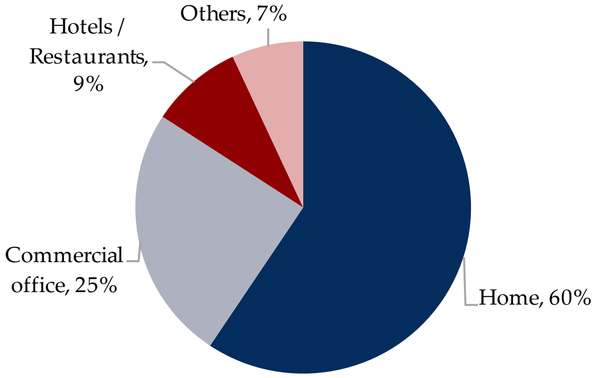
Source: PwC analysis, IKEA report, HSIE Research

Wood-based furniture accounts for ~65% of the total furniture market in India



Source: Industry, IKEA report, HSIE Research

Home accounts for ~60% of total furniture consumption in India



Source: ITPC, IKEA report, HSIE Research

Initiating coverage on the wood panel sector

While we already cover the ceramic tiles and plastic pipe sectors, we also initiate coverage on the Indian wood panel sector comprising plywood, laminates, MDF, and particle board manufacturers. These sectors should continue to benefit from the expected surge in the Indian furniture market, a large chunk of which is composed of wood-based products. The wood panel industry is an integral part of the furniture industry. The furniture made from wood panels is highly flexible, lightweight, and has multiple uses.

We have tabulated below the current revenue market size of these products in India and their estimated growth rates for the next few years. While plywood remains the largest part of the wood panel segment, its growth rate is slowing down, owing to product substitution of low-end plywood with MDF and particle board.

Snapshot of the Indian wood panel industry

Category	Total Mkt Size INR bn	CAGR outlook	Organised Mkt size INR bn	Share of organised players	Major players
Plywood	250	6-8%	63	25%	Century Ply, Greenply
MDF	40	15-20%	36	90%	Greenpanel, Action Tesa, Century Ply, Rushil Decor
Laminates	90	10-12%	59	65%	Merino, Greenlam, Stylam, Century Ply
Particle board	50	10-15%	17	33%	Action Tesa, Century Ply, Pioneer Panels
Wood total	**430**	**8-10%**	**174**	40%	

Source: Industry, HSIE Research

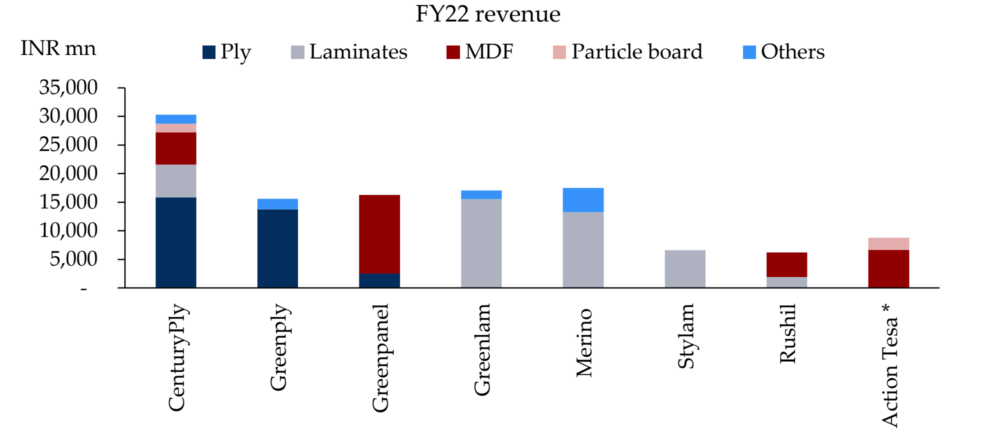
Comparison of properties of plywood, MDF, and particle boards

Factors	Plywood	MDF	Particle Board
Manufacturing Process	Thin sheets of veneer are glued together	Produced by breaking down hardwood and softwood residuals in to wood fibres. Wood fibres are combined using wax and resin and heat press.	Particle board is a wastewood product made by heat pressing saw dust and resin
Strength	Highest	Medium Strength	Lowest
Pricing	Costlier	~30-40% cheaper than plywood	~20% cheaper than plywood
Weight	Heavier than MDF/particle board	Weighs 10-15% more than particle board	Lighter than MDF and plywood
Moisture	Less susceptible to water damage	Laminated MDF resistant to moisture	Swells in contact with moisture
Piercing	Can handle Screws and nails	Can handle screws	Can handle only screws
Molding capacity	Difficult to cut. Cannot be molded easily	Can be moulded easily. Easily machined and painted	Can be moulded easily

Source: Industry, HSIE Research

Among the listed space, there are Century Ply, Greenpanel, Greenlam, Greenply, Rushil Decor and Stylam Industries. Additionally, there are two major unlisted players: Merino Industries and Balaji Action Buildwell (Action Tesa). In this report, we initiate coverage on Century Ply, Greenpanel and Greenlam and have included company notes on Greenply, Stylam Ind, Merino, and Rushil Decor.

Revenue split of various wood panel companies in India



Source: Company, HSIE Research, *Action Tesa data pertains to FY20

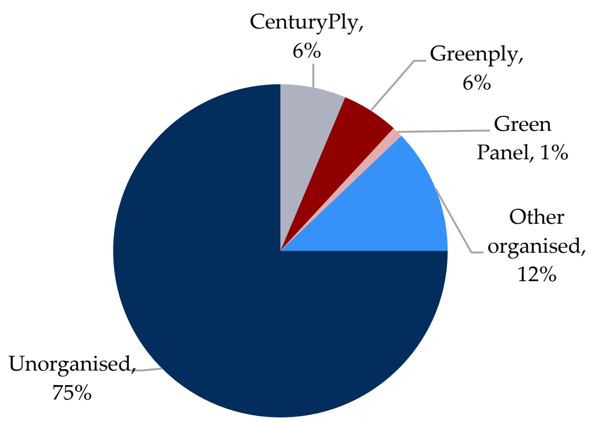
Plywood—mid and premium segments drive growth

Plywood is the largest part of the wood panel segment in India. There are many companies manufacturing it across India and the market is very competitive as unorganised players comprise ~75% of the total market. In the organized player space as well, there are only a few prominent names, of which the two listed entities are Century Ply and Greenply. Greenpanel also has a plywood unit, which it inherited as part of its demerger from Greenply, this unit's revenue is much smaller vs Greenply.

All these companies are mainly focused away from the low-end plywood which faces stiff competition from unorganised players and where low-cost (high-value) MDF is also gaining as a substitute. The overall plywood market is expected to grow at 6-8% CAGR, dragged by flattish growth outlook for low-end plywood. The mid/premium segments are expected to grow at higher rates, owing to consumer preference for quality and branded products.

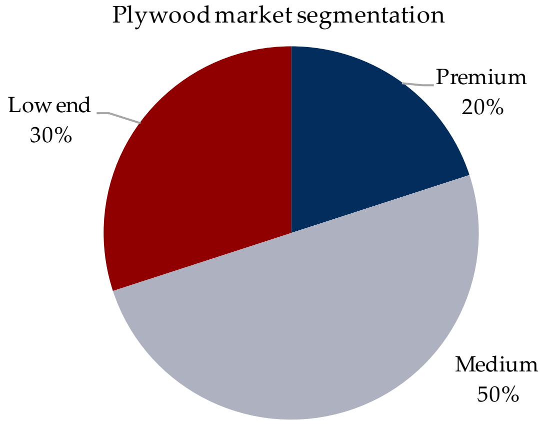
While the EBITDA margin is moderate in plywood segment, high asset turn makes the payback period attractive for companies present in the mid/high-end plywood segment.

Plywood market: top-2 companies account for 12% market share in this highly fragmented industry



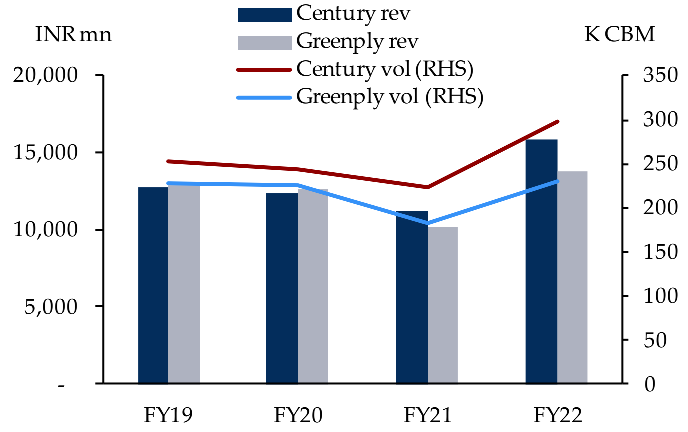
Source: Industry, Companies, HSIE Research

Plywood: the low-end ply market is highly competitive and is facing replacement risk from MDF



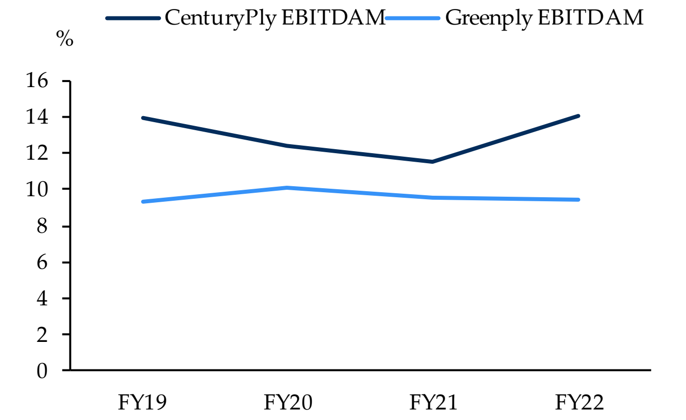
Source Industry, Companies, HSIE Research

Revenue and volume trends of the major plywood companies



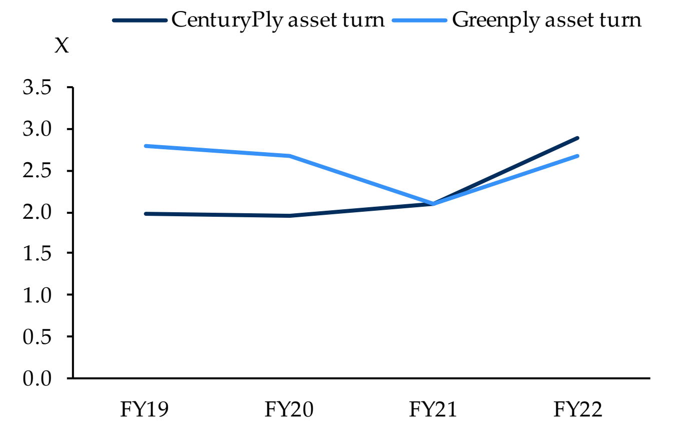
Source: Companies, HSIE Research

Century Ply continues to deliver higher and steady margins despite stiff competition



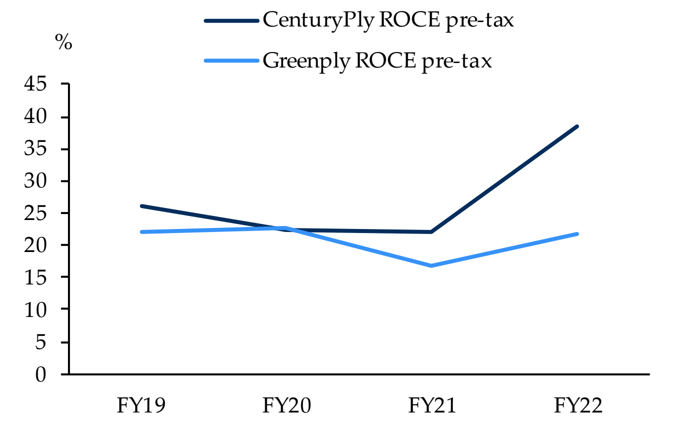
Source Companies, HSIE Research

Asset turn trend: Outsourced revenue accounts for 25/30% of Century Ply/Greenply inflating asset turns



Source: Companies, HSIE Research

Higher margin for Century boosts its high segmental return ratio



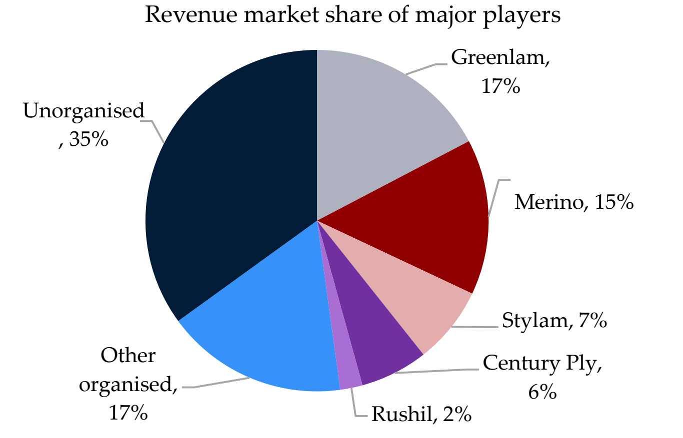
Source Companies, HSIE Research

Laminates—margins to rebound; exports remain buoyant

Laminates segment is also expected to grow at a fast pace. The domestic demand outlook is healthy while exports from India are also buoyant. The domestic laminates demand is pegged at ~INR 65bn and exports from India are pegged at ~INR 25bn. Overall, two-third of the industry is organised. The share of major players in exports is higher at ~75%, while in domestic markets they account for ~60% of total sales.

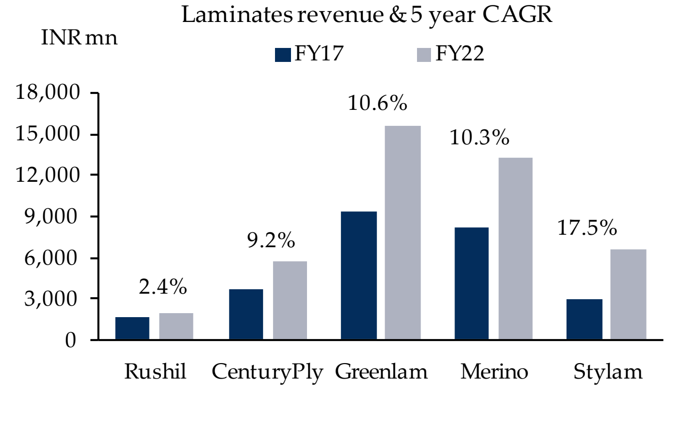
Similar to plywood, laminate companies focus on retail distribution and branding to position and sell in the domestic markets. Most of the large laminate manufacturers are also aggressively positioned in the growing exports markets. Exports from India are well spread out. The top 10/15 countries account for ~57/73% of total laminate export revenues, derisking exports growth from geopolitical issues in any particular region. During 7M-FY23, despite the ongoing energy crisis across Europe, laminate exports volume/revenue have grown by 2/14% YoY.

Laminates: Top-5 players' FY22 revenue accounted for ~48% total laminate revenues



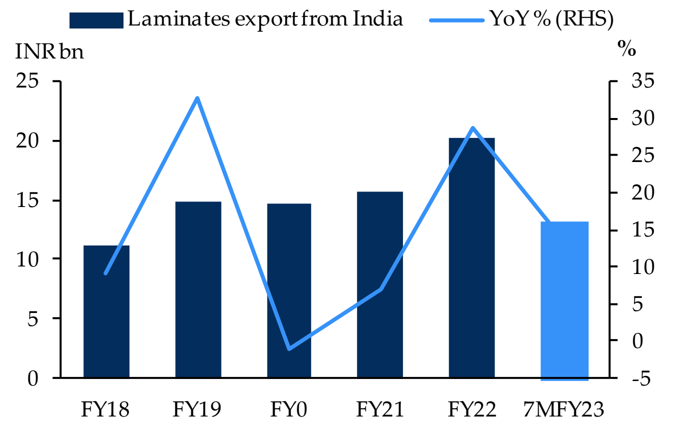
Source: Companies, industry, HSIE Research

The major players grew in double digits in past 5 years



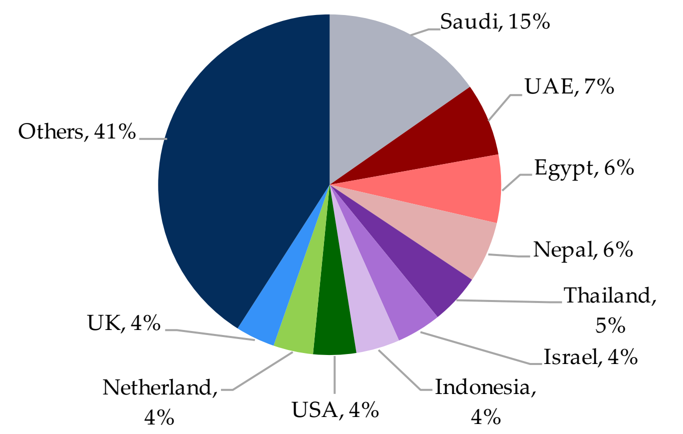
Source Companies, HSIE Research

Exports account for one-third of total revenues for Indian laminates sector



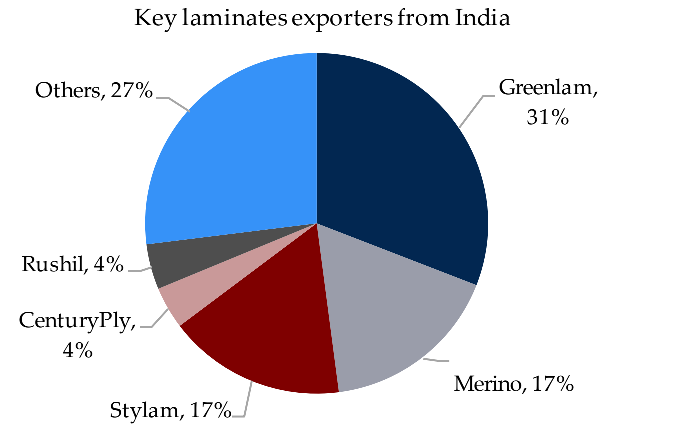
Source: GoI, HSIE Research

India's laminates' exports are well-diversified and less impacted by the recent energy crisis in Europe



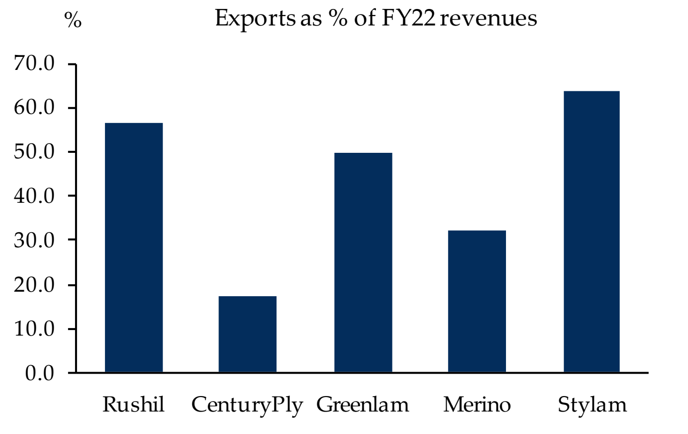
Source GoI, HSIE Research

Greenlam is the largest exporter from India; Merino and Stylam also have high share in the export market



Source: Companies, HSIE Research

Stylam and Rushil predominantly sell their laminates in export markets

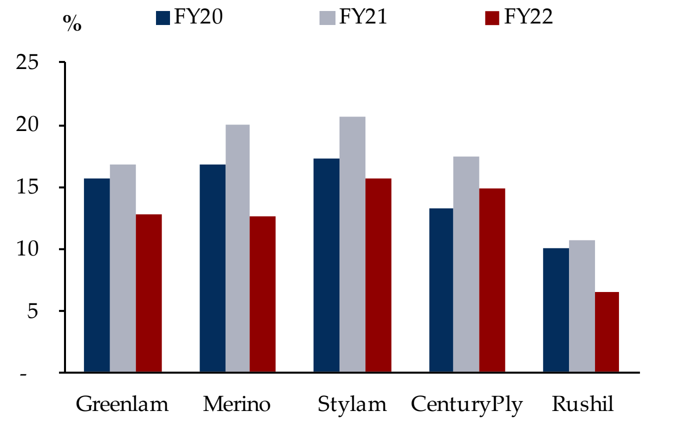


Source Companies, HSIE Research

While margin was impacted in FY22, owing to a spike in chemical and imported paper prices, companies are witnessing softening in chemical prices in FY23E, which should drive margin rebound here on.

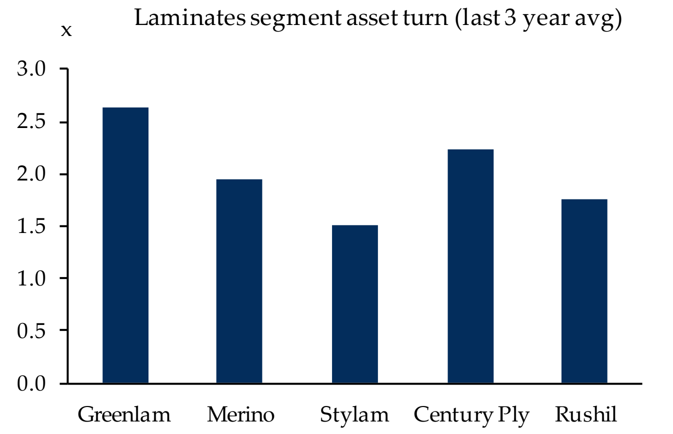
The EBITDA margin and asset turns are broadly similar to that of plywood segments, leading to similar payback period for laminate manufacturers.

Laminates' EBITDA margin contracted in FY22, owing to rising raw material inflation



Source: Companies, HSIE Research

Greenlam and Century Ply have higher segmental asset turns



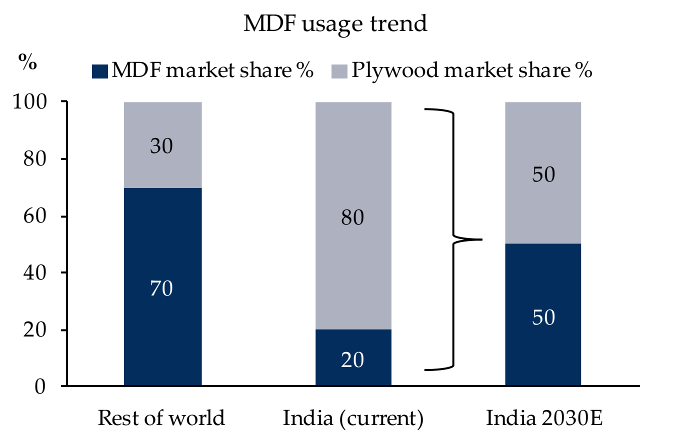
Source Companies, HSIE Research

MDF segment expected to grow the fastest

MDF usage in India is growing at the fastest pace among all wood panel categories, owing to its versatile use beyond furniture-making. The current market size (~INR 40bn) is very low owing to its low consumption compared to its global peers. In India, the low-cost, light-weight, superior product is slowly substituting the low-grade plywood market. Owing to its uniform thickness, MDF is also the preferred product for machine-tooled furniture manufacturing.

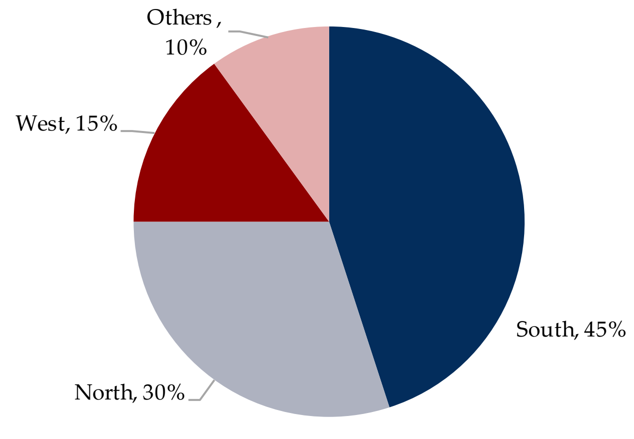
India consumes just 5% of MDF consumed in China, despite having similar population to the latter, thereby underscoring the MDF under-penetration in India. The south and north regions currently account for most of the MDF consumption. With upcoming capacities in the north, south and west regions and expanding distribution of major players, MDF sales is gaining traction throughout India. The domestic market for MDF is estimated to grow at a 15-20% CAGR (the fastest pace among all wood panel products).

MDF penetration is still very low and is not widely used; its usage is expected to increase over this decade



Source: Industry, HSIE Research

Currently, MDF sales are concentrated in south and north markets



Source Industry, HSIE Research

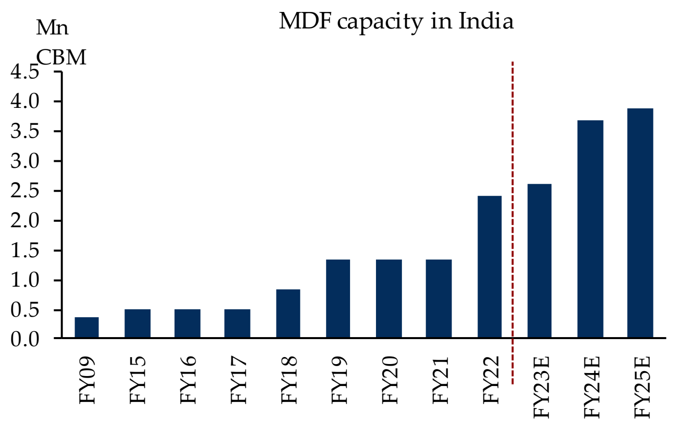
MDF application extends much beyond wooden furniture increasing its growth potential

Source: Industry; HSIE Research

While earlier imports were a major supplier to domestic demand (~30%), the same has been coming off on account of two factors. Indian companies have been aggressively setting up capacities in the north, west and south regions, thereby snatching away market share from imports. Global logistics supply chain issues since COVID also inflated shipping costs, reducing their attractiveness and availability in India. Additionally, for large furniture manufacturers, sourcing from domestic MDF factories also reduces their working capital needs, improving the demand visibility for the upcoming capacities.

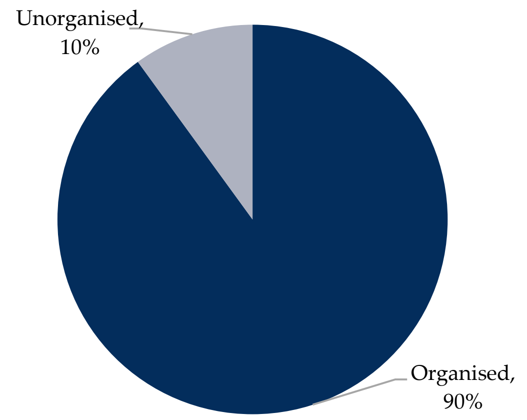
During FY18/19, there was a sharp jump in capacity additions (on a very low base) and this had temporarily dented margins for MDF companies. While we expect capacity additions to continue at a fast pace, we do not expect similar margin compression. During H1FY23, the major MDF companies operated at ~80% and more utilisation. Any Greenfield plant also takes at least 2-3 years to fully ramp up production. These should keep the supply glut in check and cushion margin compression.

India is expanding MDF capacity at a fast pace; led by the major wood-panel companies



Source: Industry, HSIE Research

Being a capital intensive business, MDF market is highly organized and controlled by big players

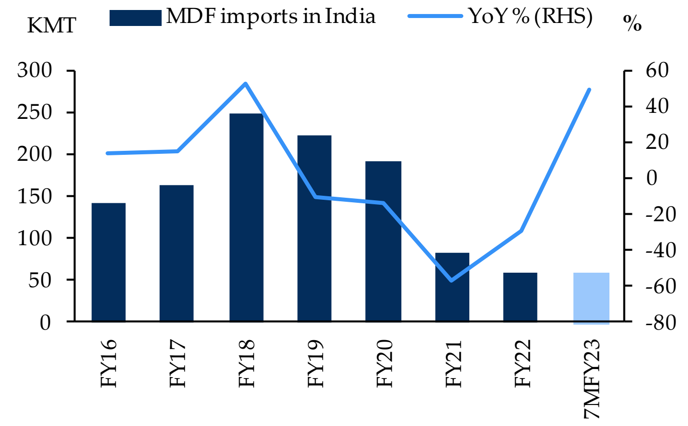


Source Industry, HSIE Research

Another concern on MDF margin has been the potential impact from resumption of imports. As per our discussions with companies and market participants, while imports will recover from the lows seen in 2021, its share in demand would remain much below pre-COVID levels. Earlier, due to lower production of high-quality MDF being manufactured in India, imports were preferred.

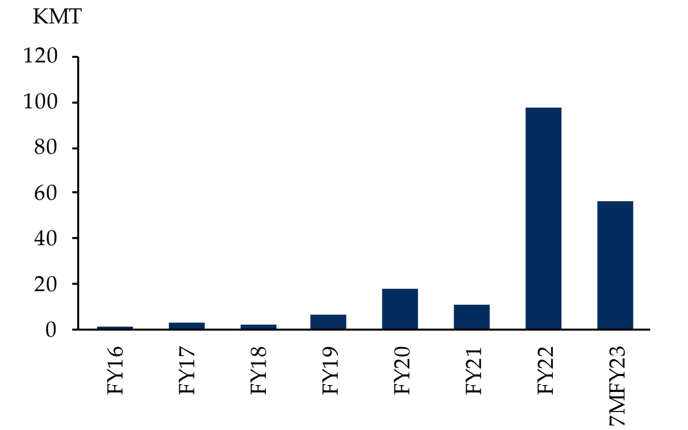
However, with domestic companies setting up modern plants capable of producing precision MDF of various thicknesses, import dependence will remain low. In fact, Greenpanel and Rushil have started exporting to various countries as against India's import dependence. While we do concur that imports recovery and upcoming capacities will pull down margins from the peaks of FY22, it should still remain healthy (and above the levels seen in FY18/19).

While MDF imports are picking up post relaxation in global logistics; it is still well below pre-COVID levels



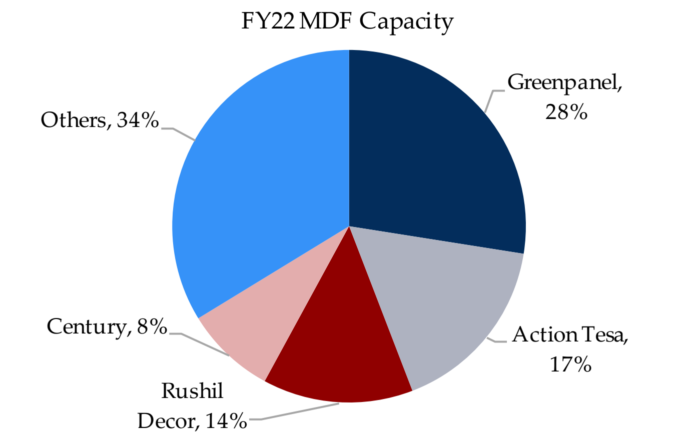
Source: GoI, HSIE Research

As Indian companies have expanded capacities, MDF exports have overtaken imports in FY22



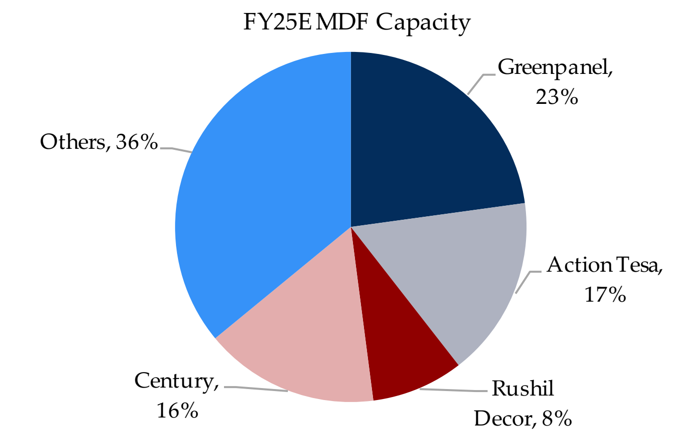
Source GoI, HSIE Research

Currently, top-4 players account for ~66% of total installed MDF capacity in India



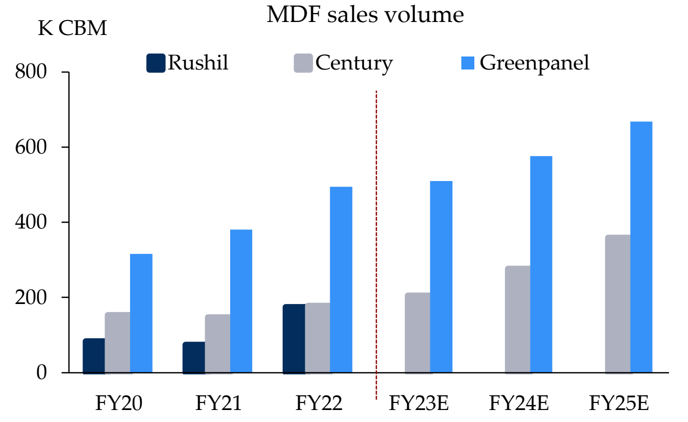
Source: Companies, industry, HSIE Research

By FY25E, it would broadly remain the same; Century's market share expected to double



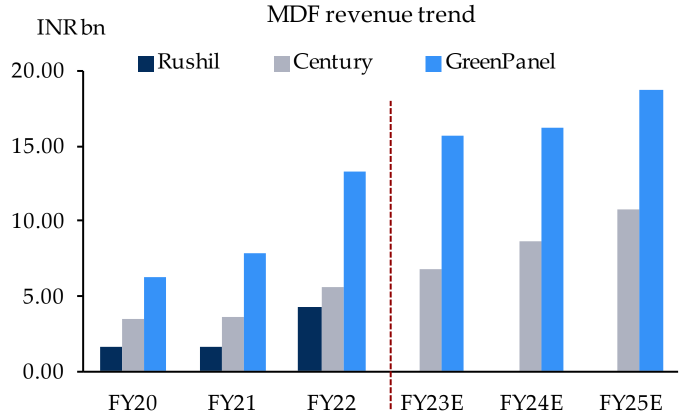
Source Companies, industry, HSIE Research

We estimate Century's MDF volume to grow at 26% CAGR during FY22-25E riding on its ongoing expansion and market share gains



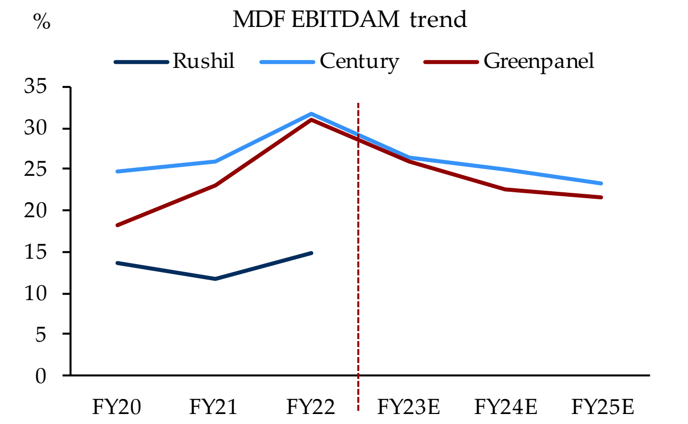
Source: Companies, HSIE Research

We estimate Century and Greenpanel to deliver 25/12% segmental revenue CAGR during FY22-25E



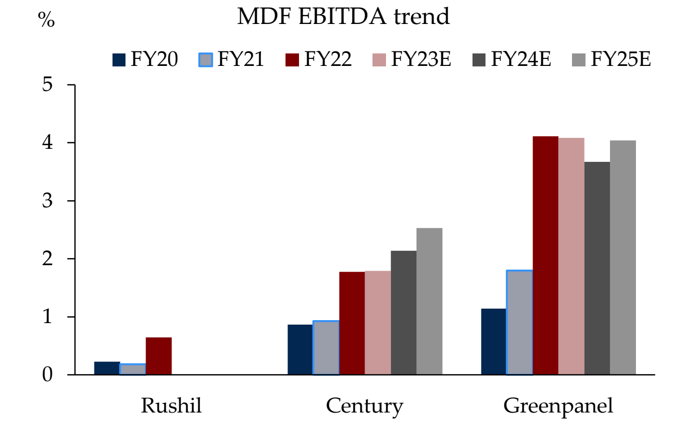
Source Companies, HSIE Research

We estimate EBITDA margin to cool off from their FY22 peaks but should still remain strong



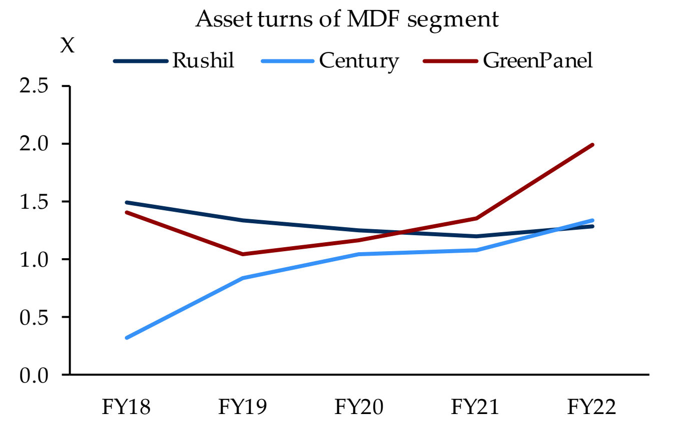
Source: Companies, HSIE Research

Strong volume growth should cushion margin decline leading to 13/1% EBITDA CAGR for Century/ Greenpanel



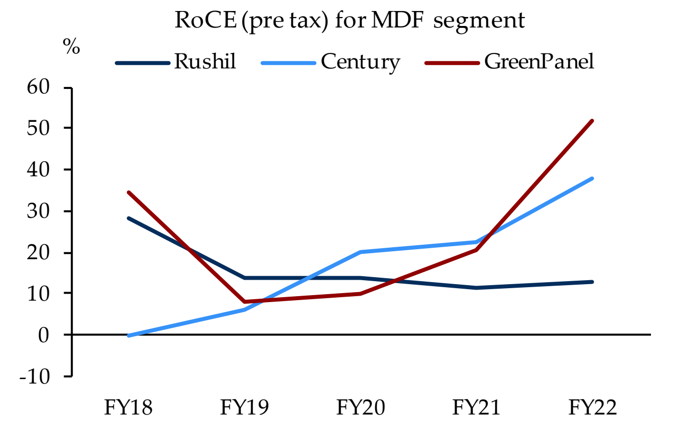
Source Companies, HSIE Research

Asset turn trends for the MDF segments of three listed entities



Source: Companies, HSIE Research

RoCE trends for the MDF segments of three listed entities



Source Companies, HSIE Research

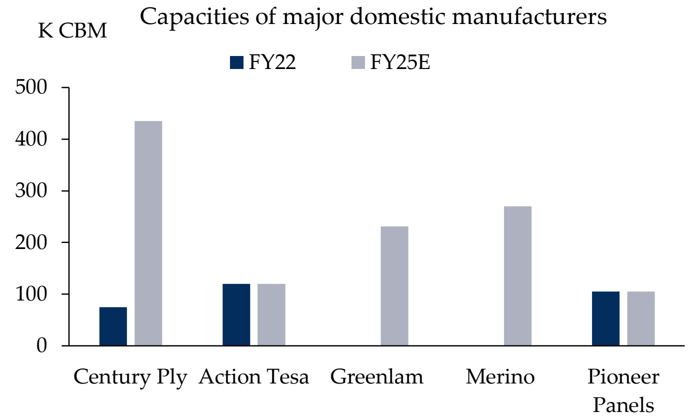
Particle boards—major players to take over the market

Particle board is also known as low-density fiber board, owing to its low weight (compared to MDF). It is preferred for its ease to install, lightweight, environment-friendly properties, and uniformity, which increases its machinability. The product is widely used to make home furniture, such as kitchen cabinets, bookcases, doors, windows, and wall and floor coverings, in the commercial (offices, hospitals, hotels, restaurants, etc.) and residential sectors across the globe.

In India, particle board has a market size of INR 50bn and most of it is fragmented, owing to multiple small players. Organised players' market share is pegged at ~30-35%. With a strong uptick in both commercial and residential real estate, the particle board market is estimated to grow at 10-15% CAGR.

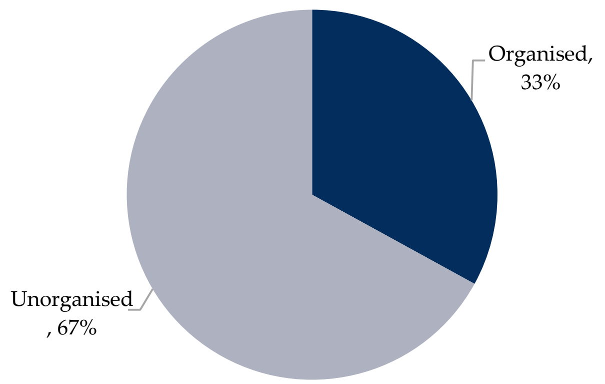
With rising demand for quality particle board, existing market leaders in the wood panel industry are setting up large capacities during FY24-25E, which should totally alter the industry structure. Merino, Greenlam, and Century are adding major capacities in the west and south markets, which will cumulatively add 860K CBM of new capacities. The capacity of the top-5 players will increase 3x to ~1,200K CBM by the end of FY25, from 300K CBM capacity at the end of FY22. These capacities should take away market share from both small unorganised players as well as imports.

Century Ply, Merino and Greenlam expanding aggressively in the particle board segment



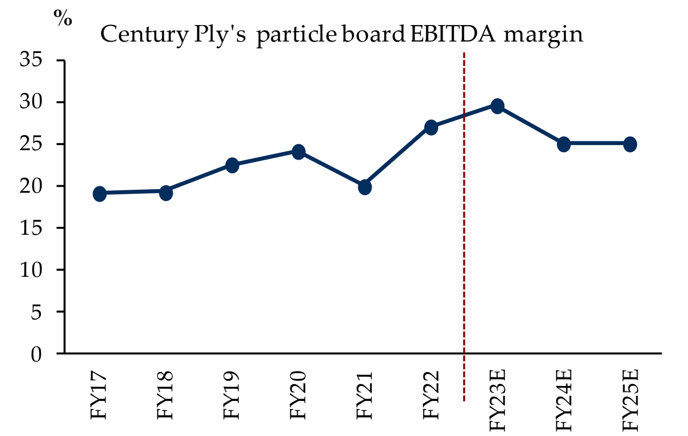
Source: Century Ply, HSIE Research

Currently, particle board segment is flushed with smaller players



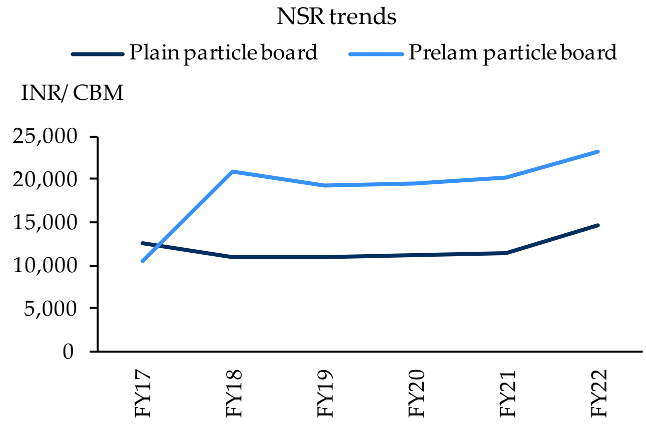
Source Century Ply, HSIE Research

In absence of comparative data for other players, we have plotted Century's segmental EBITDA margin—we expect margin to cool off as new capacities ramp up



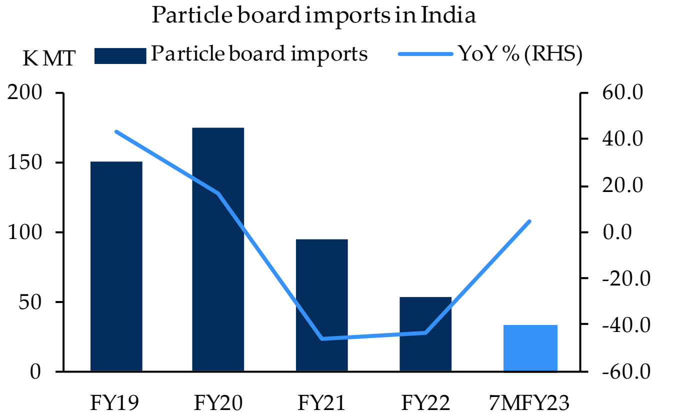
Source: Companies, HSIE Research

Companies focus on selling more pre-lam particle board which fetches higher realisation and in turn higher profit margin



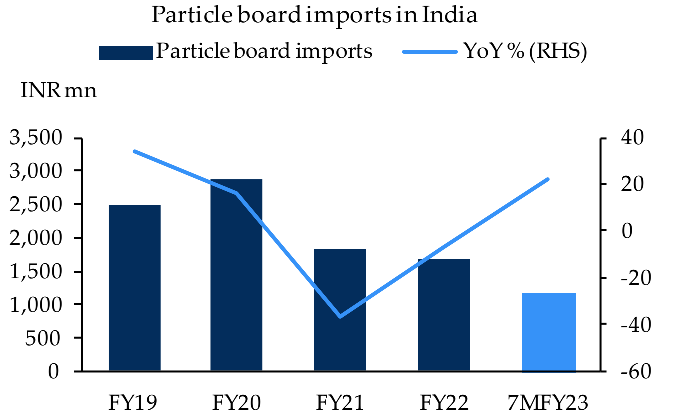
Source Companies, HSIE Research

Particle board imports peaked out in FY20; While it is recovering in FY23, the run rate remains well below pre-COVID levels



Source: Companies, HSIE Research

Even in value terms, imports remain low—these should be advantageous for upcoming domestic capacities



Source Companies, HSIE Research

Key trends for wood panel companies

We tabulate below the key trends of wood panel companies. Almost all of them have registered >10% revenue CAGR in the past five years. Even during the past three years, the companies have posted healthy growth despite COVID. Century Ply is the overall market leader in the wood panel space. Greenlam is the largest company in the laminate space and Greenpanel leads in the MDF space.

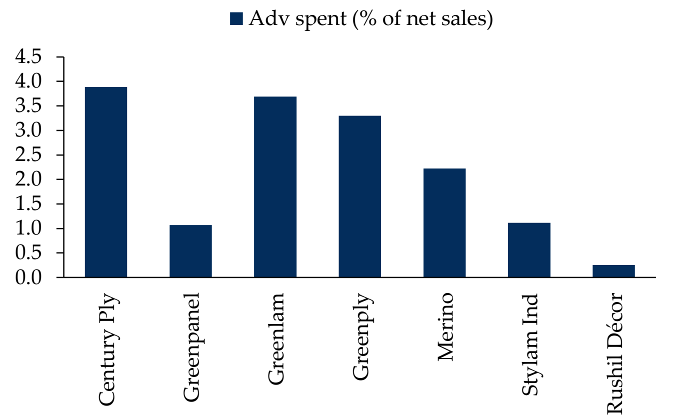
We have compared key operating expenses of various companies. Retail-focused Century, Greenlam and Greenply spend >3% (on net sales) on ads/promotions. The sector reports high employee cost in general (>8%). Greenlam leads with ~16% of net sales in employee expense, owing to its large domestic distribution and as it also has offices across many countries. Century Ply also has ~14% of its sales towards employee cost, owing to its multiple factories and sales offices across India. Greenpanel has a leaner employee cost structure as well as it spends less on advertisements (MDF has more of institutional application that requires lower branding expenses).

Revenue and profit trends for major wood panel companies

Company	FY22 Rev (INR bn)	5-yr CAGR %	3-yr CAGR %	FY22 OPM %	FY22 EBITDA (INR bn)	5-yr CAGR %	3-yr CAGR %
Century Ply	30.27	*10.7*	*9.9*	*17.5*	5.31	*11.2*	*20.7*
Greenpanel	16.25	*NA*	*39.5*	*26.5*	4.30	*NA*	*77.2*
Greenlam	17.03	*9.6*	*10.0*	*11.0*	1.87	*6.2*	*5.7*
Greenply	15.63	*(1.3)*	*3.4*	*9.6*	1.50	*(9.3)*	*1.4*
Merino	17.48	*10.6*	*5.9*	*12.0*	2.10	*3.9*	*(0.1)*
Stylam Ind	6.59	*17.5*	*12.7*	*15.7*	1.04	*17.8*	*9.1*
Rushil D	6.24	*15.3*	*22.0*	*11.8*	0.74	*9.0*	*26.4*

Source: Companies, HSIE Research

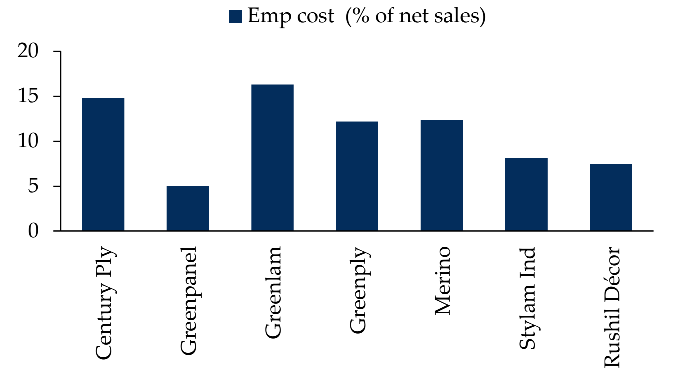
Retail-focused companies (Century, Greenlam, Greenply) have higher advertisement budget



Source: Companies, HSIE Research, Spend calculated as % of net sales (mean of FY20-22 financials)

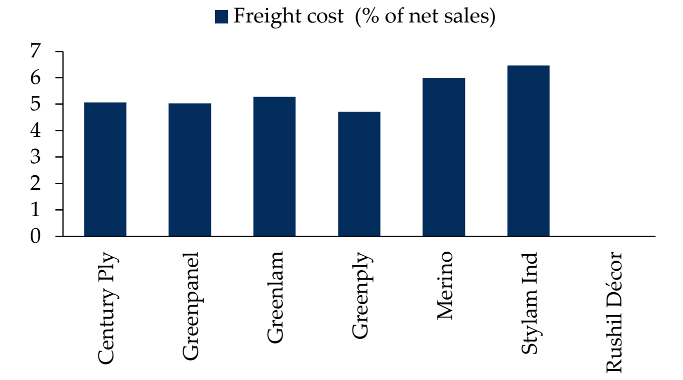
On the freight cost front, almost all the companies spend 5% and more on logistics. We have also included export logistics costs for the comparison as it forms a major chunk of costs for laminates companies. Rushil Decor does not share its logistics cost separately.

Employee cost trends of various players



Source: Companies, HSIE Research, Spend calculated as % of net sales (mean of FY20-22 financials)

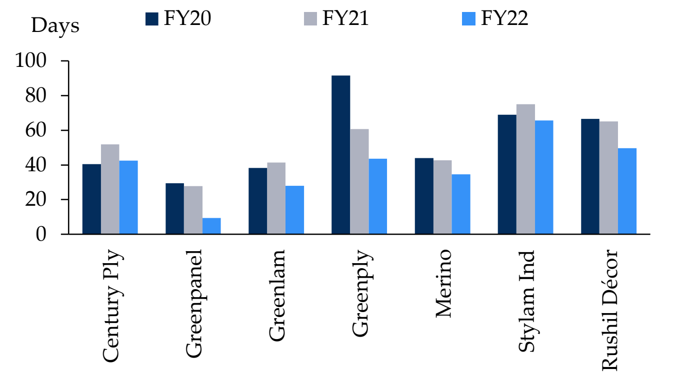
Freight cost trends of various players



Source: Companies, HSIE Research, Spend calculated as % of net sales (mean of FY20-22 financials), Rushil – data not available

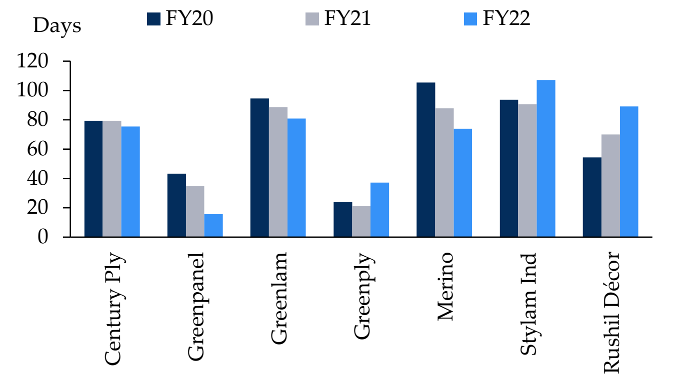
Greenpanel leads with the leanest working capital profile as well as the lowest debtors on books. The laminate companies have higher cash conversion cycle of >80 days, owing to the fact that they maintain large SKUs and have relatively higher debtor days (~two months).

Debtors' trends of various players



Source: Companies, HSIE Research

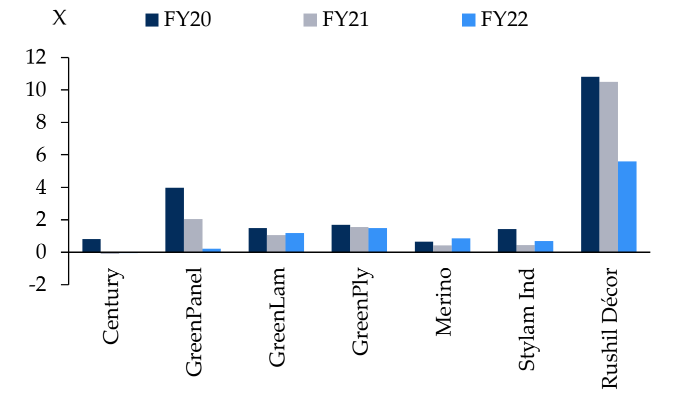
Cash conversion trends for the players



Source: Companies, HSIE Research

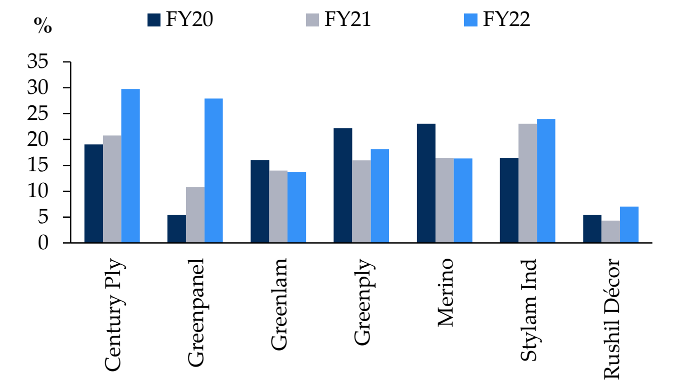
Century Ply remains a net cash company. Barring Rushil Decor (which commissioned a large MDF plant in FY22), all others have a comfortable gearing ratio of under 2x net debt to EBITDA. Even in terms of the overall profitability metrics, Century Ply leads with the highest RoCE. Greenpanel has also seen a strong uptick on buoyant MDF sales and margin. Barring Rushil Decor (undergoing ramp-up pain), all other companies delivered a double-digit RoCE in FY22.

Net debt to EBITDA ratio



Source: Companies, HSIE Research

RoCE (pre-tax) trends of various players



Source: Companies, HSIE Research

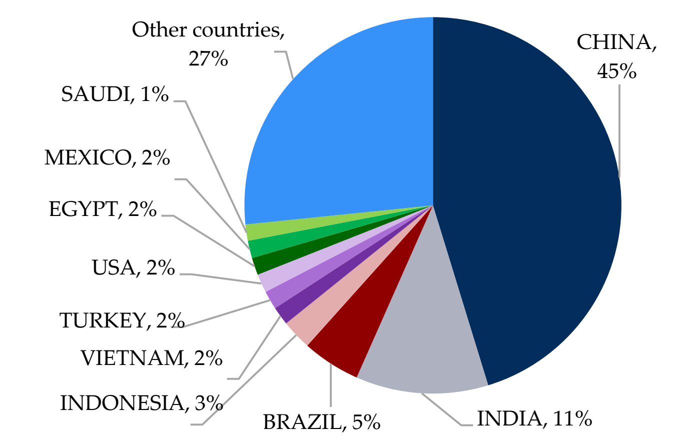
Ceramics Tiles – trends and outlook

Exports on a super high; domestic demand steady

India is the second largest producer and seller of ceramic tiles globally. The country has ~14/11% share in world tile production/consumption, second to China. While the world tile consumption has stagnated for the past several years, India continues to grow at ~5% CAGR and has gained market share, mainly at the expense of China (which is experiencing contraction).

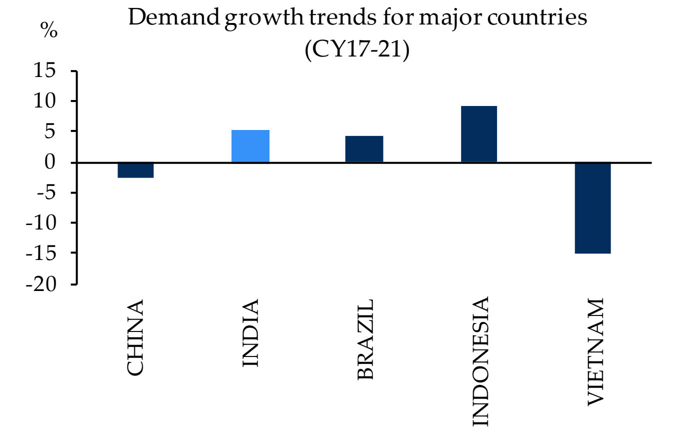
India's tile exports grew exponentially until CY21. In 2021, the share of tile exports increased to ~19% of its total production (vs 14% in 2018). Its share in the world export market jumped to 16% in 2021, from 10% in 2018. However, 2022 has been a tough year as export volumes are down 20/17% 10MCY22/7MFY23. However, the run rate still remains well above the pre-pandemic level.

Global tiles consumption of various countries (2021): India remains firm at No. 2 position



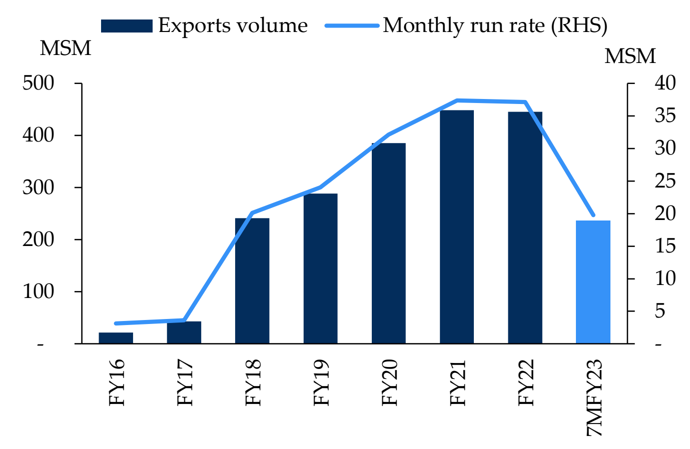
Source: CWR, HSIE Research

Tiles demand in India continued to grow at a healthy pace despite COVID impact



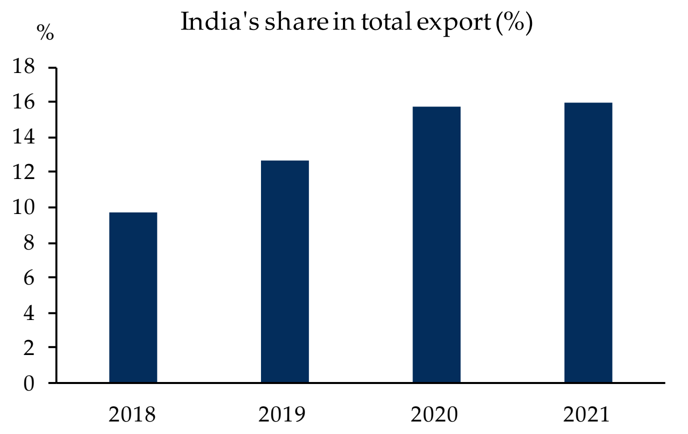
Source: CWR, HSIE Research

While tiles export volumes from India surged at a fast pace until FY21, it has come off ~17% YoY in 7MFY23



Source: CWR, HSIE Research

India's share in tiles exports expanded by ~600bps during CY18-21, owing to its fast growth

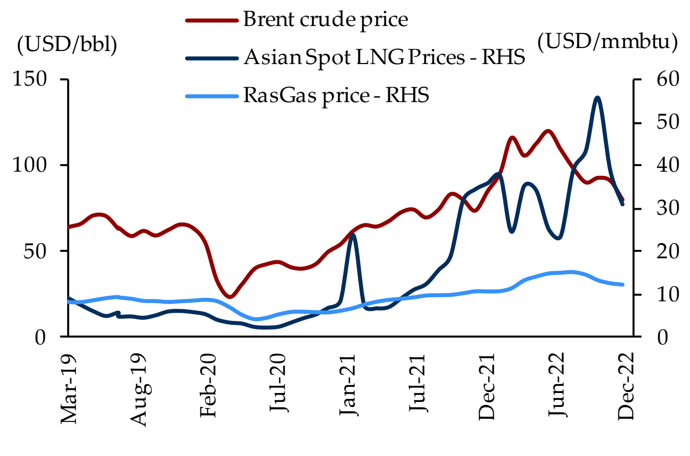


Source: CWR, HSIE Research

Elevated gas prices drag tile margins down

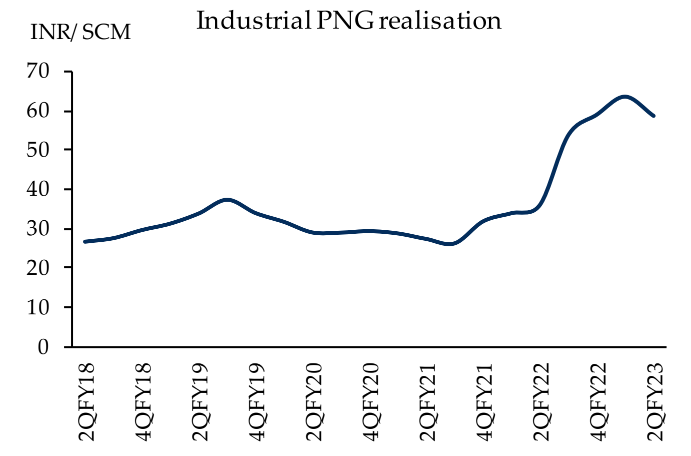
While tile demand in the domestic markets has remained stable, the fall in exports in 2022 has increased supplies in domestic markets, thus diluting the industry's ability to pass on the sharp gas price inflation. In Q2FY23, the export-focused Morbi players took a one-month production holiday to reduce the demand-supply imbalance.

Global spot and long-term gas prices started to cool off from Oct onwards



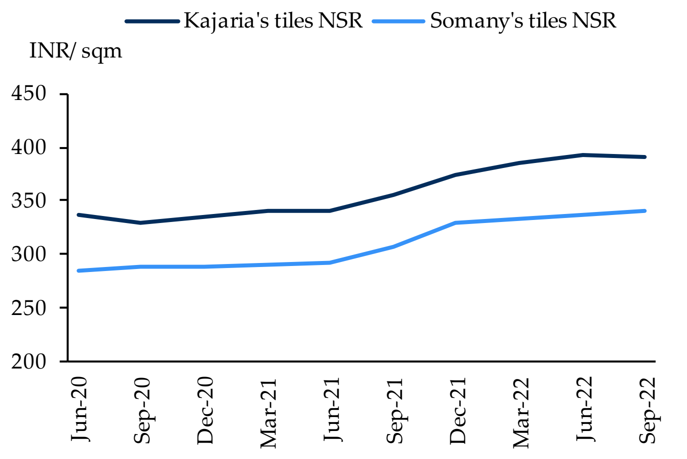
Source: Bloomberg, HSIE Research

Local gas supplier—Gujarat Gas' realisation has started to trend down



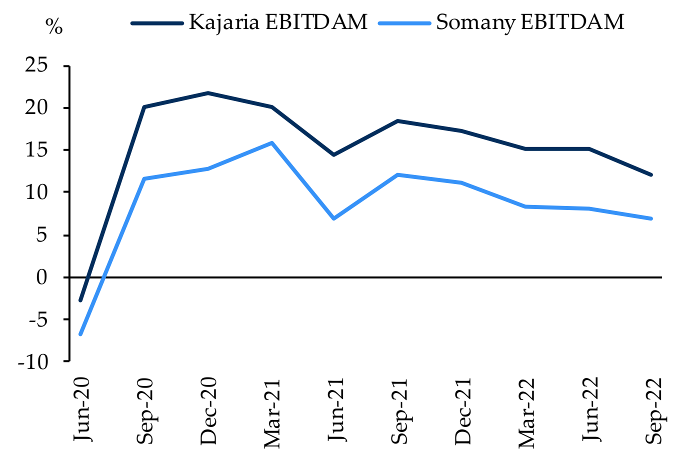
Source: Industry, HSIE Research

Companies raised prices in the past four quarters to mitigate the cost-inflation impact



Source: Companies, HSIE Research

Weakness in exports softened the cost pass-through capabilities in domestic markets, dragging margins

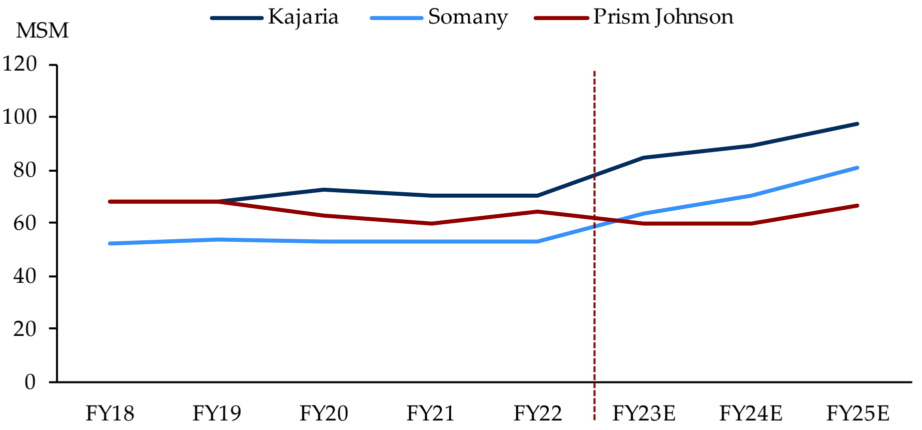


Source: Companies, HSIE Research

Margin recovery in sight

The tiles majors in India largely focus on domestic markets, while 50-60% of sales of companies operating out of Gujarat (in the Morbi cluster) are toward exports. The tiles majors are expanding capacities, given their high utilisation and healthy domestic demand outlook.

Tile majors are expanding capacities during FY23-25E, owing to rising domestic demand outlook in India

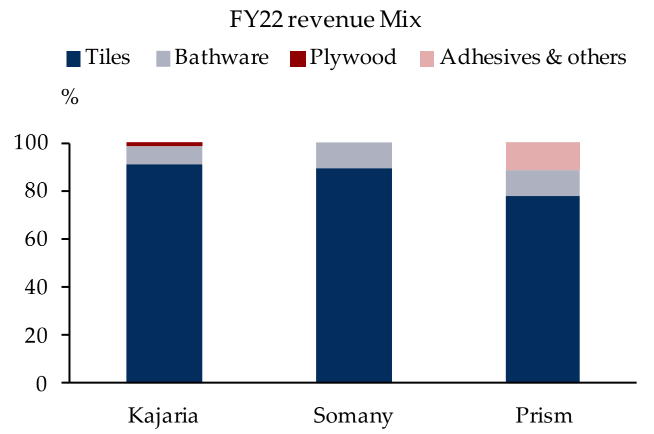


Source: Companies, HSIE Research

Key operating trends for tiles companies

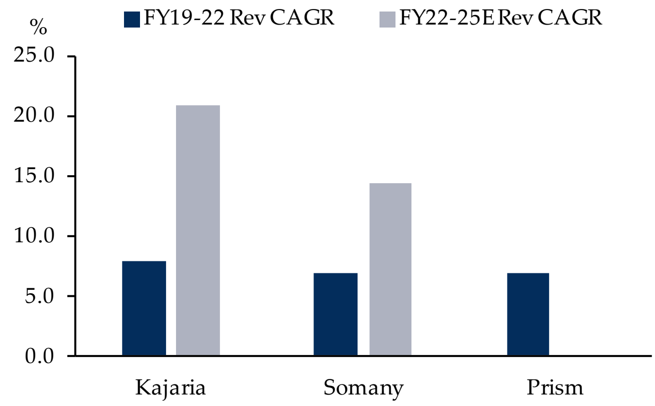
We estimate Kajaria and Somany would grow at a fast pace in domestic markets, owing to their strong franchise. We also estimate EBITDA margin would recover FY24E onwards, driven by cooling off of gas prices and export rebound should moderate the pressure on domestic markets.

Revenue mix of the top-3 tiles manufacturers in India: all three have also expanded into bathware segment



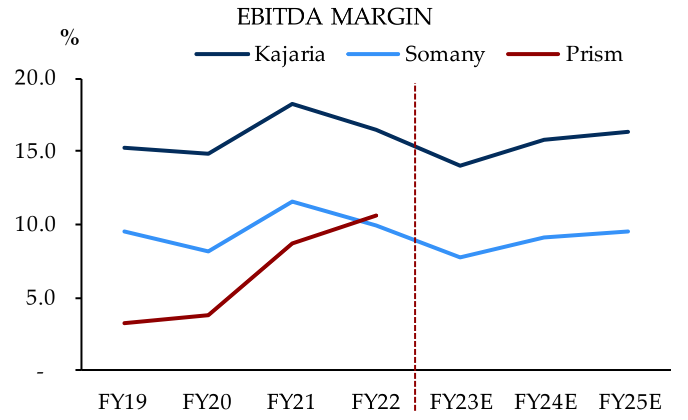
Source: Companies, HSIE Research, Prism revenue mix is only for its TBK segment

Revenue growth trends in the past three years and outlook for the tiles majors



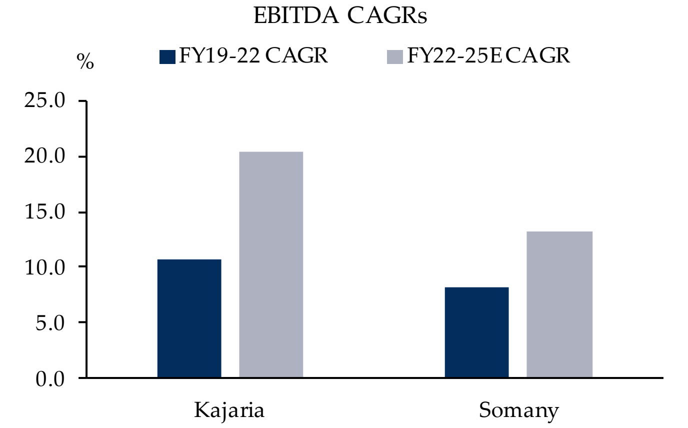
Source: Companies, HSIE Research

We estimate operating margin to recover FY24 onwards, supported by gas price cool off



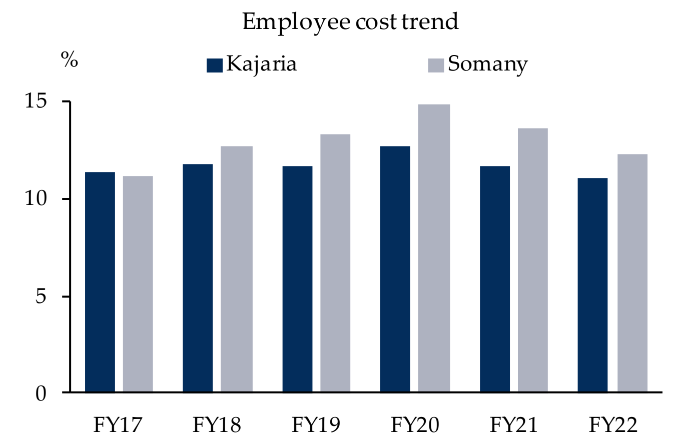
Source: Companies, HSIE Research

Margin recovery and healthy volumes to bolster EBITDA offtake



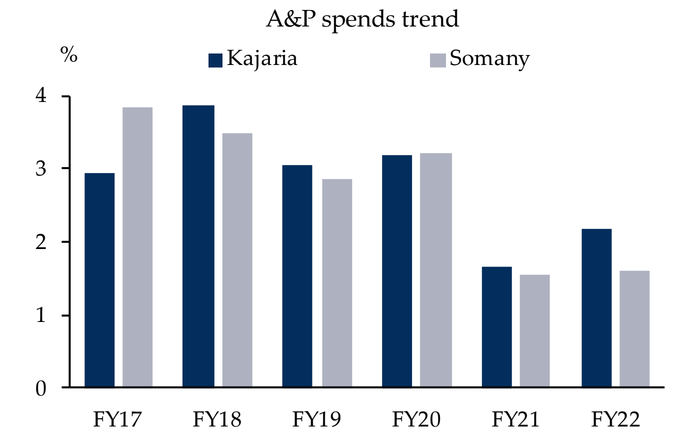
Source: Companies, HSIE Research

Kajaria's employee cost continues to be lower vs Somany's



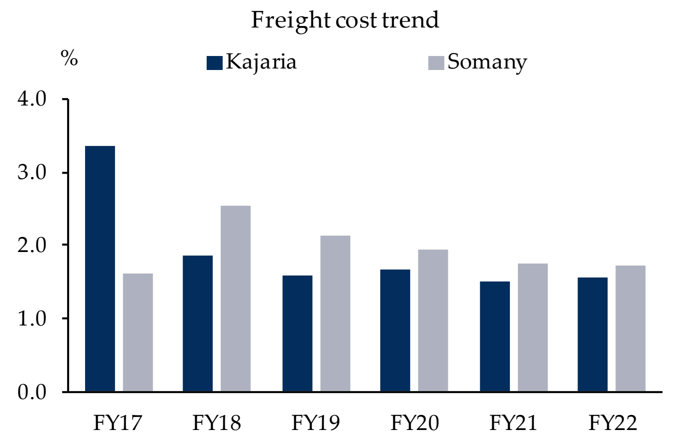
Source: Companies, HSIE Research

During the COVID period, both companies slowed their promotional expenses down



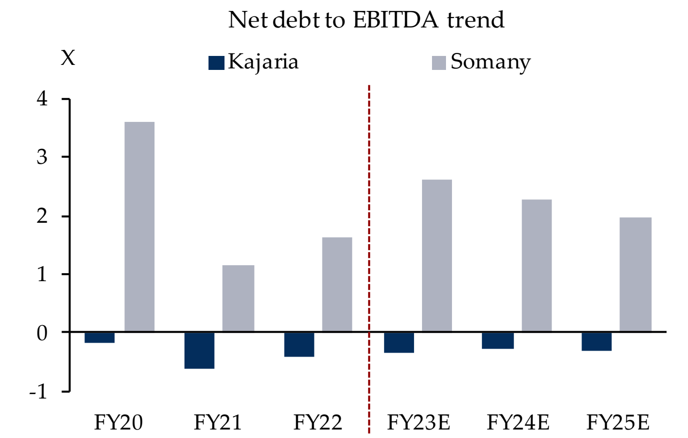
Source: Companies, HSIE Research

Kajaria also has leaner freight cost structure vs Somany



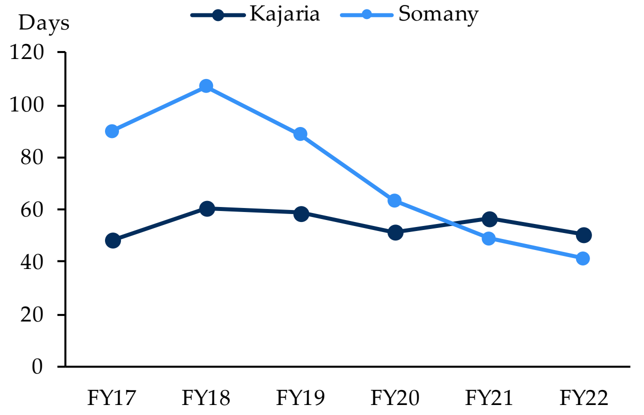
Source: Companies, HSIE Research

While Kajaria remains net cash positive, Somany would remain a net debt company



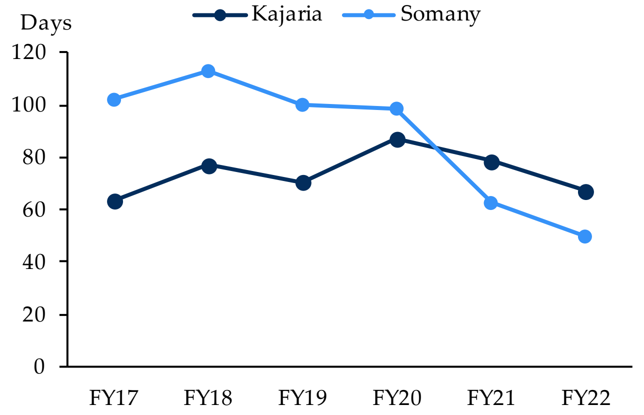
Source: Companies, HSIE Research

Debtors management: Both companies continue to tighten their receivables



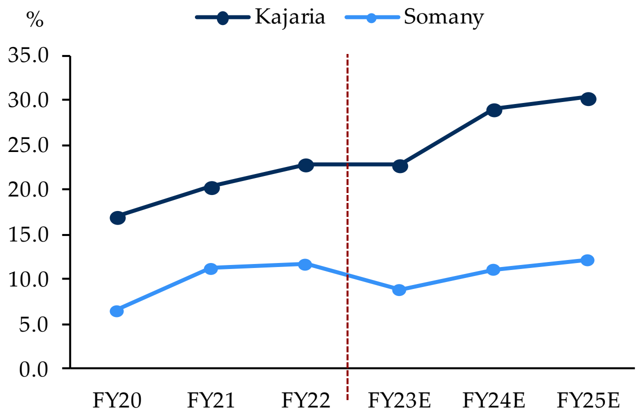
Source: Companies, HSIE Research

Kajaria continues to maintain a healthy cash conversion cycle, while Somany has also become very lean



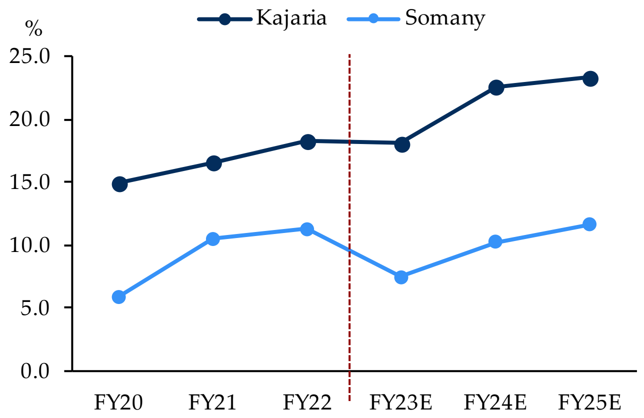
Source: Companies, HSIE Research

RoCE trends



Source: Companies, HSIE Research

RoE trends



Source: Companies, HSIE Research

Plastic Pipes: trends and outlook

Resin prices bottoming out

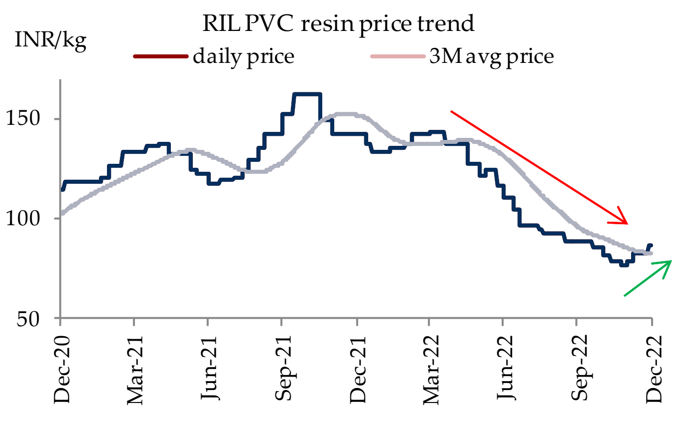
PVC resin prices spiked during the COVID period, owing to global supply chain disruptions. However, with production opening up in the market-leading China since the start of FY23, cheap imports flooded India. Subsequently, resin prices corrected from its peak of INR 144/kg at start of FY22 to INR 77/kg in Nov-22. This severely affected sales and operating profits for plastic pipe manufacturers.

Revenue profile of major pipe companies in India

	FY22 revenue INR bn	Rev CAGR FY17-22	Segment wise revenue mix (%)					
			Plumbing	PVC resins	Adhesives	Industrial products	Packaging products	Others
Supreme ind.	77.7	11.9	65			13	16	6
Finolex Ind.	46.5	12.3	83	17				
Astral	43.9	18.3	77		23			
Prince Pipes	26.6	16.3	100					
Apollo pipes	7.8	16.5	100					

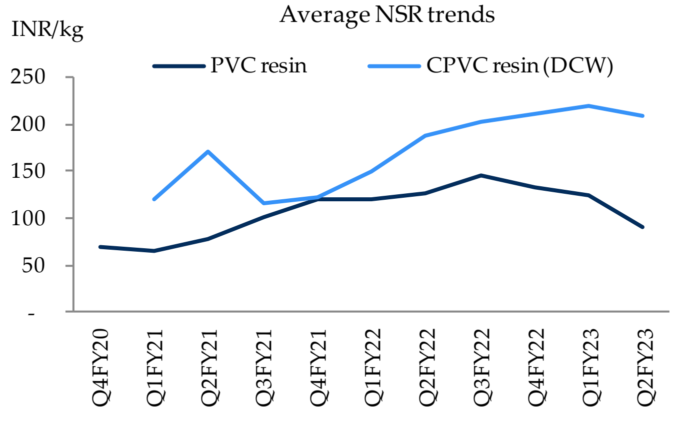
Source: Industry, HSIE Research

PVC prices have been volatile in the past one year; Post a major slump since Apr-22, it has stabilized recently



Source: Industry, HSIE Research

CPVC resin prices remained stable and firm compared to PVC resins



Source: Industry, HSIE Research

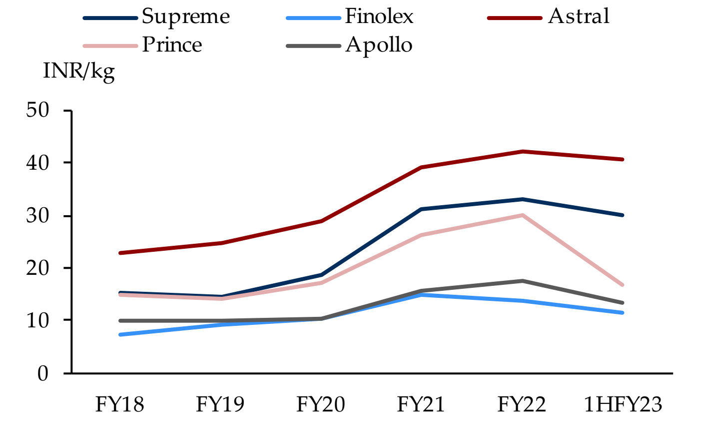
The pipe companies recorded high inventory losses in H1FY23 as they wrote off their resin and finished goods inventories to account for the fall in their market prices. These losses caused H1FY23 operating margin for pipes companies to fall to multi-year low levels. However, adjusting for the inventory losses, their profitability remains strong and is in fact better off than the pre-COVID level.

Inventory losses created a big dent on margins

H1FY23	Reported Inv Loss INR mn	Sales volumes K MT	Inventory loss INR/kg	Reported EBITDA INR/kg	Adjusted EBITDA INR/kg
Supreme	2,300	159	14.5	15.7	30.2
Finolex	1,181	131	9.0	2.4	11.4
Astral	700	77	9.1	31.7	40.7
Prince	850	70	12.2	4.7	16.9
Apollo	170	30	5.7	7.5	13.2

Source: Companies, HSIE Research

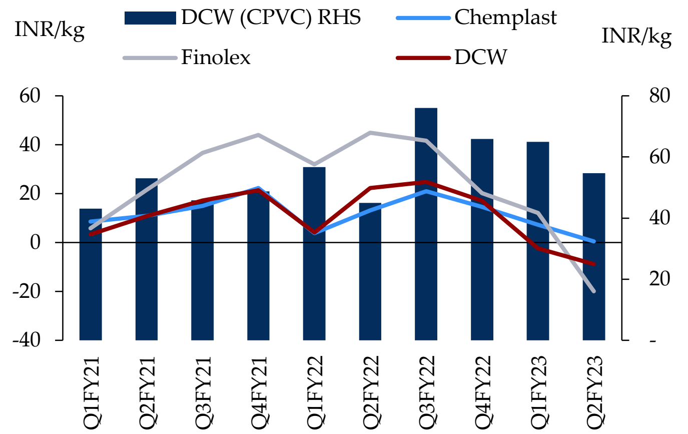
Adjusted for the inventory losses, H1FY23 margin is still above the pre-COVID level



Source: Companies, HSIE Research, 1HFY23 adjusted for inv losses

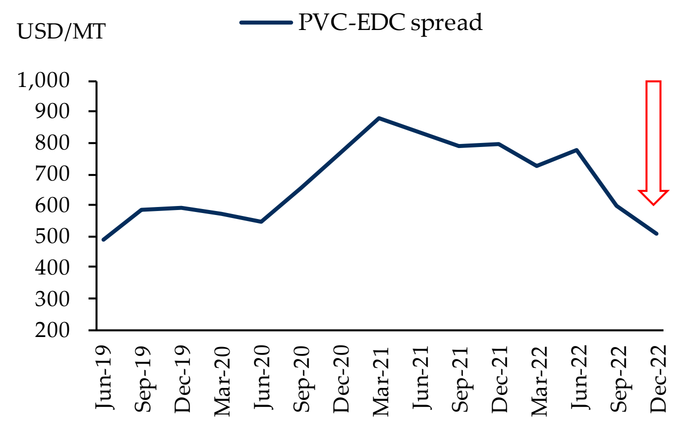
The falling resin prices drove resin manufacturers' operating profits in red in Q2 and companies have been anticipating that prices would stabilise from November lows. Apparently, resin prices have bottomed out as PVC resin prices recovered 8% for their two-year low levels of INR 77/kg in Nov-22. While there would still be a marginal inventory loss in Q3, stable resin prices should lead to normalised and healthy margin performance thereafter.

PVC resin manufacturers' EBITDA margin slumped into losses owing to falling price; CPVC margin still strong



Source: Industry, HSIE Research

Resin manufacturers worldwide are under a squeeze as the PVC-EDC spread fell sharply

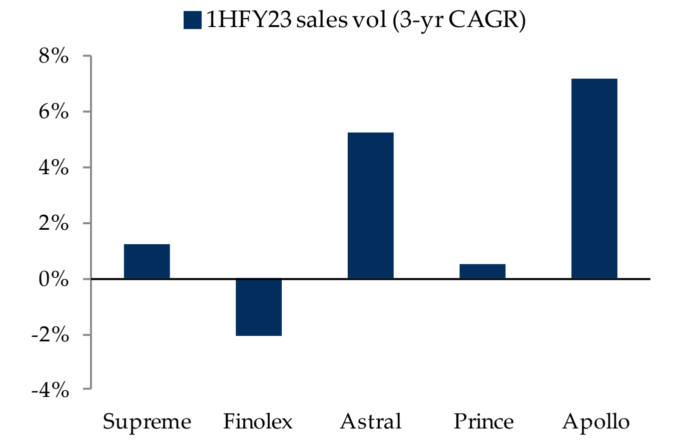


Source: Finolex Industries, HSIE Research

Demand for pipes should rebound

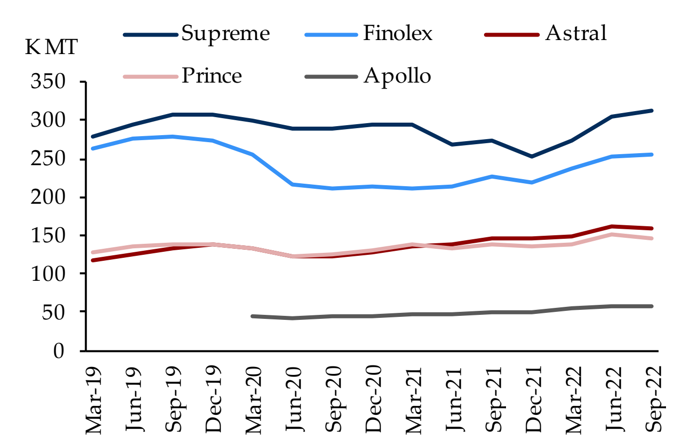
Dealers reduced stock to reduce inventory loss risks. The gradual fall over the past eight months also led to buyers seemingly deferring their discretionary spends in anticipation of getting it cheaper! This slowed sales growth down for companies even though demand tailwinds (real estate, individual house construction, government projects) remain intact. Despite volatile pricing impacting both pipes demand, during H1FY23, companies have mostly posted positive volume CAGR (three-year basis). With resin and pipes prices stabilising in Dec-22, we expect even volume growth to accelerate, on pent-up demand.

Despite volatile resin prices impacting both agri and building material demand, volume trend is healthy



Source: Companies, HSIE Research

Volumes (TTM basis) continue to recover and are above pre-COVID levels; stable prices to further boost growth

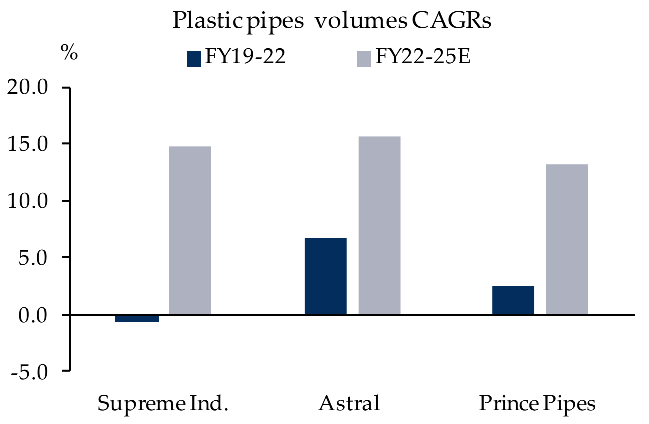


Source: Finolex Industries, HSIE Research

The price-sensitive agri segment demand is expected to rebound, as prices have cooled off significantly. This should lead to operating leverage gains for pipe companies. Even the building material segment demand should firm up.

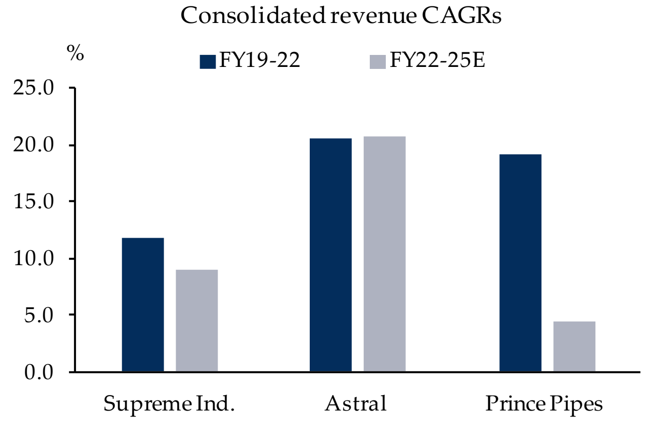
Key operating trends for the pipes companies under coverage

Revenue trends – we estimate low prices to boost volume offtake



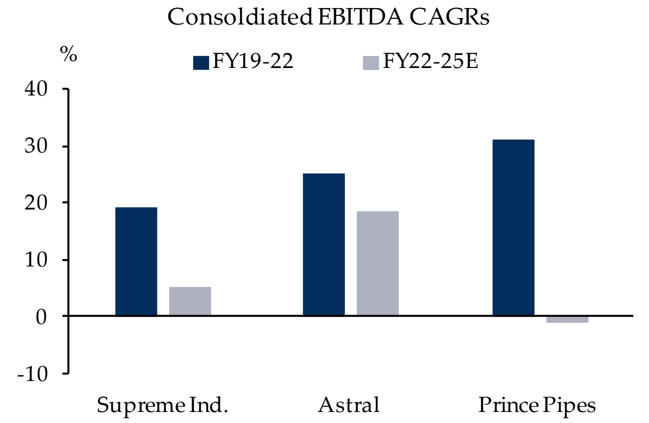
Source: Companies, HSIE Research

Robust volumes should drive up revenue CAGR for our coverage universe despite fall in PVC prices



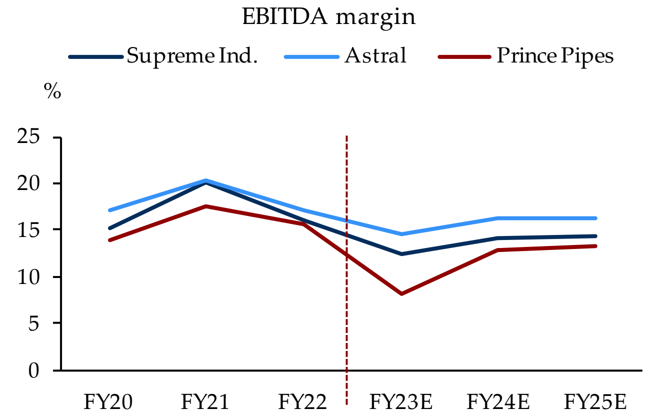
Source: Companies, HSIE Research

EBITDA trends: We estimate Astral to deliver robust growth led by stable CPVC and contributions from paint and bathware businesses



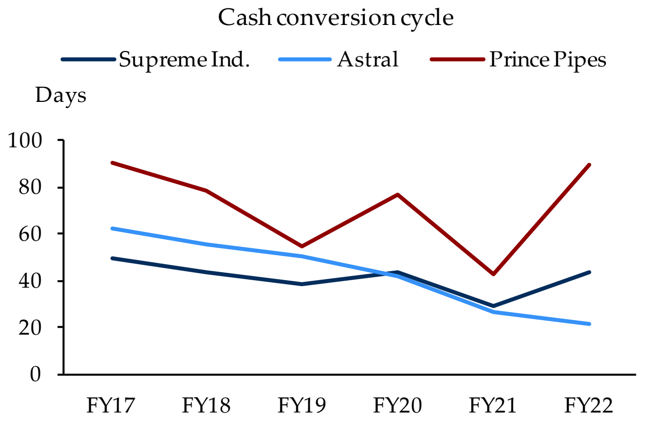
Source: Companies, HSIE Research

EBITDA margin trends: stable resin prices should drive margin recovery in FY24E



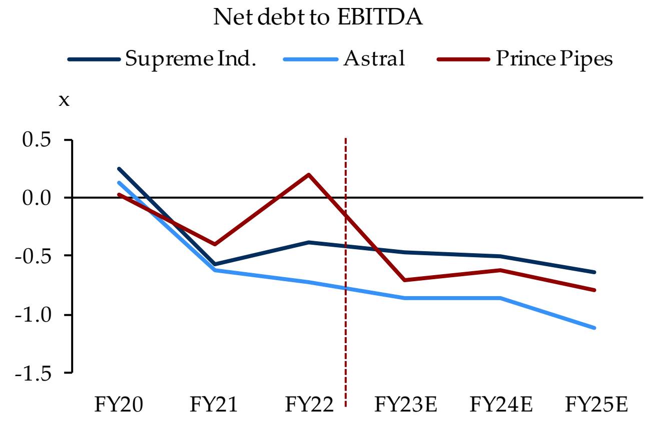
Source: Companies, HSIE Research

Working capital trends: Prince Pipes' working capital stretched in Mar-22 on inventory spike



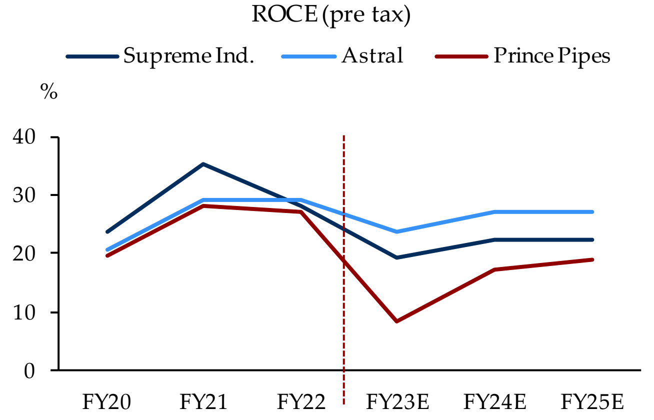
Source: Companies, HSIE Research

Leverage trends: All three companies enjoy a net cash balance sheet



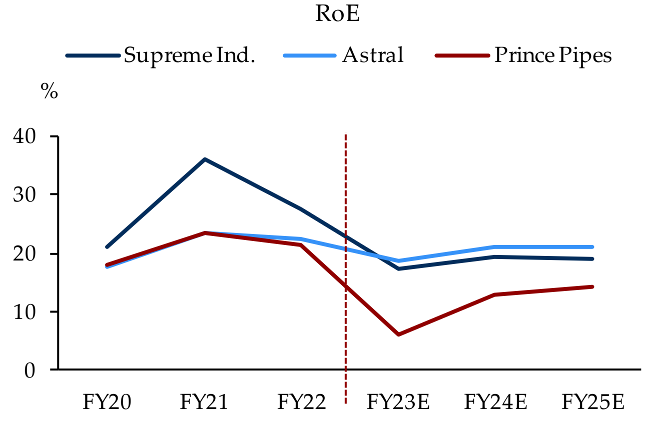
Source: Companies, HSIE Research

Return ratios: Inventory losses pull down return ratios in FY23E; expect a rebound FY24E onwards



Source: Companies, HSIE Research

Even RoEs should perk up



Source: Companies, HSIE Research

Wood panel companies

- Century Ply (BUY, TP INR 715)
- Greenpanel Industries (BUY, TP INR 430)
- Greenlam Industries (ADD, TP INR 360)
- Greenply Industries (NOT RATED)
- Stylam Industries (NOT RATED)
- Rushil Decor (NOT RATED)
- Merino India (UNLISTED)

INSTITUTIONAL RESEARCH

Century Plyboards India

Firing on all cylinders

We initiate coverage on Century Ply with a BUY rating and a target price of INR 715/sh (20x its Mar'25E consolidated EBITDA). We like Century for its strong franchise (pan-India distribution, aggressive marketing, and a wide range of SKUs), leadership presence in most wood segments and healthy return ratios. Enthused by demand tailwinds, the company is aggressively expanding in all segments (without stressing its balance sheet), which should maintain its leadership position as well as drive robust earnings growth (EBITDA/PAT 15/14% CAGRs during FY22-25E). It is expanding its MDF and particle board businesses (both high-margin) aggressively. Both segments are likely to grow at a faster rate within the wood panel industry.

- **Steady growth trajectory:** Century Ply is the market leader in the wood panel business in India. In the past seven years, it has reported 10/11/11% revenue/EBITDA/APAT CAGRs. It also enjoys leadership positions in the segments of plywood (the largest seller), laminates (No 4), MDF (No 4) and particle board (the second largest). Over time, it has created a wide range of SKUs (18K+), a pan-India distribution that is aiding its healthy growth, and industry-leading margin and return ratios.
- **Century gears up for robust growth in all segments:** During FY22-25E, Century's ply/laminate/MDF/particle board capacities are expected to grow at 10/11/47/80% CAGRs as it is undertaking greenfield and brownfield expansions and debottlenecking. It is deploying huge Capex in high-growth and high-margin MDF and particle board businesses to gain market leadership. We estimate Century would deliver revenue/EBITDA/APAT CAGRs of 15/15/14% from FY22-25E.
- **Expect a healthy balance sheet despite aggressive Capex:** During FY23-25E, we estimate Century to incur INR 17bn in Capex (more than what it spent in the past 10 years). Despite this, we expect net debt/EBITDA to remain well below 1x as we factor in robust operating profits and a prudent working capital outlook.
- **Initiate coverage with a BUY rating:** Century Ply is firing on all cylinders and is led by demand tailwinds. We expect it to grow faster vs the past, owing to aggressive expansion, which will speed up its market share gain across most of the home decor segments. We believe its large expansions in MDF and particle board will further diversify its revenue mix. These measures will support a valuation rerating. We initiate coverage on the stock with a TP of INR 715/sh, valuing it at 20x Mar'25E consolidated EBITDA (25% premium to its 5-year mean). Our TP implies P/E of 34x on Mar'25E.

Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	20,239	22,804	23,170	21,304	30,270	36,270	40,540	46,366
EBITDA	3,311	3,016	3,307	3,355	5,308	5,744	6,838	7,990
EBITDAM (%)	*16.4*	*13.2*	*14.3*	*15.7*	*17.5*	*15.8*	*16.9*	*17.2*
APAT	1,631	1,484	2,017	2,033	3,131	3,684	4,155	4,628
AEPS (INR)	7.3	6.7	9.1	9.1	14.1	16.6	18.7	20.8
P/E (x)	70.4	77.3	56.9	56.5	36.7	31.2	27.6	24.8
EV / EBITDA (x)	36.4	39.8	35.5	34.1	21.6	20.2	17.2	14.9
RoE (%)	*20.4*	*15.9*	*19.3*	*17.3*	*22.2*	*21.5*	*20.3*	*19.1*

Source: Company, HSIE Research

BUY

CMP *(as on 03 Jan 2023)*	**INR 517**
Target Price	**INR 715**
NIFTY	**18,233**

KEY STOCK DATA	
Bloomberg code	CPBI IN
No. of Shares (mn)	222
MCap (INR bn) / ($ mn)	115/1,384
6m avg traded value (INR mn)	118
52 Week high / low	INR 749/484

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(17.8)	0.8	(14.7)
Relative (%)	(25.8)	(15.1)	(18.2)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	73.04	73.04
FIs & Local MFs	11.97	12.5
FPIs	7.01	6.95
Public & Others	7.98	7.5
Pledged Shares	-	-

Source : BSE

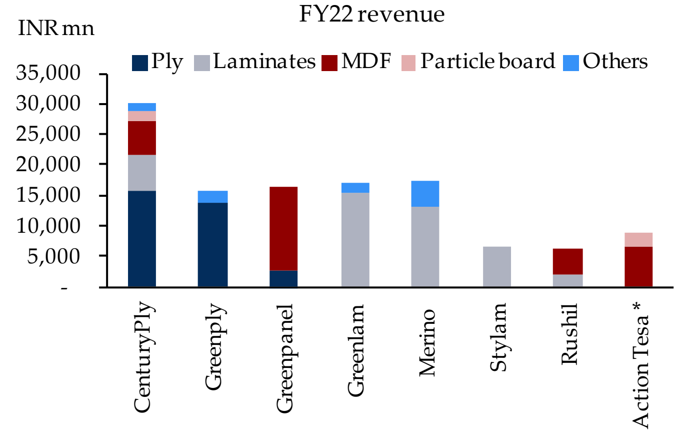
Pledged shares as % of total shares

Rajesh Ravi
Rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Story in Charts

Century is the market leader in the Indian wood panel segments



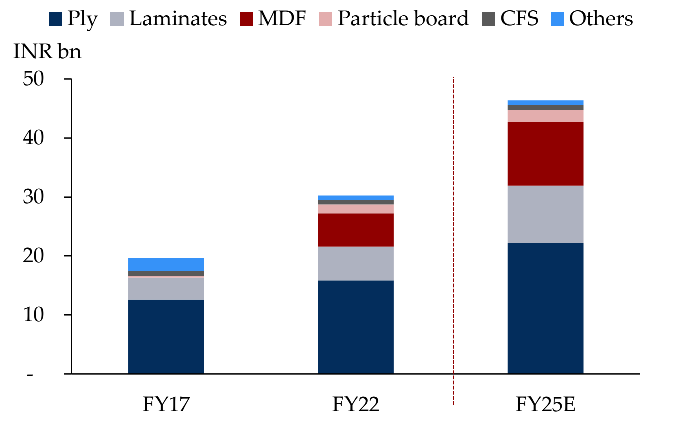
Source: Company, HSIE Research, *Action Tesa data pertains to FY20

Century has been expanding capacities in all its wood segments

Capacity	Ply	MDF	Particle board	Laminates
Year	**K CBM**	**K CBM**	**K CBM**	**mn sheets**
FY17	210	-	54	4.8
FY22	300	198	75	8.8
FY25E	399	627	435	12.1

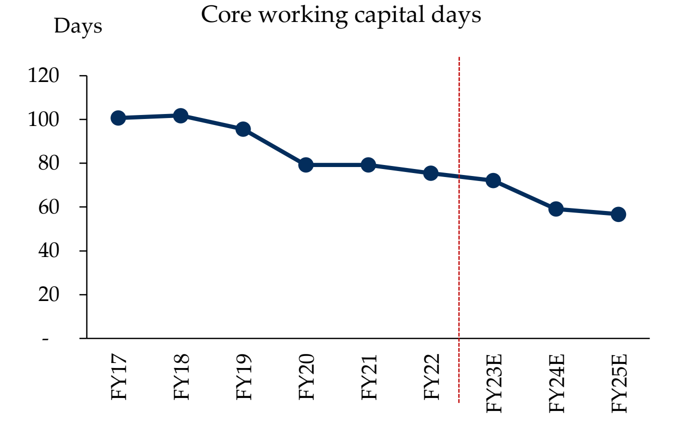
Source: Company, HSIE Research

We estimate Century Ply will delivery healthy revenue growth across its segments



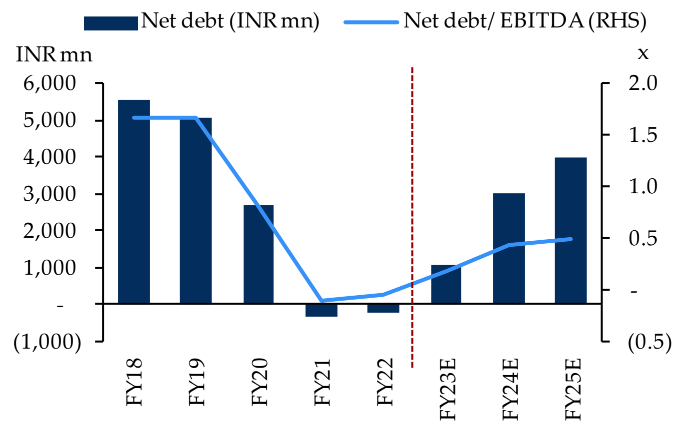
Source: Company, HSIE Research

Working capital requirements should reduce further as MDF/ particle board revenue shares rise



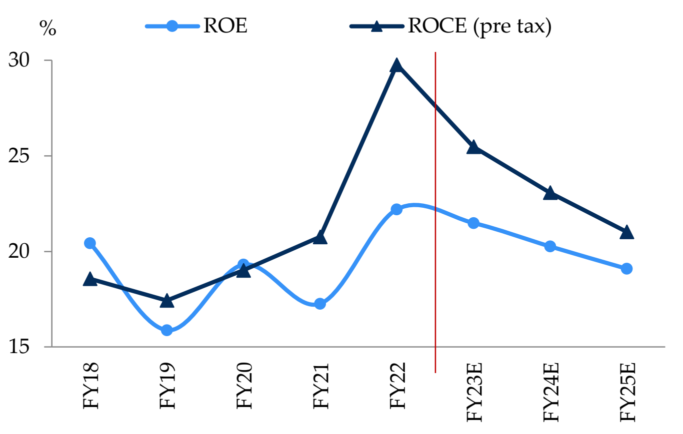
Source: Company, HSIE Research

Century's leverage should remain comfortable despite the expected surge in Capex



Source: Company, HSIE Research

Despite coming off the recent peaks, return ratios should still remain healthy and industry-leading



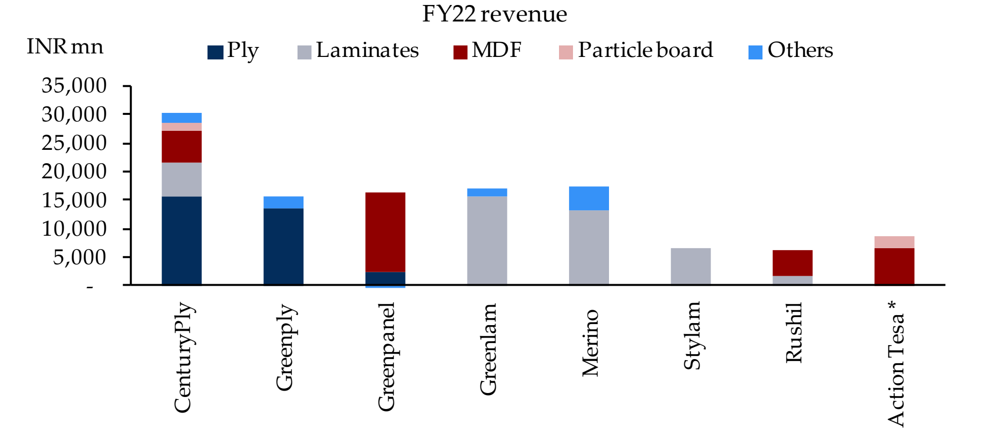
Source: Company, HSIE Research

Diversified presence in all wood segments

Incorporated in 1982, Century Ply is the largest wood product manufacturing company in India. It is currently present in all wood products such as plywood (including veneers), laminates, MDF and particle board.

In FY15, plywood and laminate segments accounted for 67% and 17% of its total revenue. Century expanded into particle board and MDF segments in FY17 and FY18 respectively and these segments have grown at a fast pace. Thus, in FY22, plywood/laminates/MDF/particle-board accounts for 52/19/19/5% respectively.

Century Ply is the market leader in the Indian wood panel sector



Source: Company, HSIE Research, *Action Tesa data pertains to FY20

Century Ply is the market leader in the plywood segment with 300K CBM spread across six states: north (Uttarakhand and Haryana), west (Gujarat), east (West Bengal and Assam) and south (Tamil Nadu). Within plywood segment, it mainly sells in the premium/mid category, thereby delivering decent growth and margin.

Century is also present in the laminate segment for long. It currently has a plant in West Bengal with 8.8mn sheets (FY22) annual capacity.

The company entered the MDF segment in 2017 and is currently the fourth-largest manufacturer of it, with a 198K CBM capacity in Punjab.

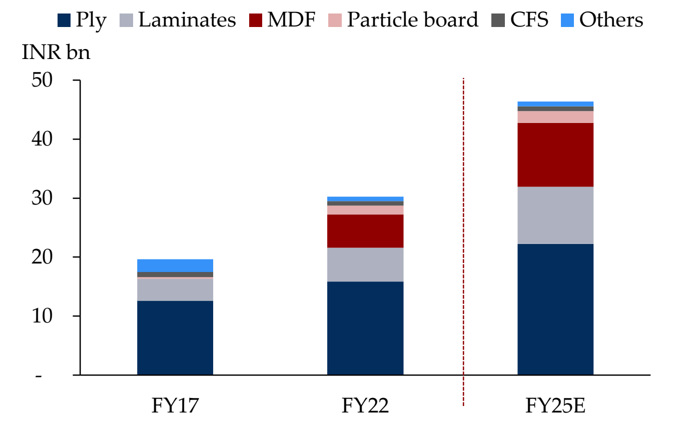
Century ventured in the particle board segment in 2016, setting up a 54K CBM capacity in Chennai. In Q3FY22, it debottlenecked the segmental capacity to 75K CBM, to become the second-largest capacity in India after Action Tesa.

Century has been aggressively expanding capacities across all the four business segments

Capacity	Ply	MDF	Particle board	Laminates
Year	K CBM	K CBM	K CBM	mn sheets
FY17	210	-	54	4.8
FY22	300	198	75	8.8
FY25E	399	627	435	12.1

Source: Company, HSIE Research

Expect robust growth in all wood segments



Source: Company, HSIE Research

Overall, Century is present in all the wood panel segments, with leadership positioning across most of them.

Steady margin; various initiatives in past three years

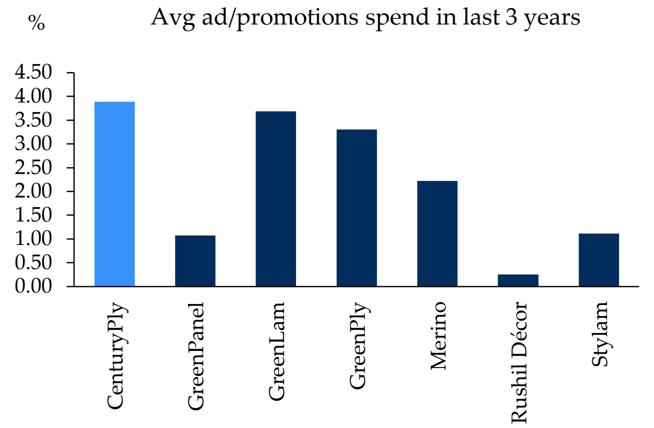
Over the years, the company has expanded its distribution network to 2,700+ dealers and 19,100+ retail touch points/retailers. It has also established a large number of SKUs (18,000+), which is driving its market penetration and market leadership across segments.

In the past three years, Century has also worked on improving its supply chain management and distribution efficiency, has automated sales force to improve sales productivity, and increased forecasting accuracy, distribution management system, as well as real time tracking of secondary sales and inventory. It also engaged BCG for cost optimisation and throughput enhancement; the MDF segment is done, while laminates and particle board are underway.

Century spends aggressively on product marketing (mostly on ply and laminates) and has the largest employee expenses budget among peers (spread out capacities across India).

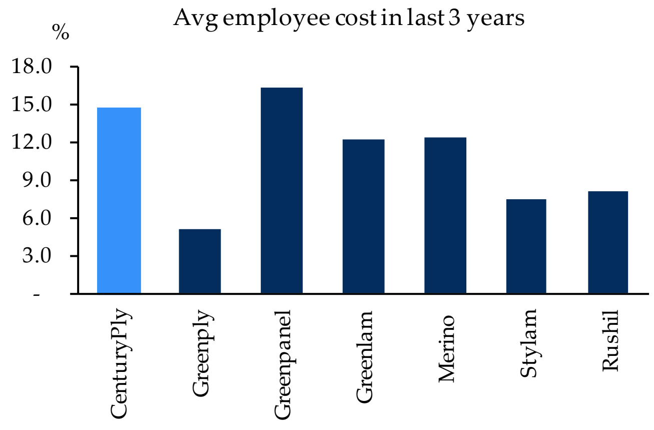
It has been delivering industry leading margins across most of its business segments, riding on its premium pricing, large product range, and strong distribution.

Century spends a large chunk of its revenue (highest in the industry) on promotions and advertisements



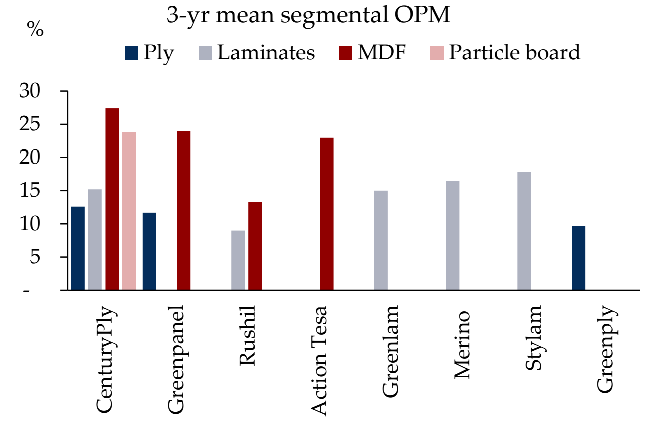
Source: Company, HSIE Research

Its employee cost is also high, owing to its capacity spread and presence in multiple segments



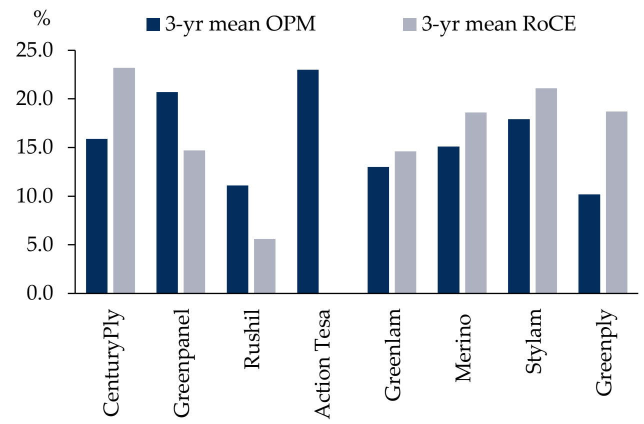
Source: Company, HSIE Research

Century has been delivering industry-leading margins across all segments…



Source: Company, HSIE Research, Action Tesa data is for FY20 only, and includes particle board & others

… and delivering best return ratios in the sector



Source: Company, HSIE Research, Action Tesa data is for FY20 only

Major expansion in most segments to gain market share

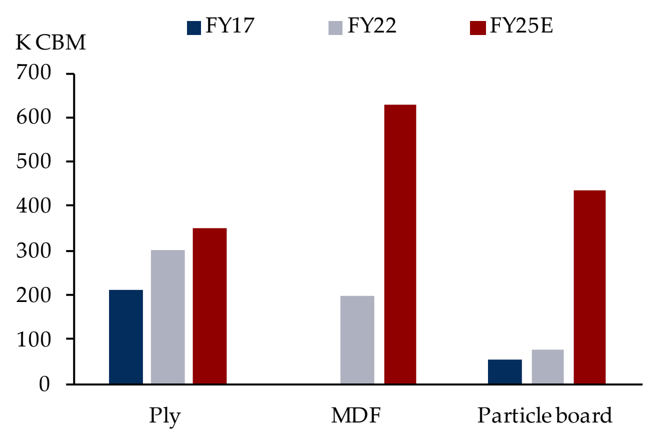
Century is expanding capacities in all segments to continue its market share gains. In ply, it is increasing its capacity at 10% CAGR from FY22-25E as against 7% CAGR in the past five years. Its laminate capacity has also been increasing at 11% CAGR vs 13% in the preceding five years (it is adding high-realisation compact laminates capacity). In the MDF and particle board segments, the company has taken up major expansion—47% and 80% capacity CAGRs respectively. This will accelerate revenue share of these two segments over the next four years. The company is installing the latest machinery, which will also increase its product range, further adding to premium product offerings.

In plywood, the company is focusing on the Sainik brand (for mid segments). While the overall plywood industry is growing at a modest 6-8% CAGR, the mid to premium categories are growing at a faster pace but low-end plywood is flushed with unorganised players and it is witnessing pressure from MDF segment. Century is growing at a faster pace owing to its large range of SKUs, new product launches, aggressive marketing and its distribution strengths.

In the laminate segment, Century is currently restricted by its capability to produce large size sheets—which is majorly preferred in exports market. Its upcoming expansion will address the same.

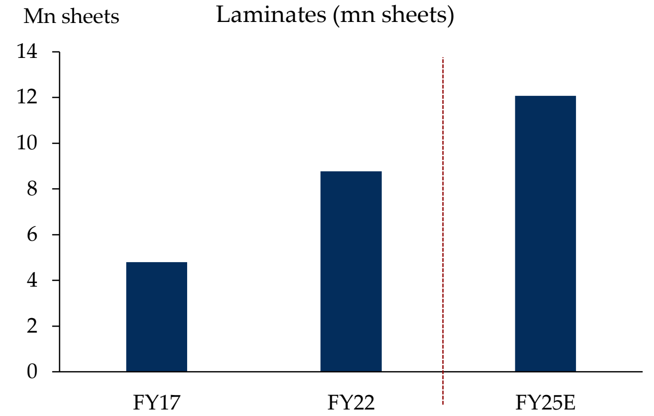
In the MDF segment, the company has taken up a brownfield expansion in the north and is setting up a greenfield plant in the south. Similarly, it debottlenecked its particle board capacity at the end of FY22 and has announced a major expansion in the south (a greenfield project of 360K CBM near the existing plant). Post this capacity expansion, it will become the largest company in this segment. Century is adding continuous press machines for both these segments, which will expand the SKU offerings and, hence, should accelerate the capacity ramp-up.

Major capacity expansion in MDF and particle board



Source: Company, HSIE Research

Continuous expansion in laminates segment



Source: Company, HSIE Research

Strong growth outlook across all business segments

Driven by its accelerated expansion, demand tailwinds, and company's strengths (as discussed above), we expect strong growth traction across segments.

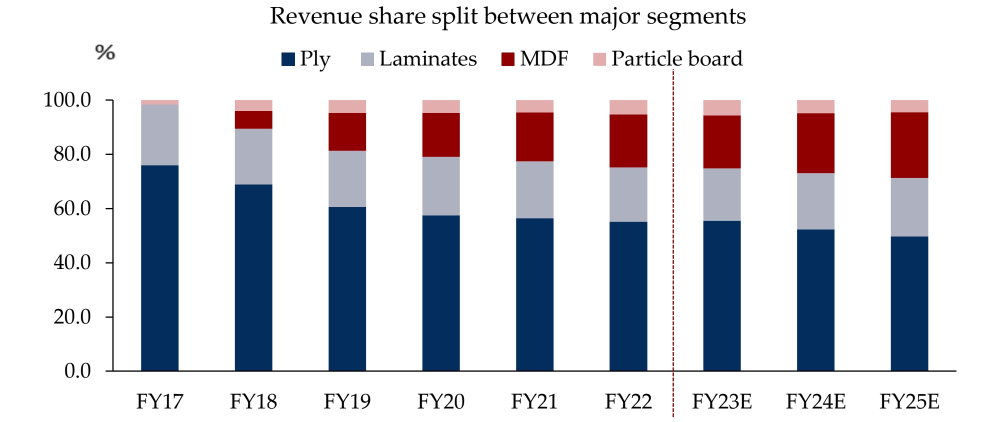
In the ply segment, we expect Century to deliver 11% volume CAGR during FY22-25E (against 3% in the preceding five years). We also expect 12-15% EBITDA margin on account of strong demand, premiumization, and cost initiatives. For FY23, the company has guided 15/20% volume/value growth YoY along with 13-15% EBITDA margin.

In the laminate segment, we model in 18% volume CAGR (riding on its distribution, aggressive advertisement, and upcoming capacities) and 14-16% EBITDA margin. The company has guided 15% volume growth in FY23 along with 14-16% EBITDA margin.

Century's brownfield MDF expansion in the north is expected to become operational in Q4FY23 and its greenfield plant in AP is expected by next year (H2FY24E). These will drive segmental volume growth and we are building in 26% volume CAGR during FY22-25E (against 10% CAGR in the preceding three years). We expect EBITDA margin to peak out in FY22 and to cool off during FY23-25E, owing to bunching up of various MDF plants over the next 2-3 years and rebound in imports. In the near term, elevated timber prices is expected to weigh margin down. We have also built in an op-lev loss as the new expansion would take 3-4 years for complete ramp-up.

Thus, we build in 26/13% MDF volume/EBITDA CAGRs during FY22-25E. For particle board, we expect the greenfield expansion to contribute FY26E onwards. We estimate 7/6% segmental volume/EBITDA CAGRs during FY22-25E.

MDF share in wood revenue mix should cross 23%, while ply will fall below 50% by FY25E



Source: Company, HSIE Research

Key operating assumptions

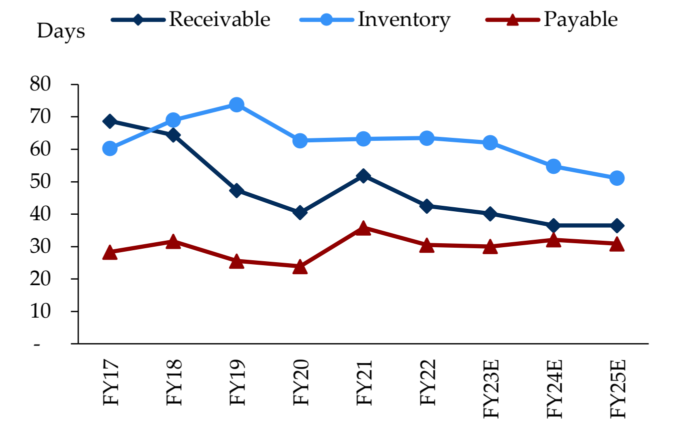
Segmental performance (INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Plywood							
Sales vol (K CBM)	253	244	223	298	349	377	407
YoY %	*-0.5*	*-3.3*	*-8.8*	*33.9*	*17.0*	*8.0*	*8.0*
Revenue	12.78	12.34	11.23	15.84	19.27	20.40	22.25
YoY %	*0.7*	*-3.4*	*-9.0*	*41.0*	*21.7*	*5.8*	*9.1*
EBITDA	1.78	1.53	1.29	2.22	2.39	2.89	3.34
YoY %	*-1.1*	*-14.1*	*-15.5*	*72.1*	*7.3*	*21.1*	*15.6*
OPM %	*13.9*	*12.4*	*11.5*	*14.0*	*12.4*	*14.2*	*15.0*
Laminates							
Sales vol (mn sheets)	5.88	6.19	5.52	6.75	7.76	9.31	11.18
YoY %	*8.4*	*5.3*	*-10.9*	*22.3*	*15.0*	*20.0*	*20.0*
Revenue	4.39	4.63	4.15	5.75	6.71	8.05	9.66
YoY %	*16.1*	*5.5*	*-10.4*	*38.5*	*16.7*	*20.0*	*20.0*
EBITDA	0.37	0.61	0.72	0.86	0.95	1.27	1.53
YoY %	*-39.4*	*65.9*	*18.1*	*18.9*	*10.2*	*34.6*	*20.0*
OPM %	*8.4*	*13.2*	*17.4*	*14.9*	*14.1*	*15.8*	*15.8*
MDF							
Sales vol (K CBM)	132	153	147	178	205	276	359
YoY %	*173.7*	*15.8*	*-3.9*	*20.8*	*15.0*	*35.0*	*30.0*
Revenue	2.95	3.51	3.59	5.61	6.78	8.60	10.85
YoY %	*145.0*	*18.7*	*2.5*	*56.2*	*20.8*	*26.9*	*26.1*
EBITDA	0.41	0.87	0.93	1.78	1.79	2.14	2.53
YoY %	*78.0*	*112.4*	*7.1*	*91.7*	*0.9*	*19.4*	*18.3*
OPM %	*13.8*	*24.7*	*25.8*	*31.7*	*26.5*	*24.9*	*23.3*
Particle boards							
Sales vol (K CBM)	62	63	55	73	81	85	89
YoY %	*34.6*	*1.4*	*-12.4*	*32.7*	*11.0*	*5.0*	*5.0*
Revenue	0.97	0.99	0.90	1.51	1.93	1.88	1.97
YoY %	*33.6*	*1.7*	*-9.1*	*67.4*	*27.7*	*-2.4*	*5.0*
EBITDA	0.22	0.24	0.18	0.41	0.55	0.46	0.48
YoY %	*56.5*	*8.9*	*-24.9*	*126.9*	*33.6*	*-15.6*	*5.0*
OPM %	*22.6*	*24.2*	*20.0*	*27.1*	*28.4*	*24.5*	*24.5*

Source: Company, HSIE Research

Working capital profile improving

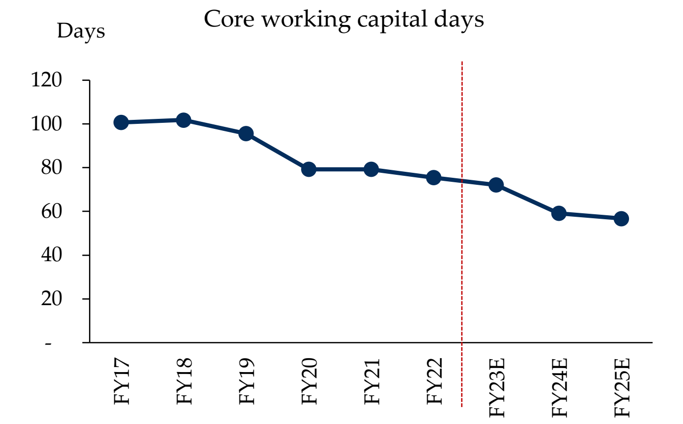
Century's cash conversion cycle (CCC) remained elevated at 100-125 days during FY13-18. Both inventory and debtor days remained around two months each, while payable days remained around one month. However, the company has been able to progressively reduce its CCC to ~75 days in FY22, mainly led by reducing its debtor days by almost 20 days to 40-45 days currently. It has also been able to pare down its inventory days by ~10 days to ~63 days. Even payable days have increased by about a week, thus improving its working capital substantially. The rising share of MDF and particle board revenues is also helping reduce inventory as these have a much lower range of SKUs.

Receivable and inventory days are expected to decline



Source: Company, HSIE Research

Century has been consistently tightening its balance sheet



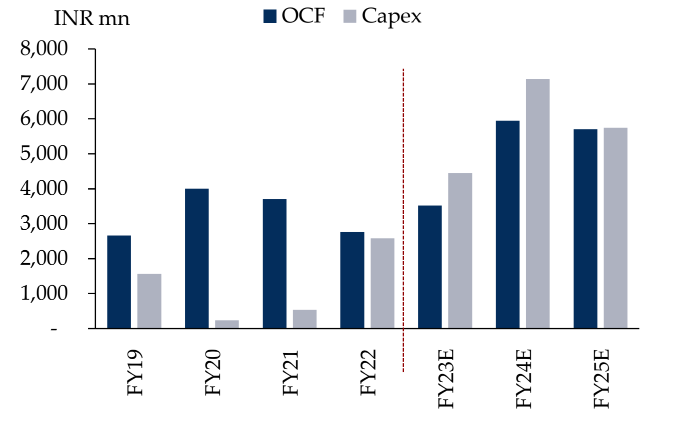
Source: Company, HSIE Research

Capex and leverage analysis

During FY16-22, Century incurred INR 12bn in capex (average INR 1.7bn/year). During FY16-19, the capex was in the range of ~INR 1.5-3bn (MDF, laminates, and ply expansion); however, the company incurred only minimal capex in FY20 and FY21. During the past four years, the company did not take up major expansion and rather focused on capacity ramp-up. From FY22, Century's Capex has again gained pace. Over the next three years, as the company is expanding capacities across all the four segments, the Capex run-rate will accelerate. We estimate Century would spend INR 17bn during FY23-25E, which surpasses its Capex of the preceding 10 years.

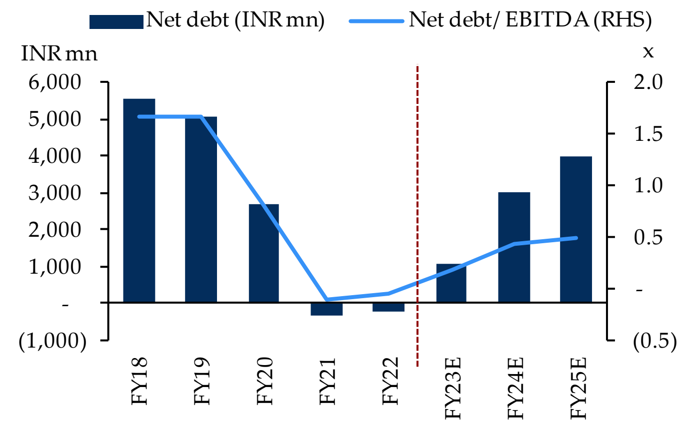
- In ply, the company is debottlenecking capacities across locations as well as adding a new 50K CBM plant in Punjab in FY25 (Capex INR 500mn).
- In laminates, the company is adding compact laminates (high realisation product)/high pressure laminates capacity in Andhra Pradesh (greenfield) in two phases. Phase 1/phase 2 expansion would add 1mn/2mn sheets by Q2FY24E/FY25E. These projects would entail Capex of INR 1.3/0.7bn and have revenue potential of INR 3.25/1.75bn respectively.
- In MDF, the company's brownfield expansion in Punjab will get completed in Q4FY23E, increasing capacity by 115K CBM, with Capex of INR 2.3bn. Its greenfield 314K CBM plant in Andhra Pradesh (Capex INR 6bn) will become operational in H2FY24E.
- Century debottlenecked the particle board plant in Chennai in Dec-2021. It is also setting up a large greenfield plant nearby with a 360K CBM capacity (Capex INR 5.5bn) by FY25-end.

Century's overall Capex > OCF from FY23-25E



Source: Company, HSIE Research

Net debt/EBITDA is comfortable below 0.5x



Source: Company, HSIE Research

Demerger of CFS unit to focus on core wood business

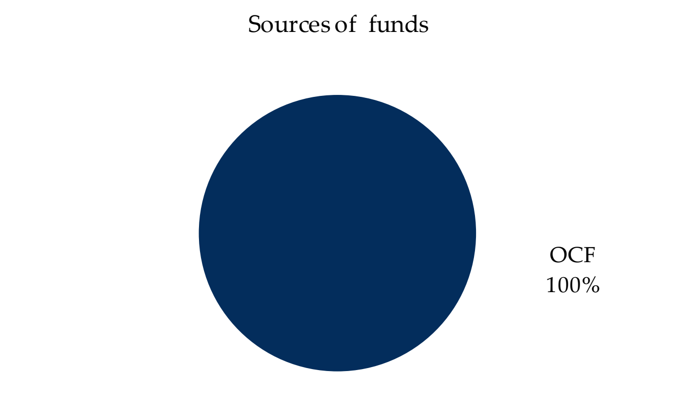
Century has a container freight station (CFS) in Kolkata, which it had commissioned in 2009 and it was the first privately-held CFS in Kolkata then. Over the years, competition has built up aggressively in this segment. In recent years, Direct to Port deliveries have also accelerated (by-passing a CFS), moderating demand. Further, over the years, Century focused to retain its leadership position in the wood segment, making the CFS unit a non-core business. Thus, it hived off as subsidiary (Century Infra Ltd) in Dec-2021. Century is eventually looking to sell off this business.

The CFS unit's share in consolidated revenue/EBITDA is on a decline from 5/12% in FY18 to 3/4 % in FY22.

Cash flow analysis

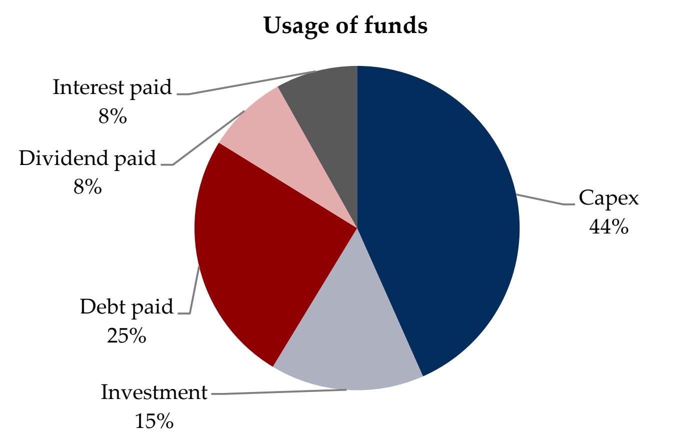
During FY16-22, Century's cumulative EBITDA to OCF (before tax) conversion stood at a healthy ~97%. During FY15-22, while Century's revenue rose by 90%, its core working capital increased only 16% to INR 6.3bn, owing to improvement in the cash conversion cycle. This buoyed OCF generation. Low Capex intensity further accelerated free cash flow, turning it a net cash company in FY21, which it remained in FY22 as well. However, factoring in its large Capex, we expect (net) debt to build up. Nonetheless, owing to healthy operating profits and working capital discipline, we expect net debt/EBITDA to remain comfortable under 1x.

Sources of cash (FY18-22)



Source: Company, HSIE Research

Usage of cash (FY18-22)



Source: Company, HSIE Research

Valuation, recommendation, and key risks

Over the past three years, the stock of Century Ply has delivered >200% returns, owing to a robust operating performance (making the balance sheet stronger), improving industry fundamentals, and Century's continued market share gains. These also led to a valuation rerating.

Over the next three years, we believe Century is well-placed to deliver a robust performance, riding on demand tailwinds, its strong business franchise (distribution and product ranges), and aggressive (but balanced) expansion in all the business segments.

We initiate coverage on the stock with a BUY rating and a TP of INR 715/sh (20x its Mar'25 consolidated EBITDA, implying 34x PE).

Key risks

Slowdown in real estate: Slowdown in domestic real estate will adversely impact the demand of all of Century's products. Slowdown in other counties real estate will also have a major impact on Century's MDF, laminates, and particle board sales.

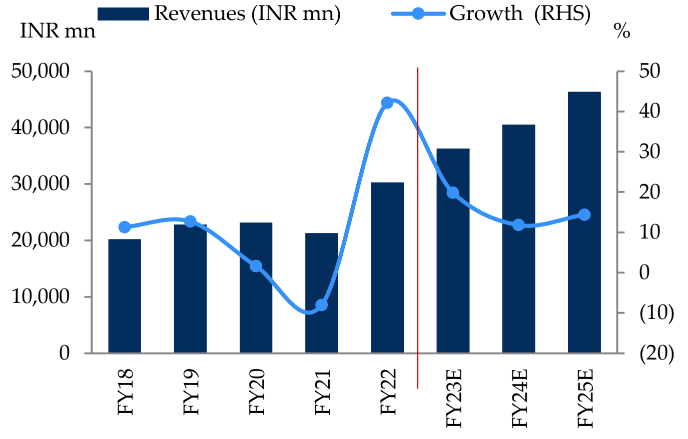
Imbalance in MDF demand and supply dynamics: Imbalance in MDF demand and supply can happen from a demand slowdown, imports pick-up, and major capacity expansion in the domestic market. We believe if supply outpaces demand, realisation and margins will come off for the industry.

Capacity addition/ramp-up: Century is adding major capacities in MDF and laminates segments. Delay in commissioning/slow ramp-up of these capacities will act as a negative trigger for the company's growth plans.

Financial summary

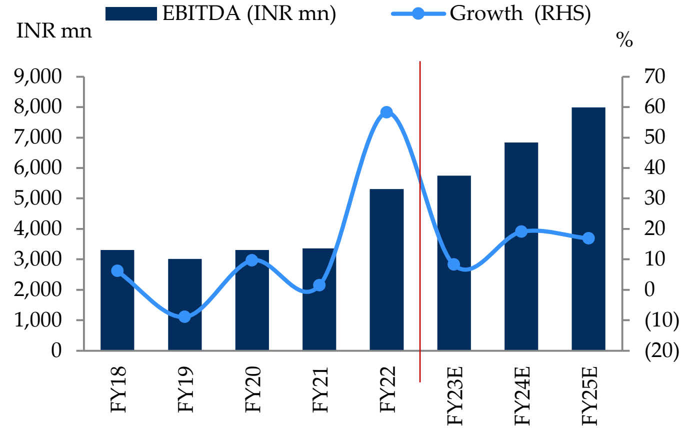
During FY22-25E, we estimate Century's revenue would grow at 15% CAGR (ply/laminates/ MDF/particle board: 12/19/25/9% CAGRs). We expect ply/laminates/ MDF/ particle board volume to grow at 11/18/26/7% CAGR on the back of healthy demand. We expect strong volume growth in MDF on the back of strong demand and major capacity expansion in the north plant in Q4FY23 and plans to commission first plant in the south in H2FY24, which will also help gain MDF market share. Commissioning of a new plant in AP will boost the laminates volume growth, while debottlenecking the plywood plant will meet incremental demand. Particle board volume growth will be muted, as the company is facing capacity constraints in this segment. However, particle board volume should accelerate FY26E onwards post a 5x increase in capacity at end of FY25E.

FY22-25E consolidated revenue CAGR: +15%



Source: Company, HSIE Research

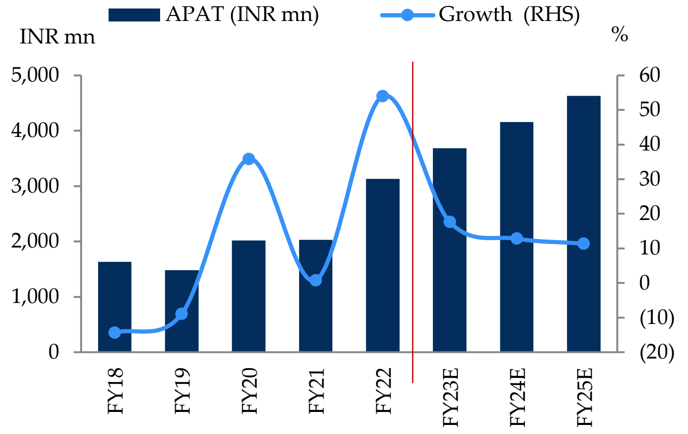
FY22-25E consolidated EBITDA CAGR: +15%



Source: Company, HSIE Research

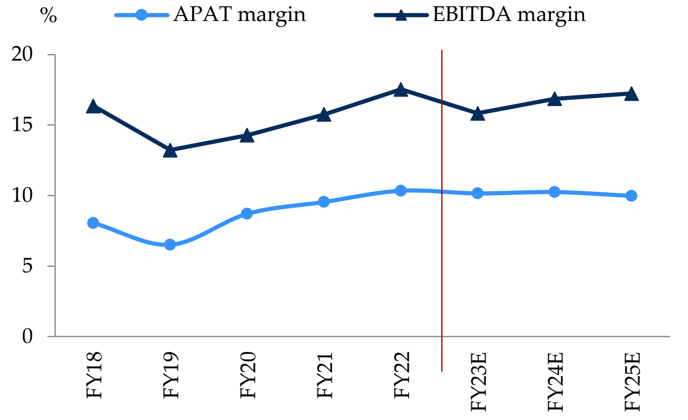
During FY23-25E, we expect the ply/laminates EBITDA margins at 12-15%/ 14-16% respectively. In case of the other high growth businesses—MDF and laminates—we estimate EBITDA margin would cool off from the peaks in FY22/H1FY23, owing to near-term bunching up of capacities and a rebound in imports. In MDF, we expect EBITDA margin to peak out in FY22 at 32% and gradually fall to 23% in FY25E. Similarly, we expect the particle board margin to cool off from the peak of 28% in FY23E to 25% in FY25E.

FY22-25E consolidated APAT CAGR: +14%



Source: Company, HSIE Research

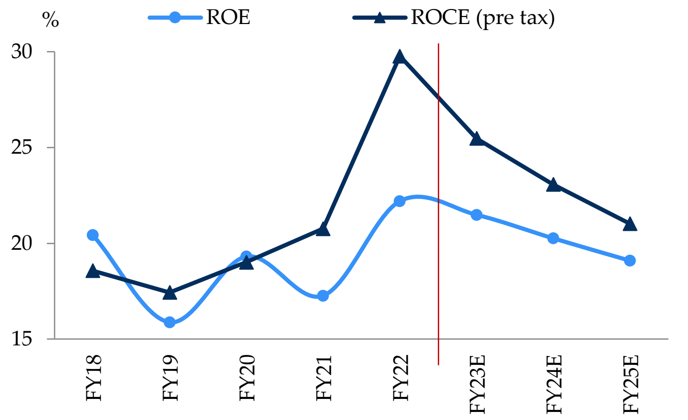
Profit margin trends



Source: Company, HSIE Research

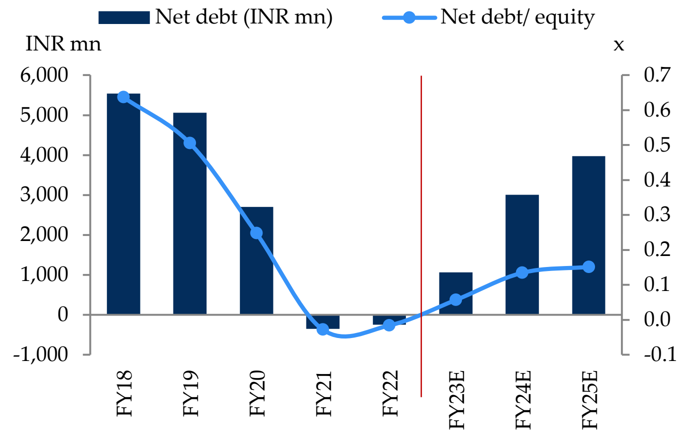
Healthy profit margin and good utilisation (asset turn) should keep return ratios buoyant. We expect Century's robust operating cash flows along with debt to fund its incremental large Capex.

Return ratios to moderate as new capacities ramp-up



Source: Company, HSIE Research

Comfortable leverage profile



Source: Company, HSIE Research

Du Pont analysis

Century's net profit margin rebounded to more than 10% (10.3%) in FY22 (after a gap of four years), aided by healthy topline growth and better operating margins. Its asset turnover also improved to 1.9x in FY22 (vs 1.6x in the last three years) on higher utilisation and pricing gains. Subsequent deleveraging drove down the leverage factor to fall from the peak of 3.1x in FY14 to 1.1x in FY22. Overall, healthy utilisation and margin drove the rebound in RoE to more than 20% in FY22.

Over the next three years, we expect net margin to sustain at ~10%, owing to the rising share of high-margin MDF contribution. The gradual ramp-up of upcoming capacities and expected cool-off in prices should moderate asset turn. We model in a slight rise in leverage as we build in debt increase amid aggressive Capex. While we expect the RoE to cool off to 19% in FY25E, we believe it would still remain industry leading.

Du Pont analysis

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin (%)	8.1	6.5	8.7	9.5	10.3	10.2	10.2	10.0
Asset turnover (x)	1.5	1.6	1.6	1.6	1.9	1.8	1.6	1.5
Leverage factor (x)	1.7	1.5	1.3	1.2	1.1	1.2	1.3	1.3
RoE (%)	**20.4**	**15.9**	**19.3**	**17.3**	**22.2**	**21.5**	**20.3**	**19.1**

Source: Company, HSIE Research

Leadership team

Name	Designation	Qualification	Major functions	Age (Years)	Exp (Years)
Prem Kumar Bhajanka	Managing Director	Commerce Graduate	Management & administration	64	42
Sajjan Bhajanka	Chairman & Managing Director	Commerce Graduate	Management, administration & finance	70	43
Sanjay Agarwal	CEO & Managing Director	Commerce Graduate	Marketing & sales promotion	61	35
Vishnu Khemani	Managing Director	Science graduate	Management & administration	70	44
Arun Kumar Julasaria	Chief Financial Officer	B.com, FCA,FCS	Finance, Taxation, Accounts	60	37

Financials (consolidated)

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**20,239**	**22,804**	**23,170**	**21,304**	**30,270**	**36,270**	**40,540**	**46,366**
Growth %	***11.3***	***12.7***	***1.6***	***(8.1)***	***42.1***	***19.8***	***11.8***	***14.4***
Raw Material	9,860	11,509	11,605	10,405	15,021	18,560	20,867	24,016
Power & Fuel	710	895	886	753	1,062	1,272	1,422	1,627
Freight Expense	1,106	1,278	1,219	1,112	1,452	1,740	1,945	2,224
Employee cost	3,129	3,456	3,585	3,316	4,176	4,885	6,009	6,910
Other Expenses	2,125	2,650	2,568	2,363	3,252	4,069	3,459	3,598
EBITDA	**3,311**	**3,016**	**3,307**	**3,355**	**5,308**	**5,744**	**6,838**	**7,990**
EBIDTA Margin (%)	***16.4***	***13.2***	***14.3***	***15.7***	***17.5***	***15.8***	***16.9***	***17.2***
EBITDA Growth %	***6.1***	***(8.9)***	***9.7***	***1.4***	***58.2***	***8.2***	***19.0***	***16.9***
Depreciation	907	595	763	687	743	829	1,068	1,465
EBIT	2,404	2,421	2,544	2,669	4,566	4,915	5,770	6,526
Other Income	79	71	128	173	231	260	161	191
Interest	358	469	389	128	114	163	276	418
PBT	2,124	2,023	2,283	2,714	4,682	5,013	5,655	6,298
Tax	463	535	519	684	1,550	1,328	1,499	1,669
Minority Int	31	4	(253)	(2)	1	1	1	1
RPAT	**1,631**	**1,484**	**1,506**	**1,915**	**3,131**	**3,684**	**4,155**	**4,628**
EO (Loss) / Profit (Net Of Tax)	-	-	(511)	(118)	-	-	-	-
APAT	**1,631**	**1,484**	**2,017**	**2,033**	**3,131**	**3,684**	**4,155**	**4,628**
APAT Growth (%)	***(14.4)***	***(9.0)***	***35.8***	***0.8***	***54.0***	***17.7***	***12.8***	***11.4***
AEPS	7.3	6.7	9.1	9.1	14.1	16.6	18.7	20.8
AEPS Growth %	*(14.4)*	*(9.0)*	*35.8*	*0.8*	*54.0*	*17.7*	*12.8*	*11.4*

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS	223	223	223	223	223	223	223	223
Share Capital	223	223	223	223	223	223	223	223
Reserves And Surplus	8,293	9,527	10,684	12,451	15,346	18,551	22,084	26,019
Total Equity	**8,516**	**9,749**	**10,906**	**12,674**	**15,568**	**18,774**	**22,307**	**26,242**
Long-term Debt	2,078	1,826	1,061	698	400	1,400	3,400	5,400
Short-term Debt	3,677	3,493	1,890	965	1,964	1,964	2,964	2,964
Total Debt	**5,754**	**5,319**	**2,951**	**1,662**	**2,364**	**3,364**	**6,364**	**8,364**
Deferred Tax Liability	(667)	(603)	(573)	(420)	167	167	167	167
Long-term Liab+ Provisions	62	27	96	103	135	147	160	174
TOTAL SOURCES OF FUNDS	**13,849**	**14,745**	**13,362**	**14,008**	**18,208**	**22,426**	**28,972**	**34,921**
APPLICATION OF FUNDS								
Net Block	6,489	8,364	7,786	7,558	7,704	10,075	17,008	17,543
Capital WIP	1,264	268	160	285	1,766	3,016	2,166	5,916
Other Non-current Assets	292	280	380	365	617	617	617	617
Total Non-current Investments	61	64	63	64	64	64	64	64
Total Non-current Assets	**8,106**	**8,977**	**8,388**	**8,272**	**10,151**	**13,772**	**19,855**	**24,140**
Inventories	3,828	4,613	3,980	3,692	5,264	6,166	6,081	6,491
Debtors	3,572	2,957	2,568	3,027	3,524	3,990	4,054	4,637
Cash and Cash Equivalents	211	262	248	2,014	2,610	2,297	3,361	4,389
Other Current Assets (& Loans/adv)	847	694	838	690	755	755	755	755
Total Current Assets	**8,458**	**8,526**	**7,634**	**9,423**	**12,154**	**13,207**	**14,251**	**16,272**
Creditors	1,753	1,595	1,515	2,089	2,528	2,986	3,566	3,922
Other Current Liabilities & Provns	963	1,163	1,145	1,598	1,568	1,568	1,568	1,568
Total Current Liabilities	**2,715**	**2,758**	**2,660**	**3,687**	**4,096**	**4,554**	**5,134**	**5,490**
Net Current Assets	**5,742**	**5,768**	**4,973**	**5,736**	**8,058**	**8,654**	**9,117**	**10,781**
TOTAL APPLICATION OF FUNDS	**13,849**	**14,745**	**13,362**	**14,008**	**18,208**	**22,426**	**28,972**	**34,921**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	2,124	2,023	1,772	2,596	4,682	5,013	5,655	6,298
Non-operating & EO Items	15	73	645	(8)	(63)	(260)	(161)	(191)
Interest Expenses	358	469	389	128	114	163	276	418
Depreciation	907	595	763	687	743	829	1,068	1,465
Working Capital Change	218	(54)	847	766	(1,632)	(898)	614	(622)
Tax Paid	(576)	(448)	(415)	(463)	(1,084)	(1,328)	(1,499)	(1,669)
OPERATING CASH FLOW (a)	**3,046**	**2,658**	**4,001**	**3,705**	**2,761**	**3,518**	**5,953**	**5,699**
Capex	(2,450)	(1,570)	(235)	(535)	(2,576)	(4,450)	(7,150)	(5,750)
Free Cash Flow (FCF)	596	1,088	3,766	3,170	185	(932)	(1,197)	(51)
Investments	(83)	63	(18)	(1,745)	(658)	-	-	-
Non-operating Income	29	37	7	21	35	260	161	191
INVESTING CASH FLOW (b)	**(2,504)**	**(1,470)**	**(245)**	**(2,260)**	**(3,199)**	**(4,190)**	**(6,989)**	**(5,559)**
Debt Issuance/(Repaid)	(409)	(513)	(2,803)	(1,236)	687	1,000	3,000	2,000
Interest Expenses	(360)	(379)	(400)	(127)	(116)	(163)	(276)	(418)
FCFE	(172)	197	563	1,807	756	(95)	1,527	1,531
Dividend	(267)	(268)	(571)	(38)	(223)	(479)	(623)	(694)
FINANCING CASH FLOW (c)	**(1,036)**	**(1,159)**	**(3,774)**	**(1,401)**	**349**	**358**	**2,100**	**887**
NET CASH FLOW (a+b+c)	**(493)**	**29**	**(18)**	**44**	**(89)**	**(313)**	**1,064**	**1,028**
Closing Cash & Equivalents	**179**	**240**	**244**	**292**	**1,925**	**2,297**	**3,361**	**4,389**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	16.4	13.2	14.3	15.7	17.5	15.8	16.9	17.2
EBIT Margin	11.9	10.6	11.0	12.5	15.1	13.6	14.2	14.1
APAT Margin	8.1	6.5	8.7	9.5	10.3	10.2	10.2	10.0
RoE	20.4	15.9	19.3	17.3	22.2	21.5	20.3	19.1
RoIC (pre tax)	22.3	18.2	18.7	21.6	35.8	31.8	28.5	27.2
RoCE (pre tax)	18.6	17.4	19.0	20.8	29.8	25.5	23.1	21.0
EFFICIENCY								
Tax Rate %	21.8	26.4	22.7	25.2	33.1	26.5	26.5	26.5
Fixed Asset Turnover (x)	3.2	2.4	2.1	1.9	2.6	2.6	2.1	1.9
Inventory (days)	69	74	63	63	63	62	55	51
Debtors (days)	64	47	40	52	42	40	37	37
Other Current Assets (days)	21	16	19	18	17	14	12	11
Payables (days)	32	26	24	36	30	30	32	31
Other Current Liab & Provns (days)	18	19	20	29	21	17	16	14
Cash Conversion Cycle (days)	104	92	79	68	71	69	56	54
Net Debt/EBITDA (x)	1.7	1.7	0.8	(0.1)	(0.0)	0.2	0.4	0.5
Net D/E	0.6	0.5	0.2	(0.0)	(0.0)	0.1	0.1	0.2
Interest Coverage	6.7	5.2	6.5	20.9	39.9	30.2	20.9	15.6
PER SHARE DATA (INR)								
EPS	7.3	6.7	9.1	9.1	14.1	16.6	18.7	20.8
CEPS	11.4	9.3	12.5	12.2	17.4	20.3	23.5	27.4
Dividend	1.0	1.0	1.0	1.0	1.5	2.2	2.8	3.1
Book Value	39.1	44.9	48.9	56.9	69.8	84.2	100.1	117.8
VALUATION								
P/E (x)	70.4	77.3	56.9	56.5	36.7	31.2	27.6	24.8
P/Cash EPS (x)	45.3	55.2	50.6	44.1	29.6	25.4	22.0	18.8
P/BV (x)	13.5	11.8	10.5	9.1	7.4	6.1	5.1	4.4
EV/EBITDA (x)	36.4	39.8	35.5	34.1	21.6	20.2	17.2	14.9
EV/Sales (x)	5.96	5.27	5.07	5.37	3.78	3.19	2.91	2.56
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.6
OCF/EV (%)	2.5	2.2	3.4	3.2	2.4	3.0	5.1	4.8
FCFF/EV (%)	0.5	0.9	3.2	2.8	0.2	(0.8)	(1.0)	(0.0)
FCFE/M Cap (%)	(0.1)	0.2	0.5	1.6	0.7	(0.8)	(1.0)	(0.0)

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Greenpanel Industries

Leading the high-growth MDF segment

We initiate coverage on Greenpanel Industries with a BUY rating and a target price of INR 430/sh (12x its Mar'25E consolidated EBITDA, implying a P/E of 20x). We like Greenpanel for its leadership positioning in the high-growth MDF segment, superior margin, and working capital profile (most efficient among peers). Even on a high base of FY22, we estimate Greenpanel would deliver 11% MDF volume CAGR until FY25E, maintaining its industry lead. The company is also expanding the share of value-added products (VAP), retail sales and marketing spend to counter the medium-term margin compression, as major MDF capacities bunch up in FY24/25E.

- **Market leader in the high-growth MDF segment:** Greenpanel continues to maintain its No-1 position in India both as manufacturer and seller. Over the past five years (FY17-22), its MDF capacity grew at 30% CAGR to 660K CBM in FY22. The company delivered 22% sales volume CAGR, riding on 17/51% domestic/export volume CAGR. It is further expanding its south capacity by 231K CBM in FY25E, which should help it maintain its leadership position. We estimate a 11% volume CAGR for FY22-25E even on a high base.
- **Multiple levers to cushion medium-term margin:** Greenpanel has a large share of VAPs (exterior grade and pre-lam MDF) and more than 80% retail sales, which drive its high realisation and strong margin profile. It is increasing its VAPs share and advertisement budget to cushion margins from the impending supply pressure expected in FY24/25E on the bunch-up of major expansions. We expect Greenpanel's consolidated EBITDA margin to cool off to 19.5% in FY25E, from the peak of 26.5% in FY22. Despite this, we expect consolidated EBITDA to grow at 1% CAGR (on a high base) from FY22-25E, supported by healthy volume growth.
- **Super-efficient working capital; zero balance sheet stress:** Greenpanel has tightened its working capital over the past five years to become the leanest (cash conversion cycle of 16 days) among the wood companies, led by both strong debtors and inventory management. We estimate it to continue to have the leanest working capital (< 30 days). Healthy operating profit and lean working capital should meet its Capex for its MDF expansion.
- **Initiate coverage with a BUY rating:** We like Greenpanel for its leadership positioning in the high-growth MDF, its superior margin and working capital profile. However, we remain cautious on expected medium-term margin volatility on account of supply influx (imports rebound and major capacity additions during FY24/25E). Factoring in the same and commodity nature of the product, we ascribe it a 40% lower valuation multiple vs Century Ply, leading to our target multiple of 12x Mar'25E EBITDA. We initiate coverage with a BUY rating and target price of INR 430/sh.

Financial summary

YE Mar (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	5,991	8,766	10,208	16,250	18,904	19,624	22,516
EBITDA	774	1,378	2,034	4,304	4,284	3,925	4,381
EBITDAM (%)	*12.9*	*15.7*	*19.9*	*26.5*	*22.7*	*20.0*	*19.5*
APAT	346	253	688	2,405	2,345	2,408	2,610
AEPS (INR)	2.8	2.1	5.6	19.6	19.1	19.6	21.3
P/E (x)	120.6	164.9	60.6	17.3	17.8	17.4	16.0
EV / EBITDA (x)	61.2	34.3	22.5	9.9	9.6	10.6	9.6
RoE (%)	*10.7*	*3.9*	*9.9*	*28.6*	*22.2*	*18.9*	*17.4*

Source: Company, HSIE Research

BUY

CMP *(as on 03 Jan 2023)*	**INR 341**
Target Price	**INR 430**
NIFTY	**18,233**

KEY STOCK DATA	
Bloomberg code	GREENP IN
No. of Shares (mn)	123
MCap (INR bn) / ($ mn)	42/505
6m avg traded value (INR mn)	136
52 Week high / low	INR 626/303

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(17.6)	(22.4)	(18.4)
Relative (%)	(25.5)	(38.2)	(22.0)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	53.10	53.10
FIs & Local MFs	21.45	21.18
FPIs	6.27	6.39
Public & Others	19.18	19.33
Pledged Shares	-	-

Source : BSE

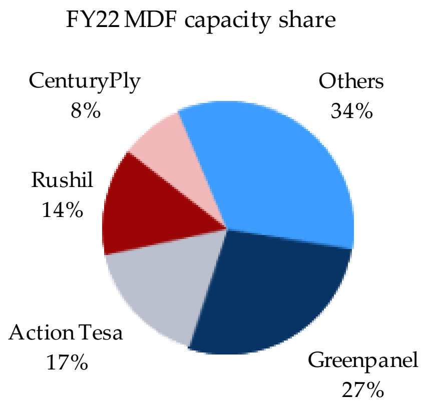
Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

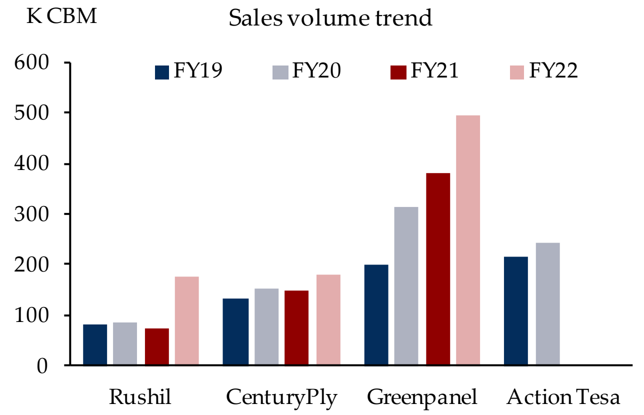
Story in Charts

Greenpanel is the market leader in the MDF segment in India



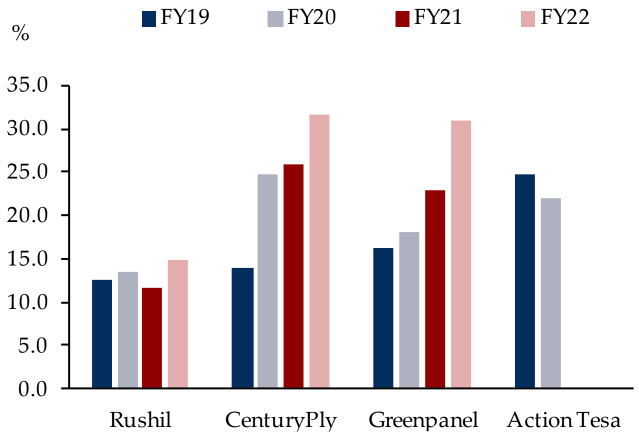
Source: Company, HSIE Research

It has grown at the fastest pace in the past three years



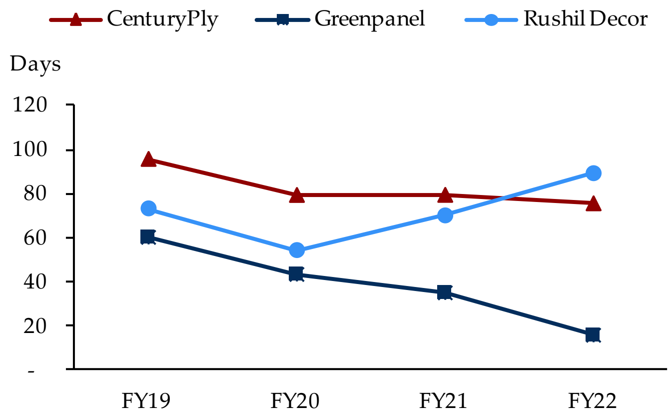
Source: Company, HSIE Research, Action Tesa data is till FY20

Greenpanel and Century Ply have been delivering strong margins in MDF segment



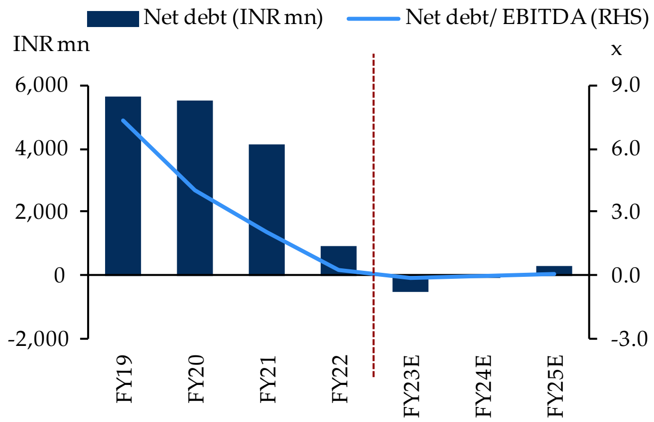
Source: Company, HSIE Research

Greenpanel also has the leanest core working capital days among wood panel companies



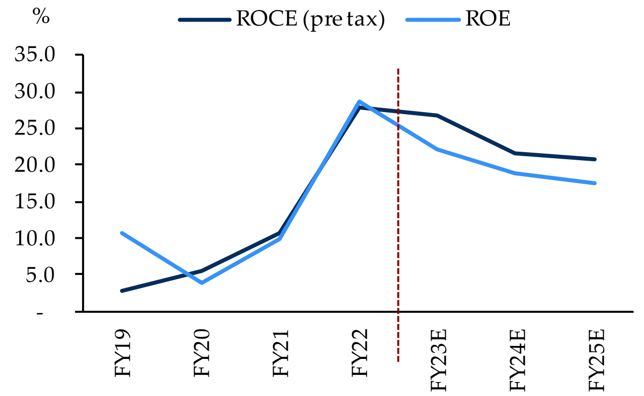
Source: Company, HSIE Research

Strong balance sheet to fund its upcoming MDF expansion in AP



Source: Company, HSIE Research

The expected contraction in MDF margins should lower return ratios (to still remain at healthy levels)



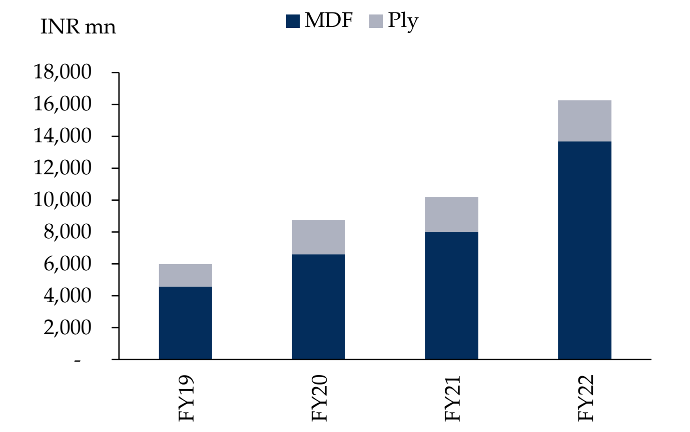
Source: Company, HSIE Research

Leadership position in the high-growth MDF segment

Headquartered in Kolkata, Greenpanel became a separately listed entity in 2019, post its demerger from Greenply in 2018. Greenpanel is currently the largest MDF manufacturer and seller in India as well as the largest MDF exporter from India. It has two MDF plants in Pantnagar (Uttarakhand) and Chittor (Andhra Pradesh), with a combined capacity of 660K CBM.

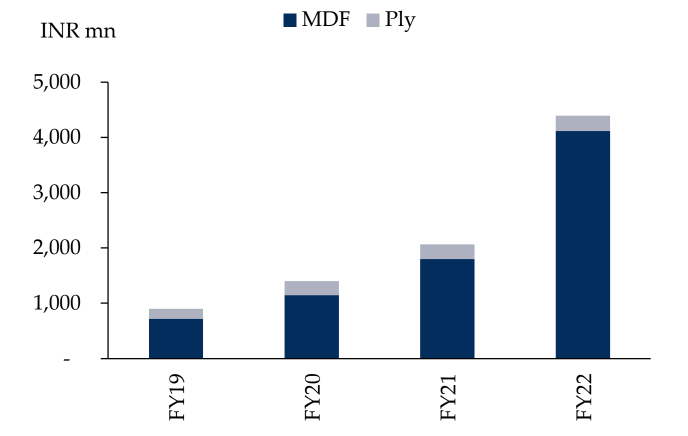
It also has a plywood plant in Pantnagar (capacity 10.5mn SQM), which it inherited at the time of its demerger from Greenply. Greenpanel also manufactures wood doors, veneer panels (both reported under ply segment), and flooring (reported under MDF segment).

Strong growth in MDF is leading to increase in its revenue mix…



Source: Company, HSIE Research

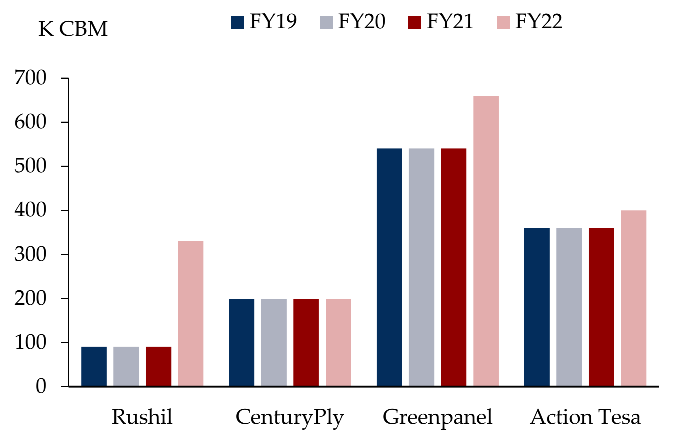
…higher margin is leading to accelerated growth in MDF EBITDA



Source: Company, HSIE Research

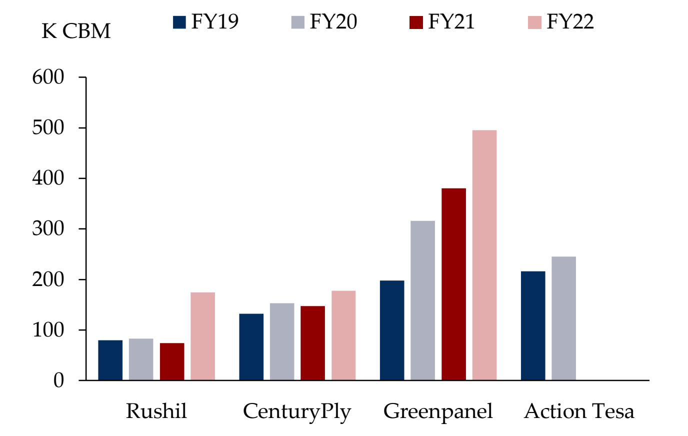
In H2FY22, Greenpanel debottlenecked its MDF capacity by 22% through the installation of a MAT pre-heater system. Thus, it continues to remain the market leader in India (with a wide margin), both in terms of installed capacity and sales volume.

Greenpanel has the largest MDF capacity in India...



Source: Company, HSIE Research

…even on MDF sales Greenpanel maintains its industry leadership



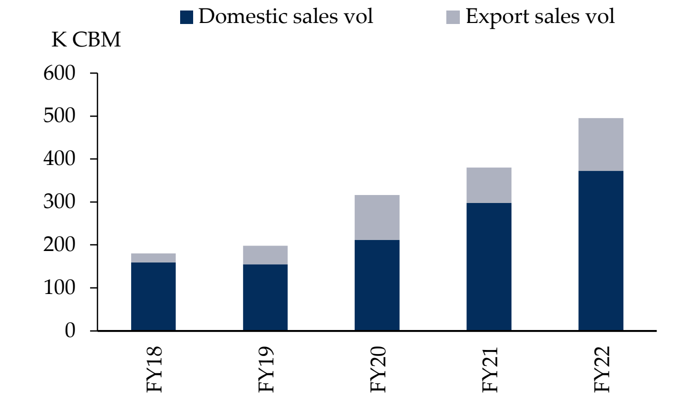
Source: Company, HSIE Research, Action Tesa data till FY20.

Despite already being a market leader, Greenpanel continues to grow at a fast pace: it registered a robust 29% volume CAGR in the past four years, which is the fastest growth rate among peers.

Rising retail penetration and capacity boost sales

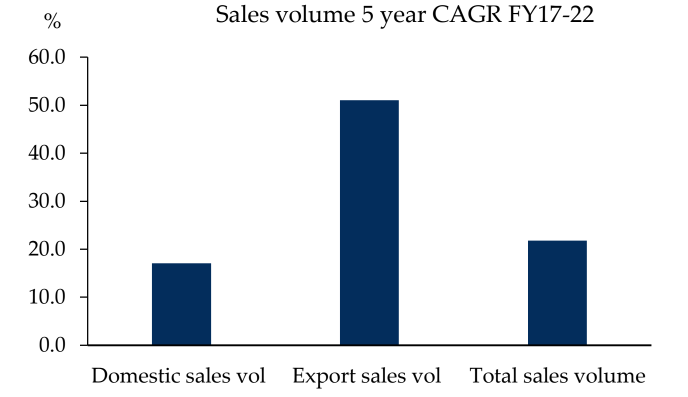
Greenpanel has been able to deliver robust growth in the MDF segment over the past four years (29%), driven by both strong domestic as well as export growth. Its domestic volume rose at 24% CAGR and exports soared at 57% CAGR. Exports volume share has more than doubled from 11% in FY18 to 25% in FY22.

Greenpanel MDF export mix increased to 25% in FY22



Source: Company, HSIE Research

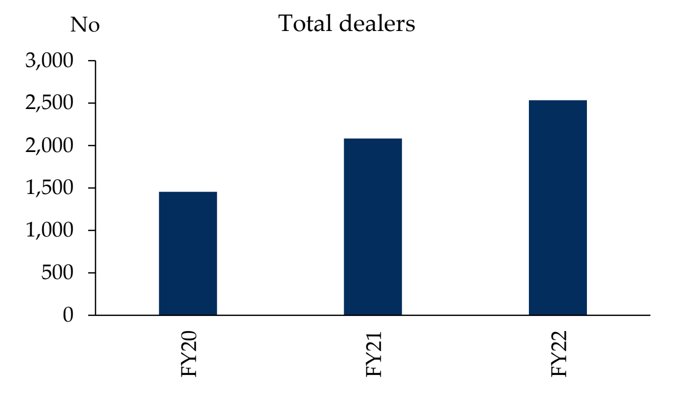
Healthy growth in domestic MDF volume; export volume grows at a lightening pace



Source: Company, HSIE Research

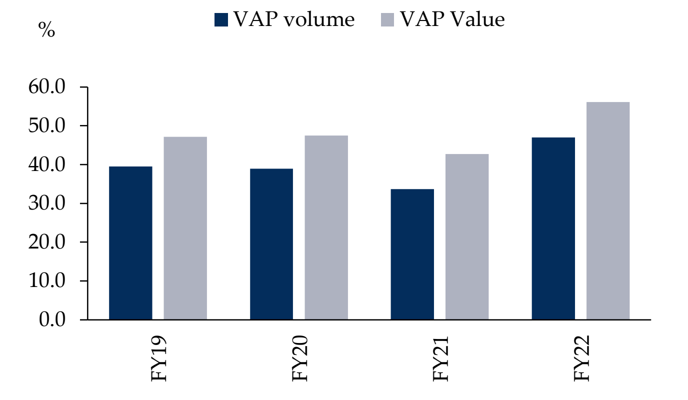
The company's strong domestic volume growth is driven by its rising retail network. Its distributor count increased from 1,455 in FY19 to 2,535 in FY22. As per the company, east dealer services ~4-5 retailers. The company's focus on expanding its trade channel and standardising product SKUs aiding in its growth and profitability. It sells more than 80% of its domestic volume through its retail distributor network.

It sells >80% of its domestic volume through its distributor network



Source: Company, HSIE Research

Share of value-added MDF products is on a rise, boosting margins



Source: Company, HSIE Research

Greenpanel has also been able to increase the share of high-value MDF sales, which comprises exterior grade, Club grade plain MDF, and pre-lam MDF. The volume share of these products increased to 47% in FY22, from 39% in FY18. The average NSR of these VAPs is ~20% higher than Greenpanel's blended NSR, boosting profitability as well as market penetration.

MDF product range

Product range	Thickness	Properties	Usage
Interior grade	2.1-30 mm	Finest regular density, high bonding strength, inherent stability, and easy machinability	Recommended for interiors only; not to be exposed to dampness and high humidity: Cupboards, wall panels, tabletops, toys, trophies, handicrafts, etc.
Exterior grade	3.3-30 mm	Greater density and strength, resistant to moisture, termite, and low formaldehyde emissions	Semi-outdoor and outdoor furniture like garden tables and balcony chairs, etc.
Club grade	3-18 mm	High density, more water resistance, dimensional stability, resistance to termites, etc.	Wet areas like the kitchen, bathroom, cupboards, furniture, wall paneling, commercial spaces, interiors, etc.
Pre-laminated	2.1-30 mm	Resistant to moisture, scratch, superior abrasion, cracks and stains, etc and easy to maintain	Kitchen cupboards, bathroom cabinets, etc.
Carb & E-1	3-25 mm	Higher bending strength, load bearing capacity, screw holding capacity, very low formaldehyde emissions	School and hospital furniture, kids' furniture and toys, modular furniture, workstations, cupboard shutters and TV cabinets

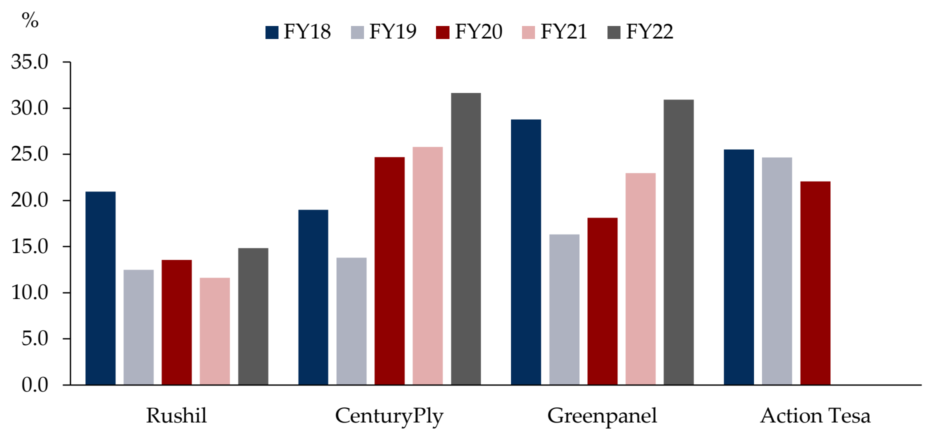
Source: Company, HSIE Research

Greenpanel is both the largest seller in India as well as the largest MDF exporter from India, with a sales presence in 16 countries. The rising share of exports (lower realisation vs domestic sales) in total volumes drives up utilisation and contributes to profitability.

MDF margin to peak in FY22 on expansion, import rebound

Rising demand for MDF in India has led to high double-digit volume growth for domestic manufacturers and even EBITDA margin has remained strong in the past five years, barring FY19, when bunching of expansions moderated margin for a year. However, profitability rebounded from FY20 onwards. The share of imports in India has also been falling, as domestic companies started expanding. In FY21/22, the share of imports fell sharply to a disruption in global logistics, which inflated freight costs. This drove up domestic manufacturers' market share gains and EBITDA margin rebounded to 30% and beyond in FY22.

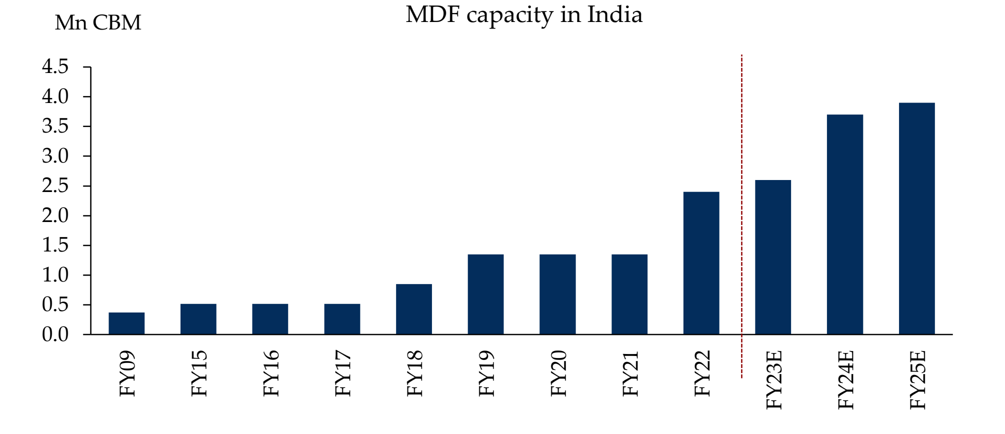
MDF EBITDA margin trends of key players



Source: Company, HSIE Research, For Action Tesa FY21/FY22 financials are not available

Until mid-FY18, India had about 6-7 MDF manufacturing companies, with a total installed capacity of ~800-850K CBM. Of these, three major MDF manufacturers, Greenpanel (earlier under Greenply), Action Tesa, and Rushil Decor, accounted for ~50-55% of total capacity (and a higher volume share). Century Ply entered this segment in FY18 with a 198K CBM plant in the north. Thereafter, in FY19, Action Tesa expanded its north plant by 180K CBM (doubling its capacity) and Greenpanel added Asia's largest single-location plant of 360K CBM in Andhra Pradesh. These led to a ~60% YoY rise in industry capacity in FY19 to ~1.35mn. Hence, despite the strong demand, this created short-term pricing pressure and all players witnessed margin compression in FY19.

MDF capacity in India to expand by ~63% during FY22-25E (18% CAGR)



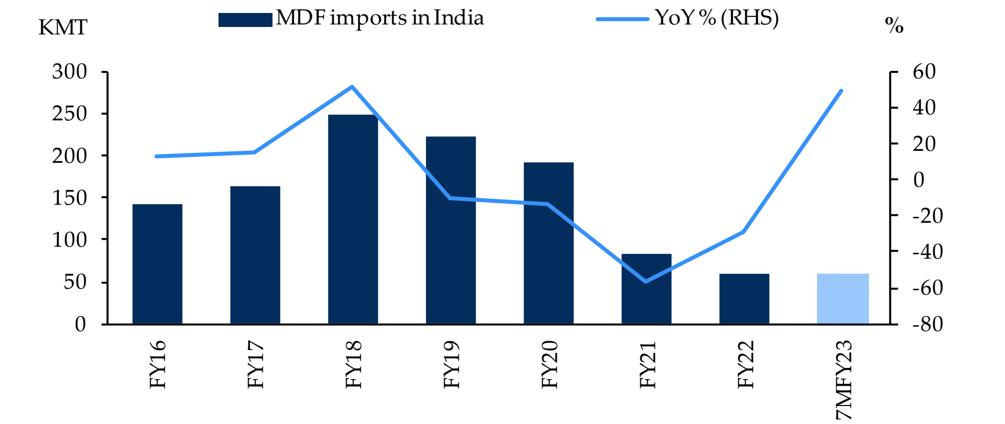
Source: Company, HSIE Research

Companies paused on a new expansion for the next two years and, in FY22, the major players expanded by another ~400KCBM as Rushil added a greenfield plant in Andhra Pradesh (240K CBM), and Greenpanel and Action Tesa debottlenecked their capacities by 22% and 15% respectively. In the past three years, multiple smaller plants also came up, mainly in the north, which cumulatively accounts for another ~800K CBM currently. Most of these expansions could effectively substitute imports (which also became expensive in FY21/22 due to global freight disruptions) and, hence, industry margin rebounded in FY22.

However, Century Ply is expanding capacities across the north (H2FY23E) and south (H2FY24E), Action Tesa is increasing its north capacity (in FY24E), and Greenply is entering MDF through a greenfield plant in Gujarat by end of FY23. The Yamunanagar cluster in the north will also see a new entrant E-3 in FY24E. Greenpanel will also be expanding its south capacity in FY25E.

The rebound in imports in FY23E (as global freight rates have come down) and the near-term bunching up of capacities in FY24E should lead to a pricing fall and in turn, we expect the segmental EBITDA margin to cool off to 22-23% during FY24-25E. Greenpanel is gearing up to double its advertisement spend to ~2.2% (of net sales) in FY24E to reduce the impact of expected capacity addition. Additionally, Greenpanel is expanding its value-added product mix, which is less impacted by imports (mostly in industrial-grades).

MDF imports picking up; FY23 run rate still below pre-COVID levels

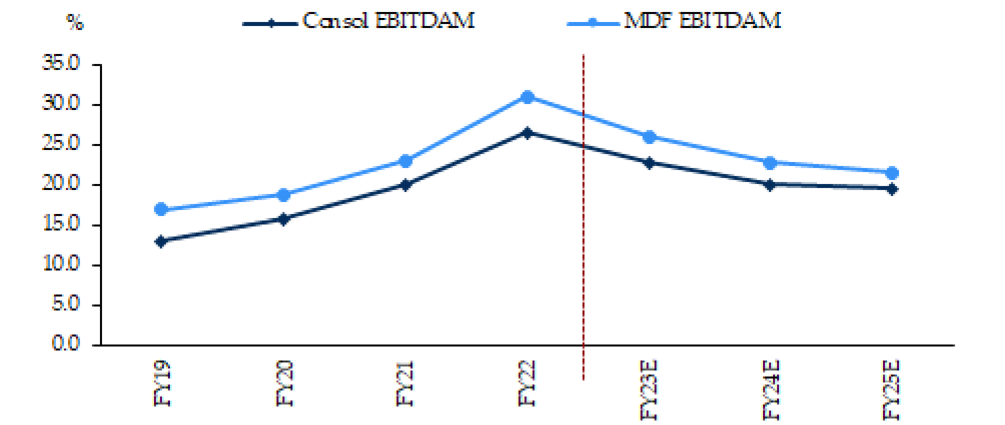


Source: Company, HSIE Research

The industry is currently reeling under elevated timber prices while resin prices have seen some softening in FY23. We expect that with relaxation in sea freights and normalisation of EXIM trades, resins/chemical prices should cool off further. The company is also focused on increasing the sale of value-added MDF. Additionally, Greenpanel installed a wax emulsion system to reduce wax consumption by up to 30%. These measures should also aid margin.

We expect Greenpanel's MDF EBITDA margin to cool off to 22% in FY25E, vs 31% in FY22. We have factored in a lower margin for FY25E to factor in the slow ramp-up of the brownfield expansion expected in FY25E.

MDF margin to cool off from its recent peak



Source: Company, HSIE Research

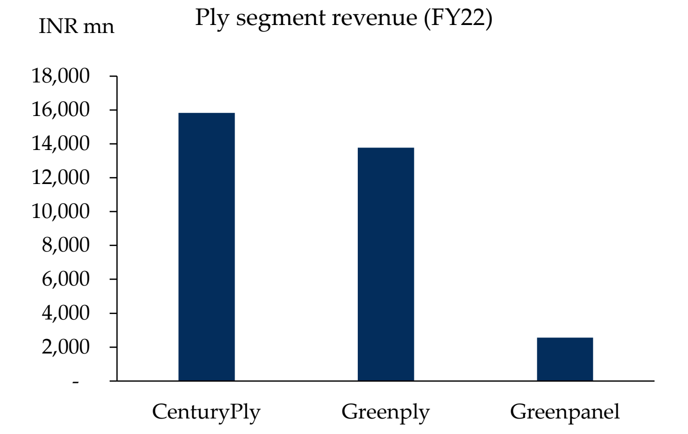
Plywood segment—focus on mid-high segments

Greenpanel has a small plywood unit (10.5mn SqM) in Rudrapur in the north. It accounted for 16% of its consolidated revenue in FY22. The company has not expanded its capacity and, hence, amidst the fast growth of its main segment MDF, the share of plywood revenue has come off from ~25% in FY19/20.

The company has no stated plans to expand its plywood capacity. Greenpanel is focused on servicing the premium/mid-segment markets, which are growing markets and face lesser competition from the umpteen unorganised players. The Indian plywood market has adopted ~20% calibrated plywood, which is expected to increase to 50% in the next few years. Greenpanel is already selling 100% calibrated plywood. It is currently operating at 80% utilisation. The company has guided that it will continue to focus on premium-grade plywood that can withstand various weather conditions and endure high stress.

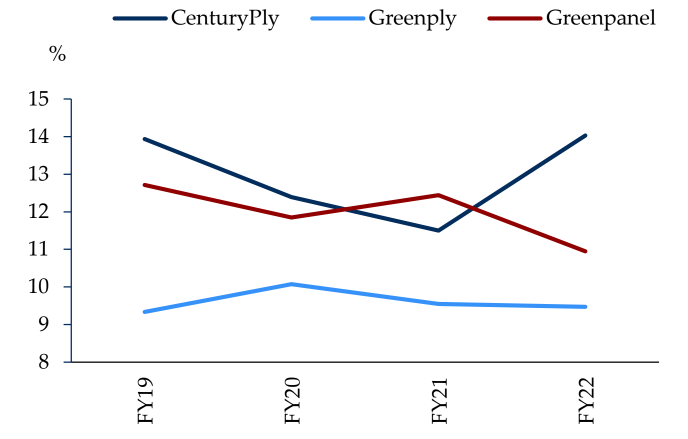
While this segment accounts for 16% of total revenue in FY22 (down from 25% in FY20), owing to a low margin profile, its EBITDA share has come off to 7% in FY22 (vs 19% in FY20). We expect the segmental volume to grow at 3% CAGR during FY22-25E and EBITDA margin to hover around 10-11%.

Greenpanel is a smaller player in plywood segment



Source: Company, HSIE Research

Ply segment EBITDAM trends of key players



Source: Company, HSIE Research

Key operating assumptions

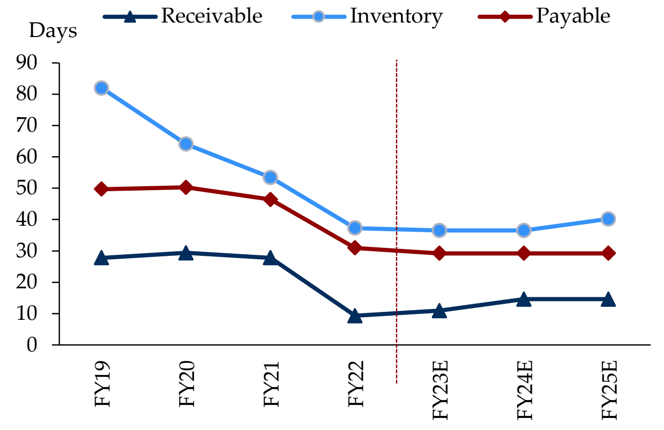
Segmental performance	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
MDF							
Sales Vol (K CBM)	198	316	380	495	510	576	668
Revenue (INR mn)	4,274	6,137	7,831	13,292	15,758	16,204	18,797
OPM %	*16.9*	*18.7*	*23.0*	*30.9*	*25.9*	*22.7*	*21.5*
Plywood							
Sales Vols (mn SQM)	5.7	8.5	8.5	9.3	9.3	9.8	10.2
Revenue (INR mn)	1,412	2,155	2,171	2,559	2,687	2,892	3,113
OPM %	*12.7*	*11.8*	*12.4*	*11.0*	*10.1*	*10.5*	*11.0*

Source: Company, HSIE Research

Superior WC adds enhances profitability metrics

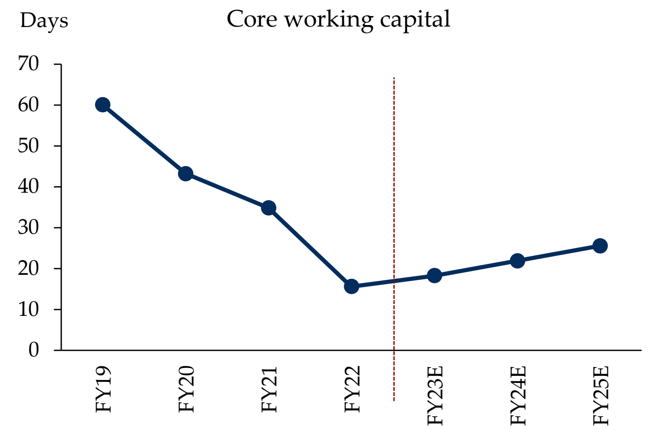
Over the past four years, the company has been continuously tightening its working capital. From a cash conversion cycle of 60 days in FY19, it brought it down to 16 days in FY22 (the best among all wood companies). The company has very efficient debtors management (9 days vs peers' 30-60 days). Its inventory of 37 days in FY22 (vs 80 days in FY19) is also the lowest among peers (50-110 days). In addition to robust inventory management, its working capital also benefits from a lesser number of SKUs in MDF. Greenpanel also has low payables of 31 days in FY22 (vs 30-50 days for peers). We expect Greenpanel's cash conversion cycle to remain robust at under one month.

Steadily tightening its working capital



Source: Company, HSIE Research

Leanest working capital in the wood segment



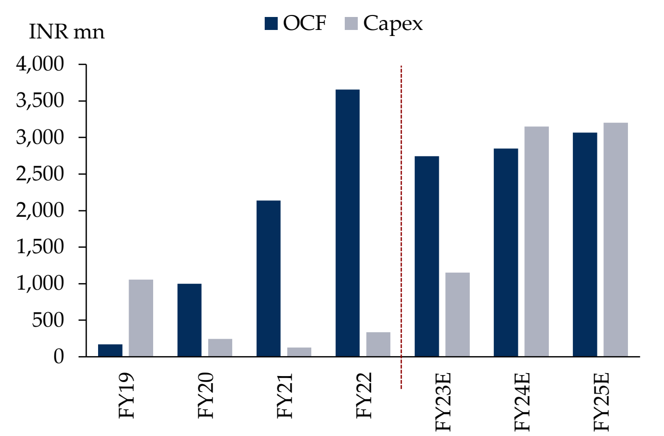
Source: Company, HSIE Research

Capex and cash flow

Greenpanel debottlenecked its MDF capacity across north/ south in Dec-2021, thus increasing the total capacity by 22%. This will help the company's volume growth in FY23-25E. To continue its market leadership, it is expanding its Andhra Pradesh by 231K CBM. It will be incurring Capex of INR 6bn, spread over H2FY23 to H1FY25E. The expansion is expected to be commissioned in H1FY25E. Greenpanel expects annual revenue potential of INR 7.7bn from the same, which can be realised in FY27E. In addition, it would incur an annual maintenance Capex of ~ INR 100mn.

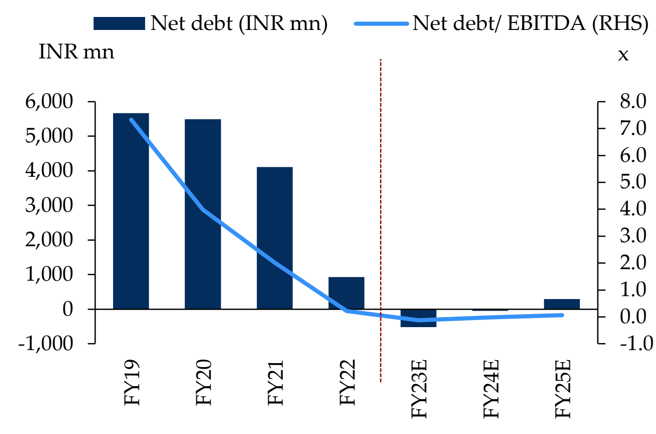
We expect consolidated EBITDA to grow at 1% CAGR during FY22-25E (despite the expected fall in operating margin) and its working capital to remain lean, which should lead to an annual OCF of > INR 2.5bn. This should be sufficient to meet its brownfield expansions.

We expect strong OCF trend to continue…



Source: Company, HSIE Research

…and it should fund its upcoming expansion



Source: Company, HSIE Research

Valuation, recommendation and key risks

Greenpanel continues to steadily expand its capacities to maintain its leadership. It is also delivering robust margins, owing to large retail focus and cost controls. We expect it to remain a major beneficiary of the demand tailwinds.

However, owing to a near-term bunch of expansions and imports picking up, the EBITDA margin would fall sharply. Factoring in the expected large volatility in the MDF margin and the commodity nature of the product, we ascribe a lower valuation to Greenpanel: 12x EBITDA (~40% discount to Century's valuation multiple).

We initiate coverage on the stock with a BUY rating and a TP of INR 430/sh (12x its Mar'25E consolidated EBITDA, implying 20x PE).

Key risks

A slowdown in real estate: A slowdown in domestic real estate will adversely impact the demand for wood-panel products. A slowdown in other counties' real estate will also increase import influx in MDF segment.

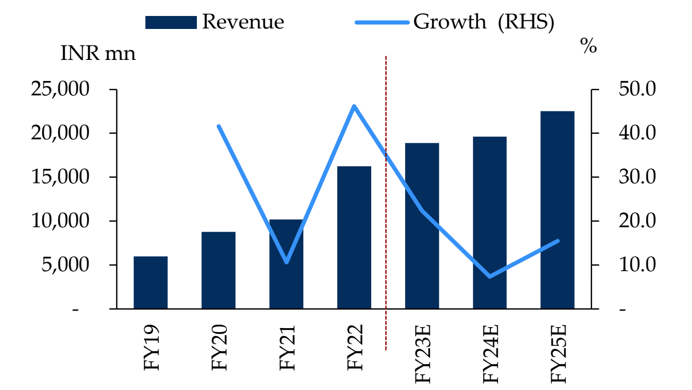
Imbalance in MDF demand and supply dynamics: Imbalance in MDF demand and supply can take place from a slowdown in demand, pick-up in imports as well as major capacity expansion in the domestic market. We believe if supply outpaces demand, realisation and margins will come off for the industry.

Delay in MDF capacity addition: The company might face a capacity constraint if the expected capacity addition of Chittor in AP in H1FY25 is delayed.

Financial summary

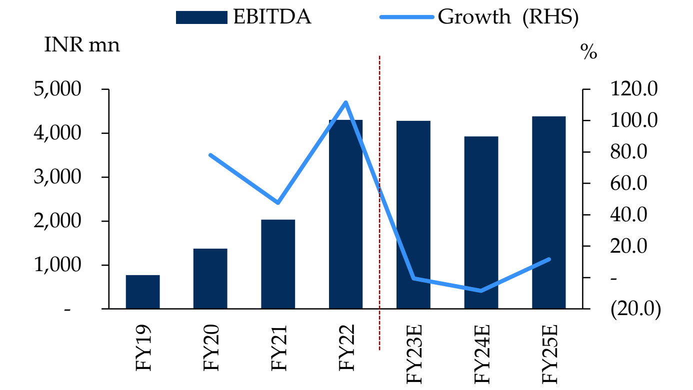
During FY22-25E, we expect Greenapanel's revenue to grow at 11% CAGR, led by volume growth. We expect 12/7% revenue growth in MDF/plywood segments on the back of 11/3% volume growth. Plywood revenue share will reduce to 14% in FY25E, vs 16% in FY22, in our view.

FY22-25E consolidated revenue CAGR: +11%



Source: Company, HSIE Research

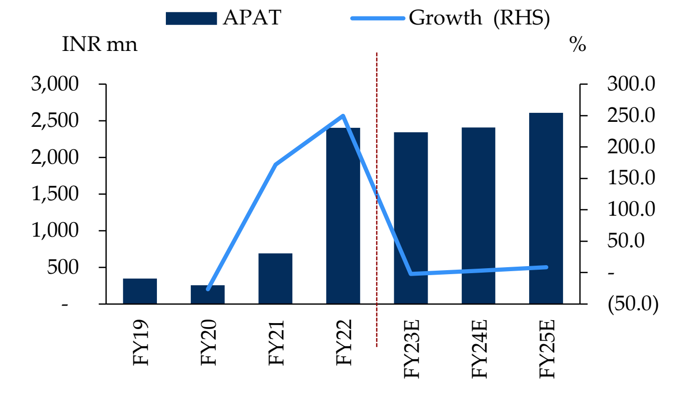
FY22-25E consolidated EBITDA CAGR: +1%



Source: Company, HSIE Research

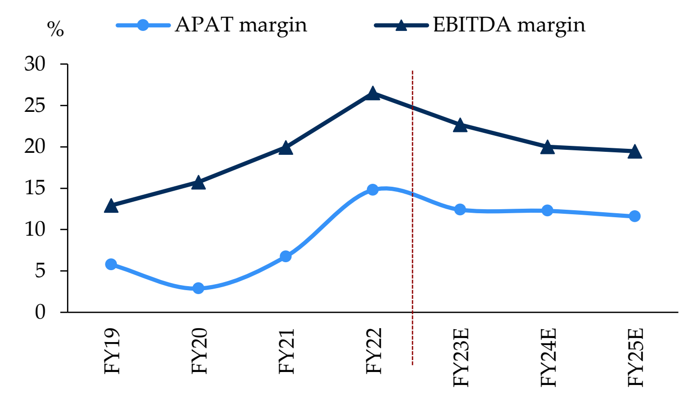
We expect its EBITDA margin to cool off from 26.5% in FY22 (peak levels) to 19.5% in FY25E, owing to pick-up in MDF imports and bunch up of MDF expansions in FY24/25E. The commissioning of Greenpanel's new MDF plant in H1FY25E would also impact margins in FY25E.

FY22-25E consolidated APAT CAGR: +3%



Source: Company, HSIE Research

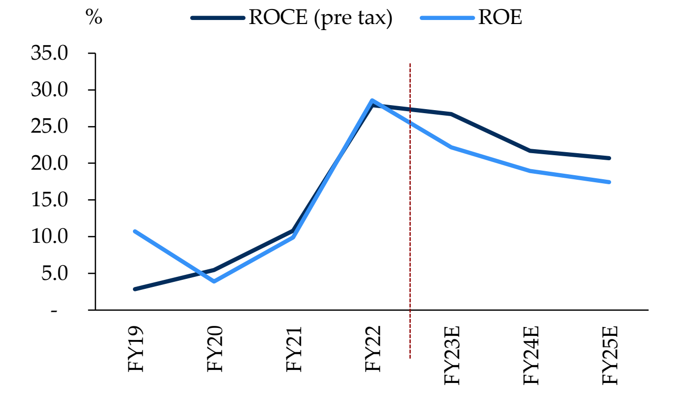
Consolidated margin trends



Source: Company, HSIE Research

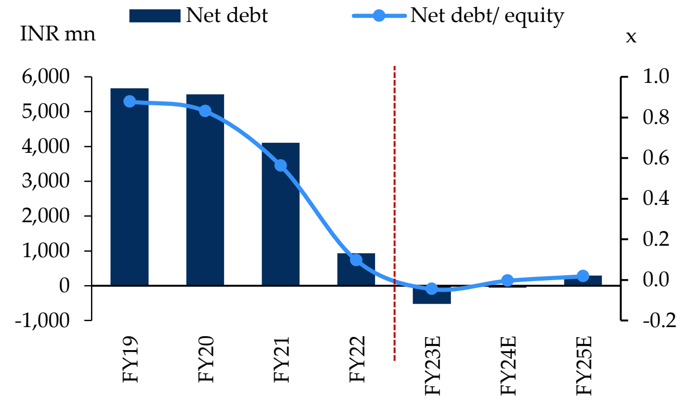
We estimate lower margin to pull down return ratios too. However, they should still remain healthy owing to high margin and good utilisation (asset turn). We expect Greenpanel's robust operating cash flow to fund its Capex. We estimate the company to operate at near-zero net debt during FY23-25E.

Return ratios to remain healthy despite cool off…



Source: Company, HSIE Research

… and balance sheet remains strong as well



Source: Company, HSIE Research

Du Pont analysis

Greenpanel's net profit margin is expected to be in double digits, at 12% in FY25E (lower vs 15% in FY22, higher vs FY19-21 single-digit 3-7%). Asset turn is expected to stay above 1x at 1.3x during FY23-25E as capacity utilisation will stay above 75%. The leverage factor will steadily decline from FY23-FY25 to 1.2x in FY25E (vs 1.6x in FY22) on the back of strong operating cash flow. On the back of a reduction in net margin, asset turnover and leverage factor, we estimate RoE to cool off to 17% in FY25E (still healthy and higher vs FY19-21 levels).

Du Pont analysis

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin (%)	5.8	2.9	6.7	14.8	12.4	12.3	11.6
Asset turnover (x)	0.5	0.7	0.8	1.2	1.3	1.3	1.3
Leverage factor (x)	4.1	2.0	1.8	1.6	1.3	1.2	1.2
RoE (%)	**10.7**	**3.9**	**9.9**	**28.6**	**22.2**	**18.9**	**17.4**

Source: Company, HSIE Research

Leadership team

Name	Designation	Qualification	Major functions	Age (Years)	Exp (Years)
Shiv Prakash Mittal	Executive Chairman	B.Sc.	Management, production, marketing & finance	73	50
Shobhan Mittal	Managing Director & CEO	BBA	Management, administration & finance	41	17
Shekhar Chandra Sati	President Sales - MDF & Flooring	MBA	Marketing & sales	48	27
Vishwanathan Venkatramani	Chief Financial Officer	CA	Finance, taxation, accounts	58	35

Financials (consolidated)

Income Statement

YE Mar (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**5,991**	**8,766**	**10,208**	**16,250**	**18,904**	**19,624**	**22,516**
Growth %	**-**	***46.3***	***16.4***	***59.2***	***16.3***	***3.8***	***14.7***
Raw Material	2,554	3,919	4,629	6,709	8,034	8,340	9,569
Power & Fuel	675	1,009	992	1,423	2,079	2,355	2,477
Freight Expense	345	419	552	800	945	981	1,126
Employee cost	808	989	979	1,284	1,426	1,525	1,907
Other Expenses	836	1,053	1,022	1,730	2,136	2,497	3,056
EBITDA	**774**	**1,378**	**2,034**	**4,304**	**4,284**	**3,925**	**4,381**
EBIDTA Margin (%)	***12.9***	***15.7***	***19.9***	***26.5***	***22.7***	***20.0***	***19.5***
EBITDA Growth %	**-**	***78.1***	***47.6***	***111.7***	***(0.5)***	***(8.4)***	***11.6***
Depreciation	530	692	686	734	739	747	906
EBIT	243	686	1,347	3,571	3,545	3,179	3,476
Other Income	127	22	34	90	200	150	116
Interest	246	483	372	171	110	75	65
PBT	124	225	1,010	3,489	3,635	3,254	3,527
Tax	(222)	(28)	322	1,085	1,291	846	917
RPAT	**346**	**145**	**688**	**2,405**	**2,345**	**2,408**	**2,610**
EO (Loss) / Profit (Net Of Tax)	-	(108)	-	-	-	-	-
APAT	**346**	**253**	**688**	**2,405**	**2,345**	**2,408**	**2,610**
APAT Growth (%)	**-**	***(26.8)***	***172.0***	***249.5***	***(2.5)***	***2.7***	***8.4***
AEPS	2.8	2.1	5.6	19.6	19.1	19.6	21.3
AEPS Growth %	-	*(26.8)*	*172.0*	*249.5*	*(2.5)*	*2.7*	*8.4*

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS							
Share Capital	123	123	123	123	123	123	123
Reserves And Surplus	6,332	6,494	7,181	9,394	11,504	13,671	16,020
Total Equity	**6,455**	**6,616**	**7,304**	**9,516**	**11,627**	**13,794**	**16,142**
Long-term Debt	5,411	4,884	4,612	2,365	1,911	1,457	1,457
Short-term Debt	454	727	225	791	70	70	70
Total Debt	**5,865**	**5,611**	**4,837**	**3,156**	**1,981**	**1,527**	**1,527**
Deferred Tax Liability	121	69	202	682	682	682	682
Long-term Liab+ Provisions	657	646	321	197	197	197	197
TOTAL SOURCES OF FUNDS	**13,098**	**12,942**	**12,664**	**13,552**	**14,487**	**16,200**	**18,549**
APPLICATION OF FUNDS							
Net Block	11,375	11,111	10,742	10,382	9,792	9,196	14,490
Capital WIP	38	57	36	-	1,000	4,000	1,000
Other Non-current Assets	289	321	221	179	179	179	179
Total Non-current Assets	**11,702**	**11,489**	**11,000**	**10,561**	**10,971**	**13,375**	**15,669**
Inventories	1,345	1,539	1,494	1,658	1,890	1,962	2,477
Debtors	456	705	778	414	567	785	901
Cash and Cash Equivalents	199	115	725	2,226	2,500	1,578	1,233
Other Current Assets (& Loans/adv)	878	810	556	564	564	564	564
Total Current Assets	**2,878**	**3,169**	**3,553**	**4,863**	**5,522**	**4,889**	**5,175**
Creditors	816	1,207	1,297	1,378	1,512	1,570	1,801
Other Current Liabilities & Provns	666	509	592	494	494	494	494
Total Current Liabilities	**1,481**	**1,716**	**1,889**	**1,872**	**2,006**	**2,064**	**2,295**
Net Current Assets	**1,396**	**1,453**	**1,664**	**2,991**	**3,516**	**2,825**	**2,880**
TOTAL APPLICATION OF FUNDS	**13,098**	**12,942**	**12,664**	**13,552**	**14,487**	**16,200**	**18,549**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	124	225	1,010	3,489	3,635	3,254	3,527
Non-operating & EO Items	(131)	(161)	(263)	(559)	(200)	(150)	(116)
Interest Expenses	246	302	247	171	110	75	65
Depreciation	530	692	686	734	739	747	906
Working Capital Change	(559)	1	620	402	(251)	(232)	(399)
Tax Paid	(41)	(61)	(164)	(580)	(1,291)	(846)	(917)
OPERATING CASH FLOW (a)	**169**	**998**	**2,136**	**3,657**	**2,743**	**2,847**	**3,066**
Capex	(1,053)	(242)	(127)	(336)	(1,150)	(3,150)	(3,200)
Free Cash Flow (FCF)	(884)	756	2,008	3,320	1,593	(303)	(134)
Investments	-	-	-	-	-	-	-
Non-operating Income	7	19	19	30	200	150	116
INVESTING CASH FLOW (b)	**(1,046)**	**(223)**	**(109)**	**(306)**	**(950)**	**(3,000)**	**(3,084)**
Debt Issuance/(Repaid)	1,286	(593)	(1,178)	(1,535)	(1,175)	(454)	-
Interest Expenses	(265)	(265)	(236)	(130)	(110)	(75)	(65)
FCFE	137	(102)	594	1,655	308	(832)	(200)
Dividend	-	-	-	(184)	(234)	(241)	(261)
FINANCING CASH FLOW (c)	**1,021**	**(858)**	**(1,414)**	**(1,849)**	**(1,519)**	**(770)**	**(326)**
NET CASH FLOW (a+b+c)	**144**	**(83)**	**613**	**1,501**	**274**	**(923)**	**(344)**
Closing Cash & Equivalents	**144**	**115**	**728**	**2,226**	**2,500**	**1,578**	**1,233**

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %							
EBITDA Margin	12.9	15.7	19.9	26.5	22.7	20.0	19.5
EBIT Margin	4.1	7.8	13.2	22.0	18.8	16.2	15.4
APAT Margin	5.8	2.9	6.7	14.8	12.4	12.3	11.6
RoE	10.7	3.9	9.9	28.6	22.2	18.9	17.4
RoIC Pre tax	1.9	5.4	10.9	30.7	31.8	29.4	25.8
RoCE (pre tax)	2.8	5.4	10.8	27.9	26.7	21.7	20.7
EFFICIENCY							
Tax Rate %	(179.2)	(12.2)	31.9	31.1	35.5	26.0	26.0
Fixed Asset Turnover (x)	0.9	0.6	0.7	1.1	1.3	1.3	1.2
Inventory (days)	82	64	53	37	37	37	40
Debtors (days)	28	29	28	9	11	15	15
Other Current Assets (days)	71	47	28	17	14	14	12
Payables (days)	50	50	46	31	29	29	29
Other Current Liab & Provns (days)	81	48	33	16	13	13	11
Cash Conversion Cycle (days)	51	42	30	17	19	23	26
Net Debt/EBITDA (x)	7.3	4.0	2.0	0.2	(0.1)	(0.0)	0.1
Net D/E	0.9	0.8	0.6	0.1	(0.0)	(0.0)	0.0
Interest Coverage	1.0	1.4	3.6	20.9	32.3	42.4	53.2
PER SHARE DATA (INR)							
EPS	2.8	2.1	5.6	19.6	19.1	19.6	21.3
CEPS	7.1	7.7	11.2	25.6	25.2	25.7	28.7
Dividend	-	-	-	1.5	1.9	2.0	2.1
Book Value	52.6	54.0	59.6	77.6	94.8	112.5	131.6
VALUATION							
P/E (x)	120.6	164.9	60.6	17.3	17.8	17.4	16.0
P/Cash EPS (x)	47.6	49.9	30.3	13.3	13.6	13.3	11.9
P/BV (x)	6.5	6.3	5.7	4.4	3.6	3.0	2.6
EV/EBITDA (x)	61.2	34.3	22.5	9.9	9.6	10.6	9.6
EV/ sales (x)	7.91	5.39	4.49	2.62	2.18	2.13	1.87
Dividend Yield (%)	-	-	-	0.4	0.6	0.6	0.6
OCF/EV (%)	0.4	2.1	4.7	8.6	6.6	6.8	7.3
FCFF/EV (%)	(1.9)	1.6	4.4	7.8	3.9	(0.7)	(0.3)

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Greenlam Industries

Mega expansion in laminates, particle board

We initiate coverage on Greenlam Industries with an ADD rating and a target price of INR 360/sh (16x its Mar'25E consolidated EBITDA). We like Greenlam for its leadership positioning in laminates (both in exports and domestic). Its large laminates capacity expansions in FY23 will accelerate segmental growth during FY23-25E. The company is also foraying into the high-growth particle board market in Q4FY24 with modern machinery to meet the rising demand from furniture OEMs. It is also entering plywood market in Q4FY23, with focus on high-end plywood. These should drive up its FY22-25E revenue/EBITDA CAGRs to 18/21%.

- **Major capacity additions to sustain its leadership in laminates:** Greenlam is the largest exporter of laminates (the second-largest seller in India), with exclusive distribution network. To maintain its leadership and increase product range, Greenlam recently acquired a plant in Gujarat and is commissioning a greenfield plant in Andhra Pradesh. These will increase its capacity by 57% in FY23 to 25.5mn sheets and should drive 14% volume CAGR in FY22-25E. We expect the segmental margin to sustain ~13% during FY23-25E, aided by softening of raw material prices.
- **Expanding into other wood segments—plywood and particle board:** Greenlam is foraying into plywood (small plant in Tamil Nadu in Q4FY23) and particle board (a large plant in AP in Q4FY24). Greenlam expects to tap the high-end plywood market, which is less impacted by unorganized players and capitalise on its domestic laminates distribution. The particle board industry is gaining traction, given that the furniture OEM market is growing in India and demand for quality boards is not being fully met by unorganised players operating with old plants. We estimate these two segments would account for 16/14% of its FY25E revenues/EBITDA. The contribution from these segments will increase further in the subsequent years, thereby diversifying the revenue stream.
- **Aggressive expansion to gear up balance sheet in medium term:** Greenlam would incur INR 10bn towards its laminates, ply and particle board expansions during FY23-24E. While the company has roped in INR 1.95bn in equity infusion, we estimate net debt to increase over the next two years, driving up net debt/EBITDA to 3x in FY24E, which should cool off in FY25E.
- **Initiate coverage with an ADD rating:** We like Greenlam for its leadership presence and robust earnings outlook (FY22-25E revenue/EBITDA CAGR estimated at 18/21%). We initiate coverage on the company with an ADD rating, valuing it at 16x its Mar'25E consolidated EBITDA (~10% premium to its five-year mean multiple).

Consolidated financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	11,447	12,807	13,206	11,996	17,034	18,874	23,232	28,313
EBITDA	1,489	1,585	1,782	1,733	1,870	2,140	2,710	3,337
EBITDAM (%)	*13.0*	*12.4*	*13.5*	*14.4*	*11.0*	*11.3*	*11.7*	*11.8*
APAT	646	771	867	862	933	1,040	1,296	1,299
AEPS (INR)	5.4	6.4	7.2	7.1	7.7	8.2	10.2	10.2
P/E (x)	65.6	54.9	48.9	49.2	45.4	40.7	32.7	32.6
EV / EBITDA (x)	30.1	28.4	25.2	25.5	23.8	22.2	18.7	14.9
RoE (%)	*19.7*	*19.7*	*18.7*	*16.0*	*15.2*	*13.0*	*12.9*	*11.6*

Source: Company, HSIE Research

ADD

CMP *(as on 03 Jan 2023)*	**INR 332**
Target Price	**INR 360**
NIFTY	**18,233**

KEY STOCK DATA	
Bloomberg code	GRLM IN
No. of Shares (mn)	127
MCap (INR bn) / ($ mn)	42/507
6m avg traded value (INR mn)	13
52 Week high / low	INR 418/280

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.9	4.8	(8.5)
Relative (%)	8.9	(11.0)	(12.0)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	53.9	51.2
FIs & Local MFs	14.21	13.37
FPIs	1.51	1.46
Public & Others	30.39	33.96
Pledged Shares	-	-

Source : BSE

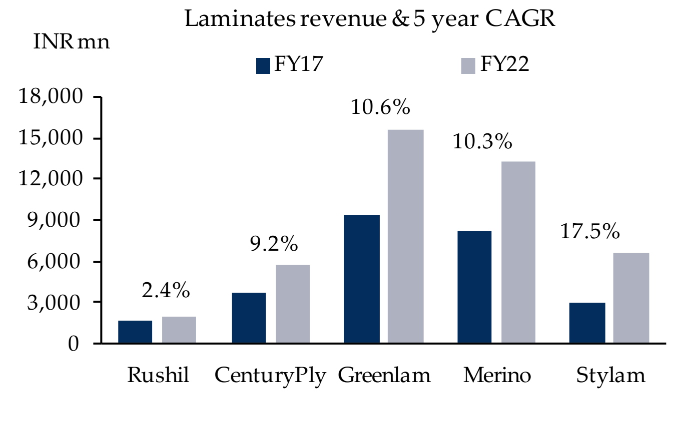
Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

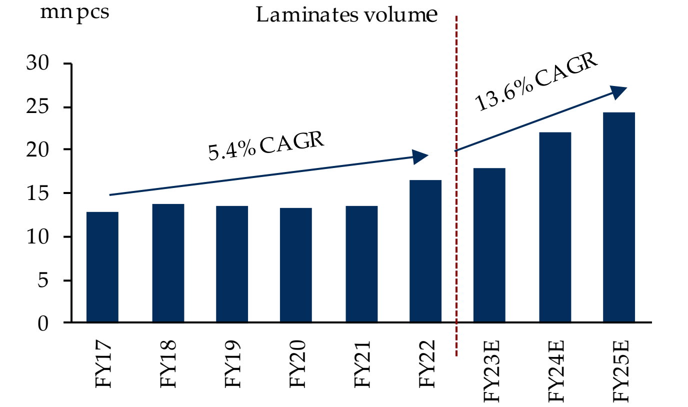
Story in Charts

Greenlam is the overall largest laminate company in India and also the largest exporter from India



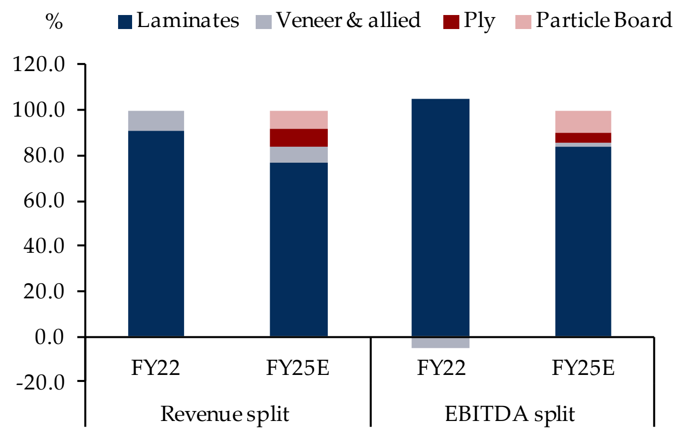
Source: Company, HSIE Research,

We estimate it to deliver accelerated volume offtake during FY22-25E, driven by major expansion



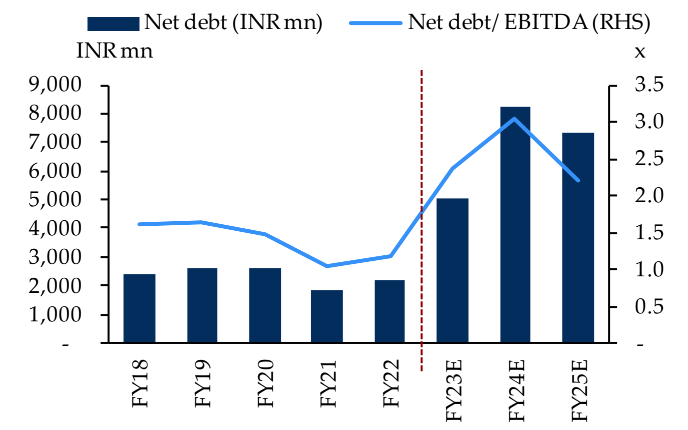
Source: Company, HSIE Research,

The upcoming foray in ply and particle board will gradually diversify its revenue and profit mix



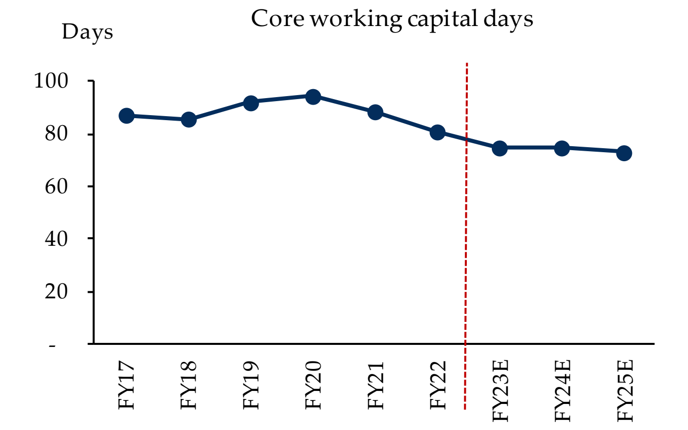
Source: Company, HSIE Research

Large Capex outlay during FY23/24E will stretch gearing which should start moderating FY25E onwards



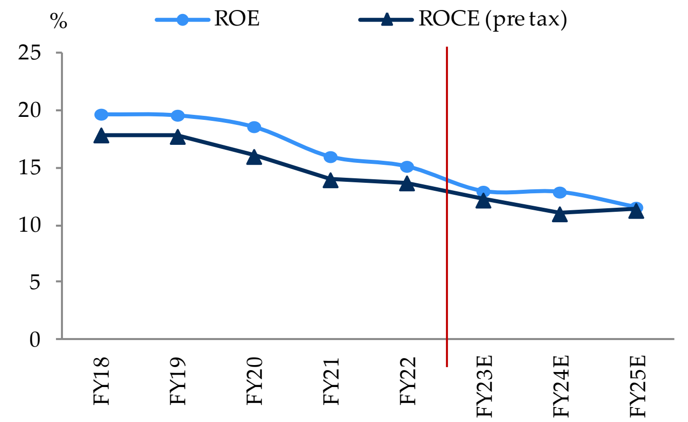
Source: Company, HSIE Research

It has tightened its working capital in the past two years



Source: Company, HSIE Research

Margin compression and upcoming expansion to pull down return ratios in medium term



Source: Company, HSIE Research

Market leader in laminates

Headquartered in Delhi, Greenlam demerged from Greenply in Nov-2014 and became a separately listed entity in Mar-2015. Greenlam stood second in terms of installed laminate capacity in India (after Merino India) until FY22. By the end of FY23, Greenlam's capacity (24.5mn sheets: additions of 9mn sheets) will come at par with Merino's (24.5mn sheets: additions of 3mn sheets).

However, in terms of production and sales, Greenlam has been the largest laminates seller in export and second-largest seller in India for the past many years. Globally, it is among the top-3 laminates brand.

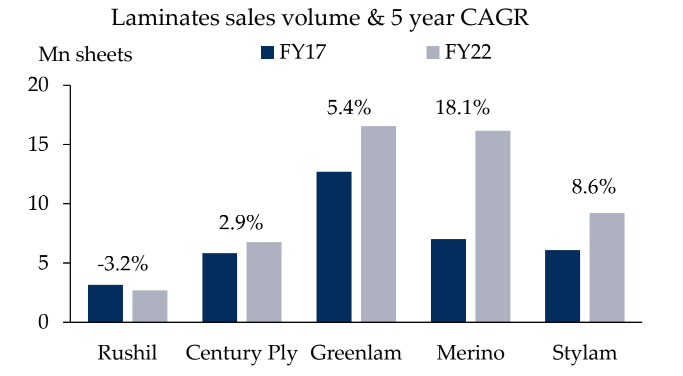
The company started off laminate manufacturing 30 years back in Rajasthan and currently has manufacturing plants located across Behror (Rajasthan), Nalagarh (Himachal Pradesh), and Prantij (Gujarat), totalling 19mn sheets annually in Q3FY23 end. By the end of FY23E, its capacity will expand to 25.5mn sheets as it is debottlenecking the Gujarat plant capacity by 2mn sheets and adding a 3.5mn sheet greenfield plant in Andhra Pradesh.

In Rajasthan, Greenlam also produces compact panels and melamine-faced chip board (MFC), which are clubbed with laminate revenue (and comprise less than 3-4% of segmental revenue). The laminates and allied segment comprised 91% of its consolidated revenues in FY22.

Greenlam also manufactures veneers, wooden door systems and wooden floor tiles, which are classified as veneer and allied products. These comprised 9% of its consolidated revenues in FY22.

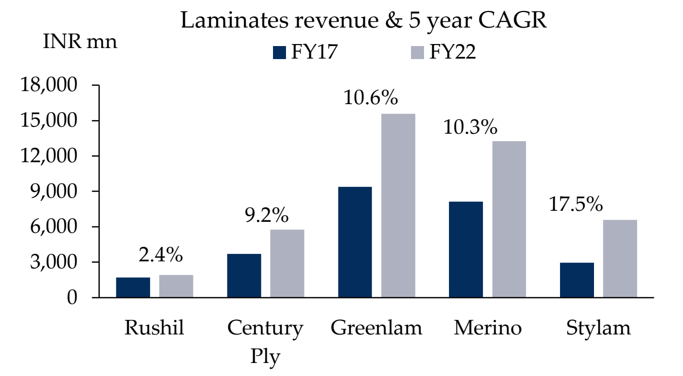
In the past five years, Greenlam's laminate capacity increased at 5% CAGR (slower than major peers like Merino (+8%) and Century Ply (+13%). Even in terms of sales, its volume grew at 5% CAGR as against Merino's/ Century Ply's 18/3% CAGR respectively. Despite this, Greenlam maintains its lead in terms of total laminates sales volume and revenues.

Volume trends for the major laminate producers in India, in the past five years



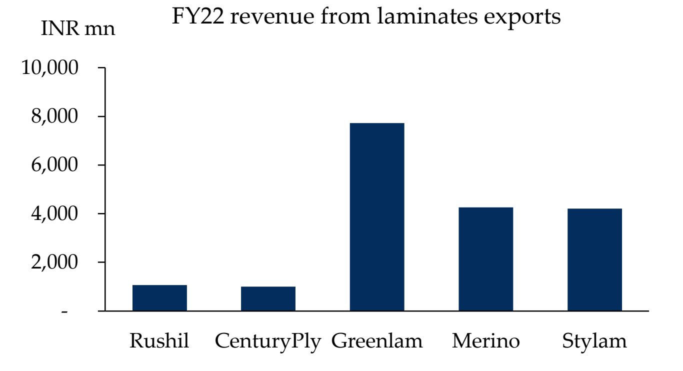
Source: Company, HSIE Research

Laminate revenue trends for the major companies in the past five years



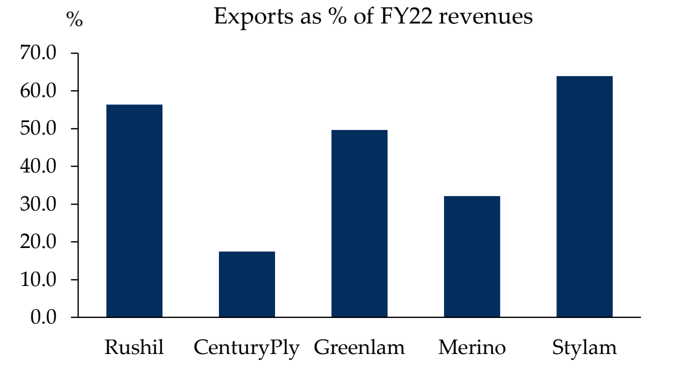
Source: Company, HSIE Research

Greenlam is the largest exporter of laminates from India



Source: Company, HSIE Research

Exports comprise ~50% of Greenlam's consolidated revenue



Source: Company, HSIE Research

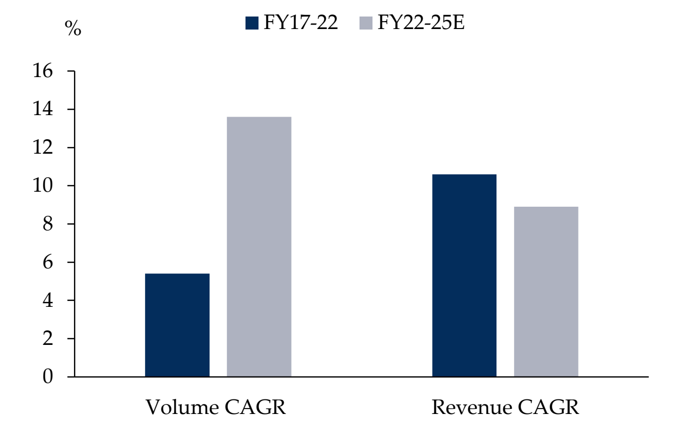
Segmental performance and outlook

After growing its segmental capacity at a moderate pace of 5% CAGR, Greenlam is doing massive expansion in FY23, whereby it is increasing its laminate capacity by ~57% in FY23 through a mix of inorganic acquisitions, debottlenecking and greenfield expansion. In Gujarat, it acquired a 3.4mn sheet thin laminate plant (operational in Q2FY23). This will be further debottlenecked by 2mn sheets by Q4FY23. In Q4FY23, Greenlam will also be commissioning a greenfield 3.5mn-sheet laminate plant in Andhra Pradesh. These will increase its capacity by 57% to 25.5mn sheets by the end of FY23. It will also enhance its product range, as it was lacking low-end thin MDF, which is being manufactured in Gujarat. The AP is a modern plant that can manufacture higher sizes laminates, which is preferred in exports as well as sell at higher realisation. We expect the expanded capacity and increased product range to drive its volume offtake, leading to a 14% volume CAGR during FY22-25E.

Greenlam's export volumes fell 12% YoY in H1FY23 vs 3% growth reported by the industry, owing to the global currency volatility impacting exports to many emerging countries. However, falling shipping freight rates and stabilisation of currencies and elevated cost production in the European region are expected to boost exports from India, supporting Greenlam's volume offtake. However, on a three-year CAGR basis, its H1FY23 export volume has grown at 7% CAGR. The overall domestic demand outlook remains healthy as Greenlam's domestic laminate volumes in H1FY23 reported 14% volume CAGR (over the H1FY20 base). Greenlam has an exclusive dealer network in both domestic and exports markets, which has helped it grow faster than peers.

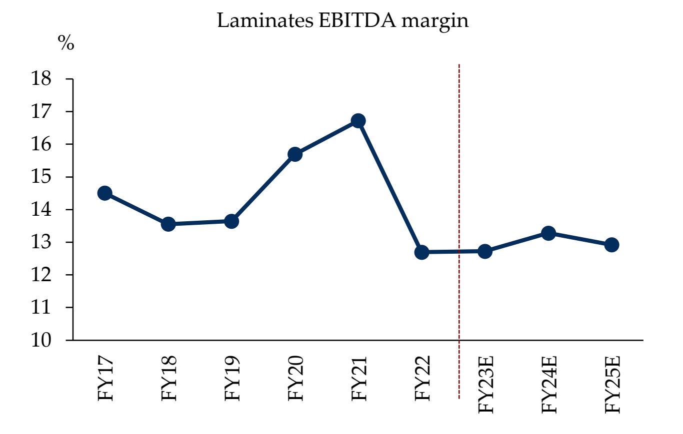
We expect the company's laminates EBITDA margin to hover ~13%. Greenlam spends ~3% in advertisements (amongst the highest vis-à-vis peers) to promote its brand. As it has its marketing offices globally, its employee cost (% of net sales) is also higher vs peers.

We estimate Greenlam's volume growth to accelerate driven by major expansion—organic and inorganic



Source: Company, HSIE Research

We estimate EBITDA margin will remain low at ~13%, owing to volume contribution from the low-end laminates H2FY23 onwards



Source: Company, HSIE Research

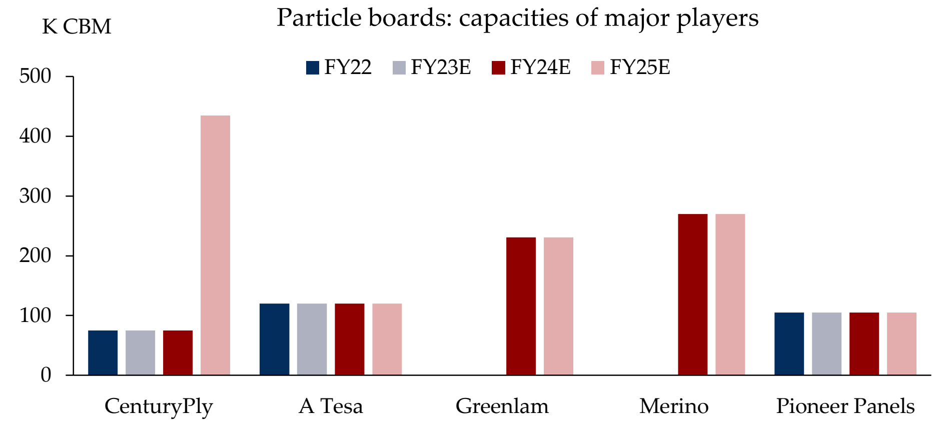
Foray in high-growth opportunity particle board

Greenlam is setting up a large particle board plant in Andhra Pradesh, with an installed capacity of 231 K CBM; the plant is expected to be operational by the end of FY24. It will be the second-largest plant in India after Merino's 270 K CBM capacity (expected to be operational in H1FY24) in Gujarat. At end of FY25E, Century Ply is commissioning a large plant of 360K CBM in Tamil Nadu and would become the largest player in India overtaking Merino and Greenlam.

Currently, the particle board sector is flushed with many small unorganised manufacturers. There are only a few big players (including Merino, Pioneer Panels and Century Ply) whose capacities range between 75-120K CBM. These big players currently have ~15% market share. With rising demand for quality particle boards in India (laminatable on both sides, machinability, etc.) from OEMs, the bigger companies with modern equipment should benefit from both the demand tailwinds and market share gains (from unorganised players).

We factor in 40% utilization for Greenlam's particle board plant in FY25E (first year of operations) and it should gradually ramp up to full utilisation over the next three years. On full utilisation, the plant is expected to deliver ~INR 6bn revenue (1x Capex) and ~25% EBITDA margin. In FY25E, we model in 14% segmental EBITDAM, owing to lower utilization.

Wood panel majors are expanding aggressively in the particle board segment

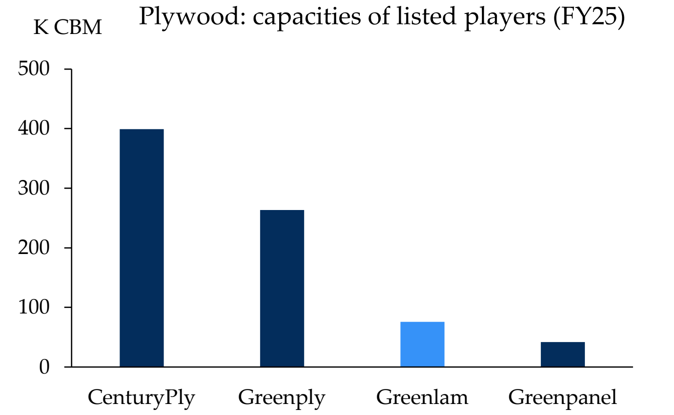


Source: Company, HSIE Research

Plywood entry to capitalise on existing distribution

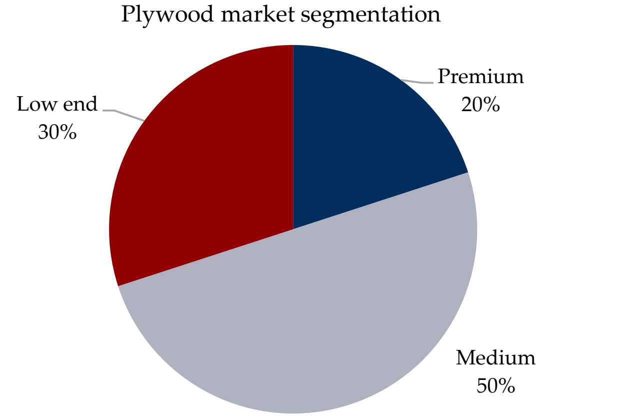
Greenlam is one of the late entrants in the highly-unorganised plywood segment. It is setting up a small 18.9mn sqm capacity (~76K CBM) in Tamil Nadu by the end of FY23E. Greenlam's rationale is to enhance its product range in the wood segment and also capitalise on its existing laminates distribution in the domestic markets. It will focus mainly on the mid and premium ply categories where the competition from unorganised players are low. We estimate the company will operate at 45/60% utilisation in FY24/25E and contribute ~7-8% of consolidated revenues. On full ramp-up, the company expects to generate annual revenue of INR 4bn (on Capex of INR 1.25bn) that can be achieved in 3-4 years and deliver a 15% EBITDA margin.

Greenlam would remain a small player in the plywood segment



Source: Company, HSIE Research

Greenlam is targeting to sell its ply majorly in the mid/premium segments



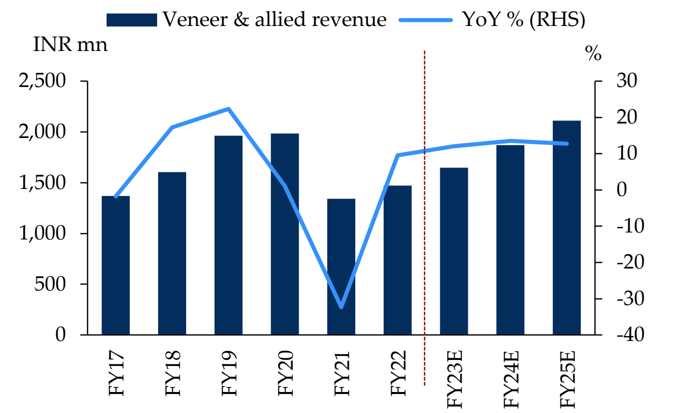
Source: Company, HSIE Research

Veneer and allied segment—weak demand and losses

Currently, the veneer and allied segment contributed 9% to its consolidated revenue in FY22 (down from 15% in the FY18-20 period). Greenlam manufactures veneers, wooden door systems, and wooden flooring under this segment in its Rajasthan plant.

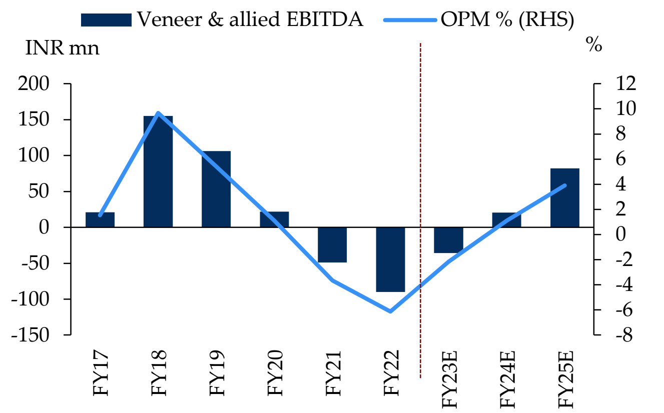
While it has been manufacturing decorative veneers since 2002, it entered in wooden floor manufacturing in 2014 and wooden door systems in 2015. However, the segmental revenue has grown at 1% CAGR in the past five years, owing to weak demand for its decorative veneers and slow ramp-up in the flooring/door segments. These have also led to the segment reporting EBITDA losses since FY21. The company expects this segment to take some more time to turn EBITDA positive as sales pick up. We expect this segment revenue share to continue to contract amid fast growth in laminates and revenue contribution from ply and particle board segments.

We estimate the veneer & allied revenue to grow at 13% CAGR (on a low base)



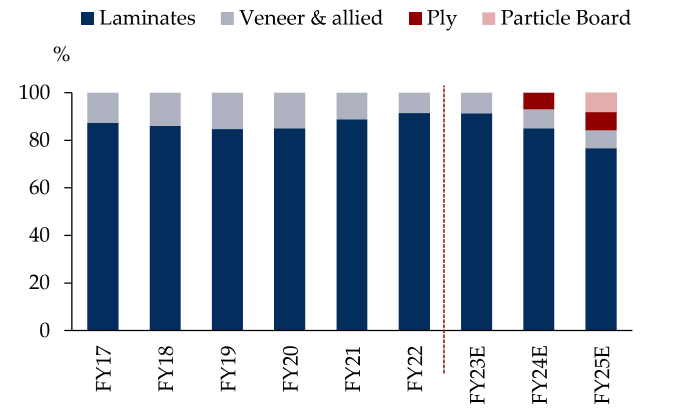
Source: Company, HSIE Research

Better utilisation should turn the segmental EBITDA positive FY24E onwards



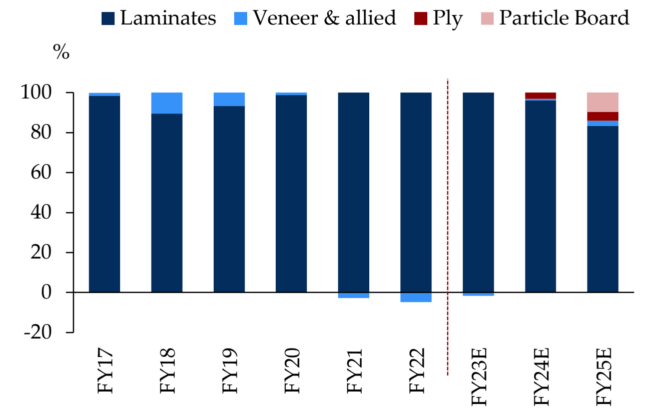
Source: Company, HSIE Research

Greenlam's revenue split trend: Ply/particle board to start contributing FY24/25E onwards



Source: Company, HSIE Research

We estimate other segments to contribute to EBITDA in FY24E



Source: Company, HSIE Research

Key operating assumptions for laminates segment

Segmental performance (INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales vol (mn sheets)	**13.54**	**13.23**	**13.49**	**16.53**	**17.79**	**21.98**	**24.24**
YoY %	*-2.0*	*-2.3*	*2.0*	*22.5*	*7.6*	*23.5*	*10.3*
Revenue	10,846	11,222	10,653	15,563	17,226	19,745	21,709
YoY %	*10.2*	*3.5*	*-5.1*	*46.1*	*10.7*	*14.6*	*10.0*
EBITDA	1,480	1,761	1,781	1,976	2,192	2,622	2,805
YoY %	*10.9*	*19.0*	*1.1*	*10.9*	*10.9*	*19.6*	*7.0*
OPM %	*13.6*	*15.7*	*16.7*	*12.7*	*12.7*	*13.3*	*12.9*

Source: Company, HSIE Research

Major Capex in FY23/24 to set base for 18% revenue CAGR

Greenlam's Capex is investing aggressively during FY23 and FY24 as it is expanding the laminates business, foraying into plywood and particle board segments. It will be spending about INR 10bn on these projects, of which ~INR 9bn will be spent during FY23-24E. This would be ~2x what it has spent in the preceding eight years.

Reckoning its aggressive plans, Greenlam raised INR 1.95bn through preferential equity allotment (6.31mn shares to Smiti Holdings at INR 309/share in Jun 2022) and has tied-up borrowings (INR 6.9bn) for these expansion projects. It will fund the rest through internal accruals.

Assuming the company is able to achieve a peak revenue in all these projects during FY26/27E, these expansions will add ~INR 17.5bn in the top line, thereby doubling its consolidated revenue during FY22-27E (~18% CAGR).

Greenlam's expansion plans during FY23-24E

Segment	Expansion type	Location	Capacity	Capex INR mn	CoD	Comments
Laminates	Inorganic	Prantij, Gujarat	3.4 mn sheets	360	Aug-22	Greenlam acquired Bloom Dekor plant which manufactures thin, low-end laminates which was missing in its portfolio
	Upgradation	Prantij, Gujarat	2.0 mn sheets	150	Q4FY23	Post-acquisition, Greenlam is expanding its capacity. On the expanded capacity, the plant will have peak revenue potential of INR 2.5bn
	Greenfield	Naidupeda, Andhra Pradesh	3.5 mn sheets	2,250	Q4FY23	This modern plant will have a peak revenue potential of INR 5bn
Plywood	Greenfield	Tindivanam, Tamil Nadu	18.9 mn sqm	1,250	Q4FY23	New foray - This modern plant will have a peak revenue potential of INR 4bn
Particle board	Greenfield	Naidupeda, Andhra Pradesh	231 K CBM	6,000	Q4FY24	New foray - This modern plant will have a peak revenue potential of INR 6bn
Total Capex during FY23-24				**10,010**		

Source: Company, HSIE Research

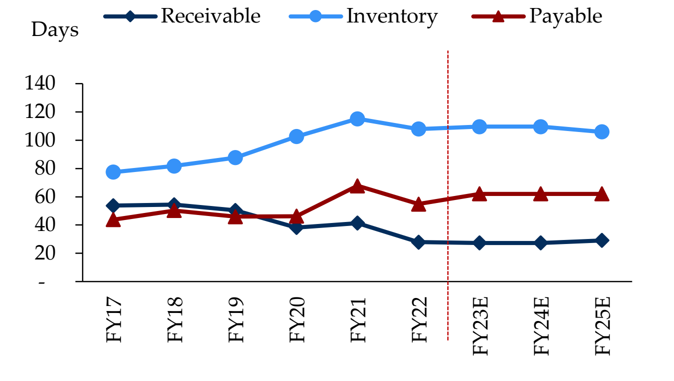
Working capital profile

Greenlam's cash conversion cycle hovers a tad below three months. This is mainly due to almost four months (~110 days) of inventories. The laminate business has multiple SKUs and Greenlam sells through its exclusive networks, both in India and export markets, leading to a high inventory of finished goods (accounts for almost one-third of total inventories). Raw material and work-in-process account for another 50% (mainly comprising imported craft papers and various chemicals).

Its debtor days have halved to one month in FY22 from ~60-70 days during the FY15-17 period. Its payable are broadly stable ~55 days.

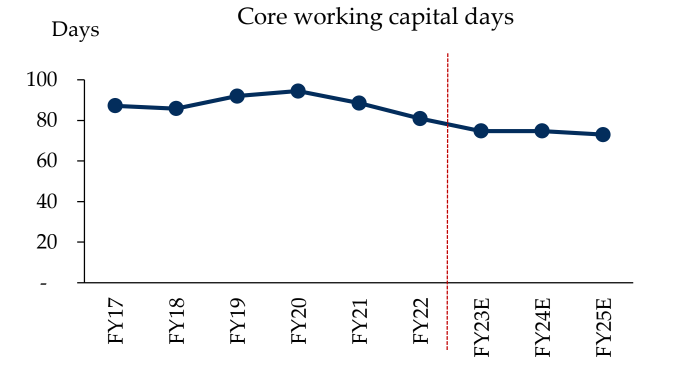
The ramp-up of the particle board business FY25 onwards should moderate the working capital profile as this segment is expected to operate at ~45 days of the cash conversion cycle, as against three months for the laminates segment.

Greenlam has tightened its receivable cycle in the past five years



Source: Company, HSIE Research

It has tightened its working capital in the past two years



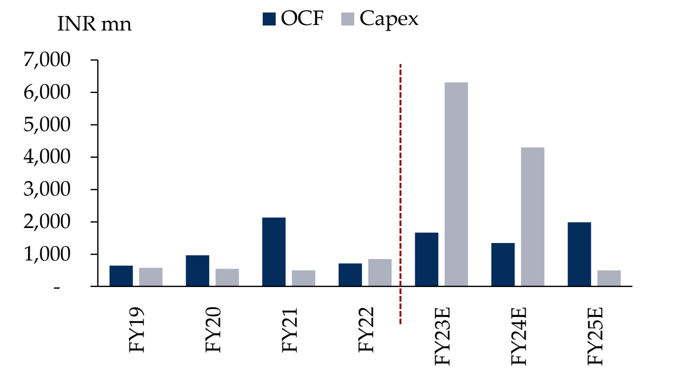
Source: Company, HSIE Research

Leverage factor to stretch during FY23-25E

As discussed above, Greenlam is undergoing major Capex of ~INR 10bn, of which ~INR 9bn will be spent during FY23-24E. The Capex would be ~2x the amount it has spent in the past eight years. To fund it, the company raised INR 1.95bn in equity in Jun-2022 and has tied up long-term borrowings worth INR 6.9bn. One-third of this is foreign borrowings at ~2.25% and the rest domestic debt at 8%, leading to a blended borrowing cost of ~6%. Given the company's internal cash generation, we estimate its net debt will increase to ~INR 8.3bn in FY24E (from INR 2.2bn in Mar-22).

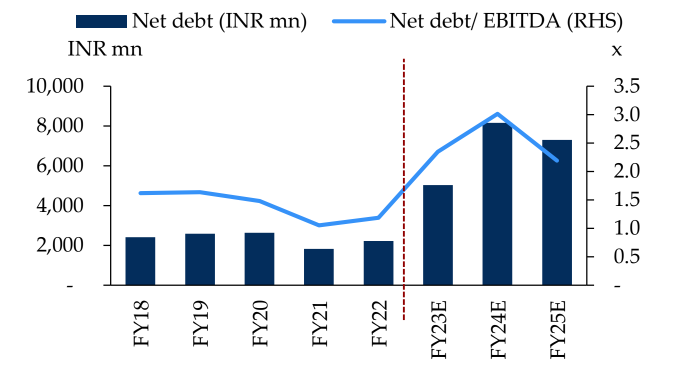
Because of these mega expansions, we expect its consolidated net debt/EBITDA to stretch to 2-3x during FY23-25E.

We estimate Capex to outpace internal accruals during FY23/24E



Source: Company, HSIE Research

Subsequently, debt and gearing ratios would stretch over next two years



Source: Company, HSIE Research

Valuation, recommendation, and key risks

Greenlam continues to be a market leader in India in the laminates segment—both in export and domestic (second largest) markets. It is also taking up major expansions to bolster its position. It is also foraying into the high-growth and high-margin particle board business as well as the plywood segment. We expect its consolidated EBITDA margin to remain steady around ~11-12%. During FY22-25E, we expect the company to deliver robust 18/21/12% revenue/EBITDA/APAT CAGRs.

Owing to a large Capex that will gradually ramp up, its leverage ratio and return ratios would remain affected in the medium term, thus restricting valuation multiple re-rating.

We initiate coverage on the company with an ADD rating, valuing it at 16x Mar'25E EBITDA (~10% premium to its five year mean multiple). If the company is able to keep its leverage ratio under check, it could lead to further rerating.

Key risks

Global turmoil: Greenlam sells ~50% of its laminates in export markets, which have recently seen currency volatility, impacting exports. The company is hopeful that the impact would wane off in H2FY23. However, if exports market remains impacted, it will pull down the overall sales and profitability.

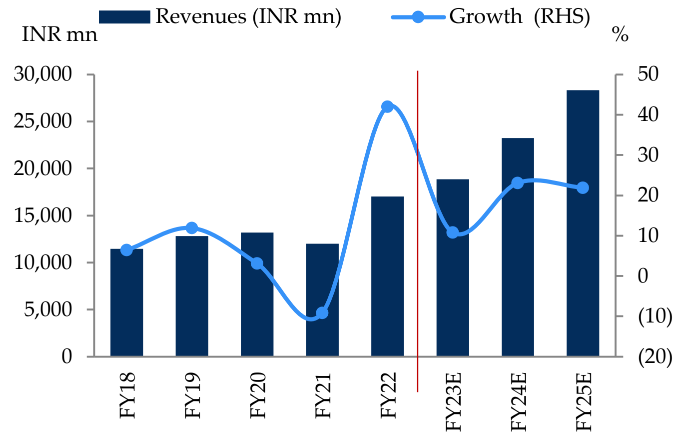
Delays in capacity ramp-up: Greenlam is foraying into plywood and particle board segments. We have already factored in a gradual ramp-up in four years post commissioning, as the company will need to work on its distribution, mainly for the particle board segment. Any delays in sales ramp-up in these businesses will drag earnings down and increase leverage.

Financial summary

During FY22-25E, we estimate Greenlam's consolidated revenue would grow at 18% CAGR, led by a strong 14% laminate volume CAGR and contribution from new businesses—plywood and particle board. We also build in a gradual ramp-up of veneers and allied businesses.

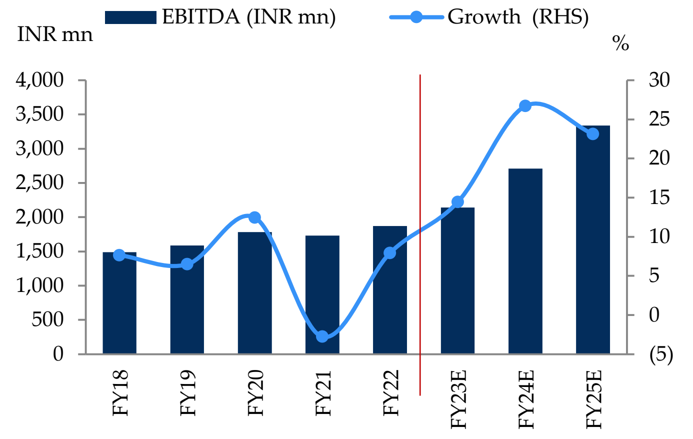
We estimate the laminates' margin to hover around ~13% during FY22-25E, thereby driving up segmental EBITDA CAGR to 12%. Additionally, Greenlam's consolidated EBITDA CAGR of 21% should benefit from profit contribution from plywood and particle boards segments (albeit low margin initially).

FY22-25E consolidated revenue CAGR: +18%



Source: Company, HSIE Research

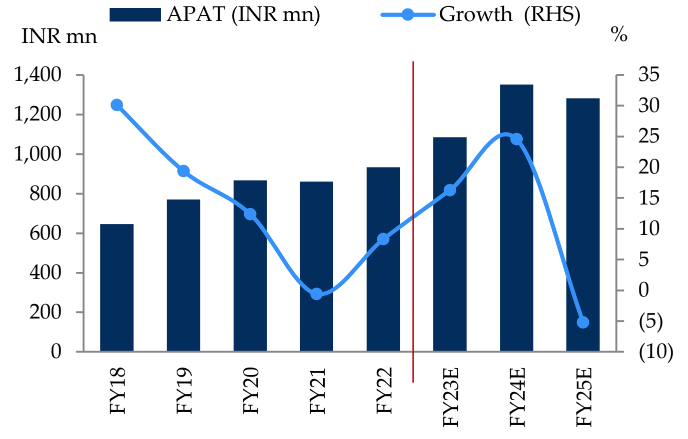
FY22-25E consolidated EBITDA CAGR: +21%



Source: Company, HSIE Research

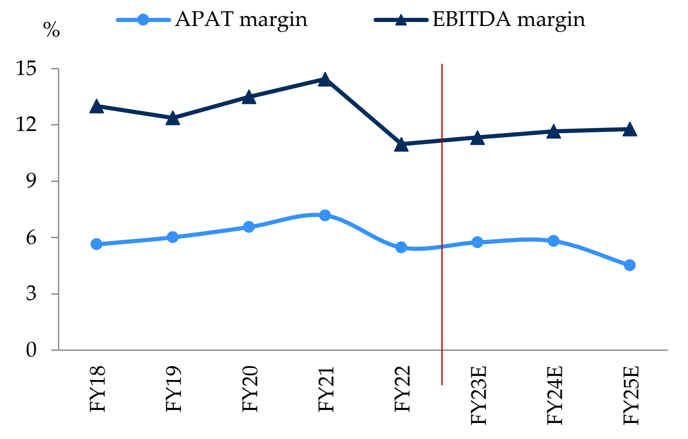
On a consolidated basis, we estimate blended EBITDA margin to hover ~11-12% and volume offtake in all segments to drive profitability. APAT margin should come off in FY25E, owing to full capitalisation of the particle board plant (capital-intensive), whose utilisation will gradually pick up.

FY22-25E consolidated APAT CAGR: +12%



Source: Company, HSIE Research

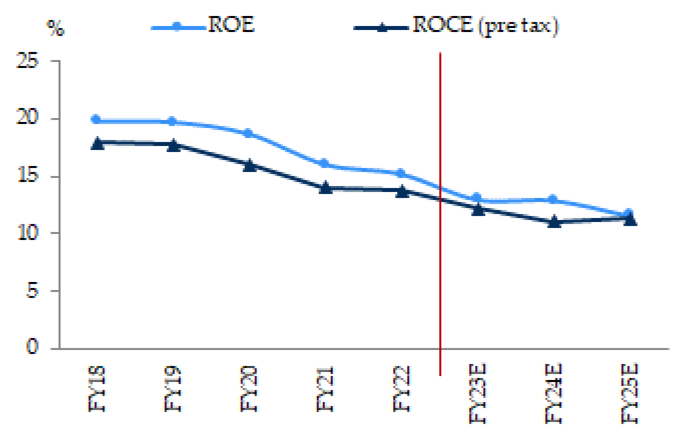
Profit margin trends



Source: Company, HSIE Research

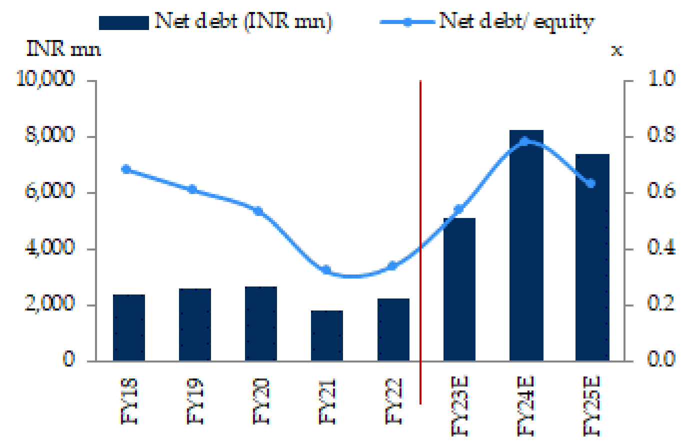
Return ratios should moderate a bit during FY23-25E mainly on account of lower utilisation of upcoming expansions. Large expansions would lead to debt pile up, while operating profit would take time to scale up. This should drive up gearing in medium term.

Margin compression and upcoming expansion to pull down return ratios in medium terms



Source: Company, HSIE Research

Large Capex outlay during FY23/24E will stretch gearing which should start moderating FY25E onwards



Source: Company, HSIE Research

Du-Pont analysis

During past five years, Greenlam's RoE came from these three factors: PAT margin cooling off (driven by raw material cost pressure), slight moderation in asset turn, and fall in leverage factor. Over the next three years, we expect the RoE to continue to trend down, as we expect PAT margin to come off in FY24/25E, owing to capitalisation of ply/particle board plants. Further, asset turn would also come off due to lower utilisation in initial years in these two businesses.

Du Pont analysis

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin (%)	5.6	6.0	6.6	7.2	5.5	5.5	5.6	4.6
Asset turnover (x)	1.8	1.9	1.6	1.3	1.7	1.4	1.3	1.4
Leverage factor (x)	2.0	1.8	1.7	1.7	1.6	1.6	1.8	1.8
RoE (%)	**19.7**	**19.7**	**18.7**	**16.0**	**15.2**	**13.0**	**12.9**	**11.6**

Source: Company, HSIE Research

Leadership team

Name	Designation	Qualification	Major functions	Age (Years)	Exp (Years)
Mr. Saurabh Mittal	Managing Director & CEO	B.Com	Management, production, marketing	46	25
Ms. Parul Mittal	Whole-time Director	B.Com	Management, CSR	44	20
Mr. BL Sharma	Head of manufacturing	B.Sc., LLB, MBA	Production	65	41
Mr. Pankaj Rishi	COO-Middle East & North Africa	BA, MBA	Sales & distribution	52	29
Mr. Anuj Sangal	Country Head - Laminates & Allied	BE (Civil), MBA	Sales & distribution	54	29
Mr. Ashok Kumar Sharma	Chief Financial Officer	CA	Finance, taxation, accounts	53	29

Financials (consolidated)

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**11,447**	**12,807**	**13,206**	**11,996**	**17,034**	**18,874**	**23,232**	**28,313**
Growth %	***6.4***	***11.9***	***3.1***	***(9.2)***	***42.0***	***10.8***	***23.1***	***21.9***
Raw Material	5,983	6,878	6,704	6,016	9,443	10,342	13,153	16,383
Power & Fuel	321	373	338	333	539	661	699	852
Freight Expense	287	282	281	253	322	566	695	847
Employee cost	1,734	1,925	2,220	2,079	2,594	2,776	3,054	3,664
Other Expenses	1,633	1,765	1,881	1,583	2,265	2,389	2,921	3,230
EBITDA	**1,489**	**1,585**	**1,782**	**1,733**	**1,870**	**2,140**	**2,710**	**3,337**
EBIDTA Margin (%)	***13.0***	***12.4***	***13.5***	***14.4***	***11.0***	***11.3***	***11.7***	***11.8***
EBITDA Growth %	***7.6***	***6.5***	***12.4***	***(2.8)***	***7.9***	***14.4***	***26.7***	***23.1***
Depreciation	360	368	525	556	585	652	827	1,127
EBIT	1,129	1,217	1,258	1,177	1,285	1,488	1,883	2,210
Other Income	16	15	44	76	73	124	84	86
Interest	181	170	218	169	141	199	206	532
PBT	965	1,063	1,083	1,084	1,217	1,413	1,761	1,765
Tax	319	291	217	223	286	374	467	468
Minority Int	0	-	0	(1)	(2)	(2)	(2)	(2)
RPAT	**646**	**771**	**867**	**986**	**959**	**1,040**	**1,296**	**1,299**
EO (Loss) / Profit (Net Of Tax)	-	-	-	(124)	(26)	-	-	-
APAT	**646**	**771**	**867**	**862**	**933**	**1,040**	**1,296**	**1,299**
APAT Growth (%)	***30.1***	***19.4***	***12.4***	***(0.6)***	***8.3***	***11.4***	***24.6***	***0.2***
AEPS	5.4	6.4	7.2	7.1	7.7	8.2	10.2	10.2
AEPS Growth %	*30.1*	*19.4*	*12.4*	*(0.6)*	*8.3*	*5.4*	*24.6*	*0.2*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	121	121	121	121	121	128	128	128
Reserves And Surplus	3,441	4,163	4,886	5,614	6,423	9,302	10,468	11,637
Total Equity	**3,561**	**4,284**	**5,007**	**5,735**	**6,544**	**9,429**	**10,596**	**11,765**
Long-term Debt	1,221	1,107	1,214	1,547	2,214	4,214	7,214	6,214
Short-term Debt	1,296	1,590	1,727	1,524	1,765	1,765	2,008	2,288
Total Debt	**2,517**	**2,697**	**2,942**	**3,071**	**3,978**	**5,978**	**9,222**	**8,502**
Deferred Tax Liability	195	201	141	127	88	88	88	88
Long-term Liab+ Provisions	178	206	742	113	103	113	123	134
TOTAL SOURCES OF FUNDS	**6,452**	**7,389**	**8,833**	**9,051**	**10,720**	**15,615**	**20,035**	**20,495**
APPLICATION OF FUNDS								
Net Block	3,305	3,303	4,287	4,131	4,675	8,333	13,806	13,180
Capital WIP	10	217	167	182	91	2,091	91	91
Other Non-current Assets	214	280	542	578	423	423	423	423
Total Non-current Assets	**3,529**	**3,801**	**4,997**	**4,891**	**5,189**	**10,847**	**14,320**	**13,693**
Inventories	2,563	3,075	3,710	3,781	5,034	5,662	6,970	8,211
Debtors	1,705	1,766	1,384	1,359	1,301	1,416	1,742	2,265
Cash and Cash Equivalents	104	106	307	1,251	1,765	910	963	1,150
Other Current Assets (& Loans/adv)	332	525	640	434	472	472	472	472
Total Current Assets	**4,704**	**5,473**	**6,041**	**6,825**	**8,572**	**8,460**	**10,147**	**12,098**
Creditors	1,576	1,613	1,676	2,228	2,558	3,209	3,949	4,813
Other Current Liabilities & Provisions	205	272	528	438	483	483	483	483
Total Current Liabilities	**1,781**	**1,885**	**2,205**	**2,666**	**3,041**	**3,691**	**4,432**	**5,296**
Net Current Assets	**2,924**	**3,588**	**3,837**	**4,159**	**5,532**	**4,768**	**5,715**	**6,802**
TOTAL APPLICATION OF FUNDS	**6,452**	**7,389**	**8,833**	**9,051**	**10,720**	**15,615**	**20,035**	**20,495**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	965	1,063	1,083	1,084	1,217	1,414	1,763	1,767
Non-operating & EO Items	(26)	68	33	(151)	(42)	(124)	(84)	(86)
Interest Expenses	181	170	218	169	141	199	206	532
Depreciation	360	368	525	556	585	652	827	1,127
Working Capital Change	(84)	(681)	(599)	734	(857)	(83)	(883)	(889)
Tax Paid	(308)	(346)	(298)	(262)	(333)	(374)	(467)	(468)
OPERATING CASH FLOW (a)	**1,087**	**641**	**963**	**2,130**	**712**	**1,684**	**1,362**	**1,982**
Capex	(383)	(574)	(547)	(496)	(854)	(6,310)	(4,300)	(500)
Free Cash Flow (FCF)	705	67	415	1,634	(143)	(4,626)	(2,938)	1,482
Investments	-	(0)	-	(1,064)	(543)	-	-	-
Non-operating Income	7	3	9	19	34	124	84	86
INVESTING CASH FLOW (b)	**(376)**	**(571)**	**(538)**	**(1,542)**	**(1,363)**	**(6,186)**	**(4,216)**	**(414)**
Debt Issuance/(Repaid)	(465)	181	169	(539)	877	2,000	3,244	(720)
Interest Expenses	(181)	(168)	(220)	(169)	(134)	(199)	(206)	(532)
FCFE	59	80	364	925	600	(2,825)	99	230
Dividend	(44)	(73)	(169)	-	(121)	(104)	(130)	(130)
FINANCING CASH FLOW (c)	**(689)**	**(60)**	**(221)**	**(709)**	**622**	**1,697**	**2,908**	**(1,382)**
NET CASH FLOW (a+b+c)	**22**	**10**	**204**	**(120)**	**(29)**	**(2,805)**	**54**	**186**
Closing Cash & Equivalents	**101**	**114**	**310**	**187**	**1,222**	**-1,040**	**963**	**1,150**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	13.0	12.4	13.5	14.4	11.0	11.3	11.7	11.8
EBIT Margin	9.9	9.5	9.5	9.8	7.5	7.9	8.1	7.8
APAT Margin	5.6	6.0	6.6	7.2	5.5	5.5	5.6	4.6
RoE	19.7	19.7	18.7	16.0	15.2	13.0	12.9	11.6
RoIC (pre tax)	18.0	18.2	16.3	14.7	15.6	13.9	11.9	11.6
RoCE (pre tax)	17.9	17.8	16.0	14.0	13.7	12.2	11.0	11.3
EFFICIENCY								
Tax Rate %	33.1	27.4	20.0	20.6	23.5	26.5	26.5	26.5
Fixed Asset Turnover (x)	2.0	2.1	1.9	1.5	2.0	1.7	1.4	1.4
Inventory (days)	82	88	103	115	108	110	110	106
Debtors (days)	54	50	38	41	28	27	27	29
Other Current Assets (days)	17	23	33	31	19	17	14	12
Payables (days)	50	46	46	68	55	62	62	62
Other Current Liab & Provns (days)	12	14	35	17	13	12	10	8
Cash Conversion Cycle (days)	91	101	92	103	88	81	79	77
Net Debt/EBITDA (x)	1.6	1.6	1.5	1.1	1.2	2.4	3.0	2.2
Net D/E	0.7	0.6	0.5	0.3	0.3	0.5	0.8	0.6
Interest Coverage	6.3	7.2	5.8	7.0	9.1	7.5	9.1	4.2
PER SHARE DATA (INR)								
EPS	5.4	6.4	7.2	7.1	7.7	8.2	10.2	10.2
CEPS	8.3	9.4	11.5	11.7	12.6	13.3	16.6	19.0
Dividend	0.5	0.6	0.8	1.0	1.2	0.8	1.0	1.0
Book Value	29.5	35.5	41.5	47.6	54.3	74.0	83.1	92.3
VALUATION								
P/E (x)	65.6	54.9	48.9	49.2	45.4	40.7	32.7	32.6
P/Cash EPS (x)	42.1	37.2	30.4	27.5	27.4	25.0	19.9	17.5
P/BV (x)	11.9	9.9	8.5	7.4	6.5	4.5	4.0	3.6
EV/EBITDA (x)	30.1	28.4	25.2	25.5	23.8	22.2	18.7	14.9
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.4	0.2	0.3	0.3
OCF/EV (%)	2.4	1.4	2.1	4.8	1.6	3.6	2.7	4.0
FCFF/EV (%)	1.6	0.1	0.9	3.7	(0.3)	(9.8)	(5.8)	3.0
FCFF/M Cap (%)	0.1	0.2	0.9	2.2	1.4	(10.9)	(6.9)	3.5

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Greenply Industries

Leading player in plywood; rentry in MDF

Greenply is the second-largest plywood company in India (capacity spread across east, Gujarat and Uttar Pradesh) and it is re-entering the MDF business through a 240K CBM greenfield expansion in Gujarat by FY23-end. During FY23, Greenply is also expanding its plywood capacity by 40%, which should boost segmental revenue FY24E onwards. Greenply's leverage ratio should stretch in FY23 amidst ongoing MDF expansion but should moderate FY24 onwards as the plant starts contributing. The on-going problems in Europe have delayed Gabon subsidiary's ramp-up beyond FY23.

- **Leading player in plywood segment:** Greenply is the second-largest plywood brand in India (after Century Ply). Its 48.4MSM (~234K CBM, 40% increase vs FY22) plywood capacities are spread across Gujarat, West Bengal, Nagaland, and Uttar Pradesh. It mainly sells premium plywood from its own plants, accounting for ~60-65% of its plywood revenue while outsourced plywood (mid to low end) comprises the rest 35-40%. Greenply's plywood capacity will further increase by 30K CBM as its manufacturing partners is setting up another plant in UP by Q4FY23.
- **Foray in MDF business:** Greenply is setting up a 240K CBM plant in Vododara by the end of FY23. The company was already present in the MDF space before it hived off its MDF factories and one plywood plant under Greenpanel (as part of family partition) in 2018. The MDF project is being set up for a Capex of ~INR 5.5bn and it is expected to accelerate revenue growth FY24 onwards. The upcoming MDF plant has annual revenue potential of INR 6-6.5bn of the MDF plant (on full utilization, to be achieved in three years). Greenply expects less competition in the west region, owing to limited raw material availability for MDF capacities in Gujarat.
- **The Gabon subsidiary**: Greenply operates a 96K CBM face-veneer plant in Gabon (Africa). This unit sells ~15% to parent company (meeting almost all its face-veneer needs) and >50% in Europe. Gabon subsidiary accounted for 12/14% of consolidated revenue and EBITDA in FY22. The on-going problems in Europe has delayed Gabon's ramp-up plans beyond FY23.
- **Capex and outlook:** During FY23, Greenply would incur total Capex of ~INR 6.3bn. This should stretch its net debt/EBITDA beyond 3x by end FY23E. Gearing should cool off once the MDF plant starts contributing FY24E onwards. During FY24E, Greenply's plywood revenue should also benefit from capacity expansion in Uttar Pradesh (both own and manufacturing partner).

Consolidated Financial summary

YE Mar (INR mn)	FY19	FY20	FY21	FY22
Net Sales	14,122	14,204	11,653	15,628
EBITDA	1,440	1,556	1,167	1,503
EBITDAM (%)	10.2	11.0	10.0	9.6
APAT	797	-452	609	947
AEPS (INR)	6.5	3.9	5.0	7.7
P/E (x)	30.5	(53.8)	39.8	25.6
EV / EBITDA (x)	18.2	17.1	21.4	17.7
RoE (%)	13.1	13.3	15.0	19.4

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	INR 147
Target Price	NA
NIFTY	18,233

KEY STOCK DATA	
Bloomberg code	MTLM IN
No. of Shares (mn)	123
MCap (INR bn) / ($ mn)	18/217
6m avg traded value (INR mn)	35
52 Week high / low	INR 233/137

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(18.0)	(15.7)	(29.4)
Relative (%)	(25.9)	(31.6)	(33.0)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	52.29	52.32
FIs & Local MFs	33.41	33.58
FPIs	3.40	3.18
Public & Others	10.90	10.91
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Stylam Industries

Fastest-growing laminates company in India

Stylam Industries has been the fastest-growing laminates company during FY17-22, making it both the third-largest laminates manufacturer in India and the third-largest exporter. During FY17-22, Stylam delivered revenue/EBITDA/APAT CAGRs of 18/18/25% respectively. It expects to maintain industry-leading growth and is expanding its capacity for value-added laminates by 20-25% in FY23. Additionally, its solid acrylic panel unit is expected to ramp up H2FY23 onwards, accelerating the overall revenue growth.

- **One of the fastest-growing companies in laminates:** Stylam is India's third-largest laminates manufacturer (installed capacity of 14.3mn sheets in Haryana) as well as the third-largest exporter. It has grown the fastest among peers, clocking an 18% revenue CAGR during FY17-22 (outpacing Greenlam: +11%/Merino: +10%). Exports comprise ~65% of Stylam's total revenue, with Europe being its key exports market. Stable margin drove its EBITDA/PAT CAGRs of 18/25% during the same time. Stylam believes its market share will continue to drive, given the shift from unorganised to organised segment.
- **Major laminate expansions in FY23:** Stylam operated at ~80% capacity utilization in H1FY23. It is doing a modular expansion (for value-added products) to be completed by FY23 end, costing INR 0.4bn. This will expand its capacity by ~20-25% and revenue potential by 40% (INR 4-5bn).
- **Solid acrylic panel production ramp-up to boost revenues**: Stylam recently expanded its acrylic panel capacity by adding a second hand machine in H1FY23. It expects a strong ramp-up of the division hereafter. With a revenue potential of INR 4-5bn (3-4 years), Stylam expects this segment to contribute ~INR 0.8bn in FY23 (vs ~INR 20mn YoY).
- **Outlook**: Buoyed by robust sales in H1FY23, continued demand tailwinds, and ramping up of acrylic surface division, Stylam is hopeful of ~50% revenue growth in FY23. As resin prices have also started to cool off, it expects the margin to rebound in FY23 (FY22 EBITDA margin contracted for all laminate companies on spike in resin and paper costs). Stylam has currently put on hold its plywood expansion plans as it plans to focus on ramping up the laminates and acrylic panel segments. Over the next 3-4 years, Stylam plans to expand its product range, value-added product share and distribution network in domestic markets (it is currently export focused).

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	3,380	4,606	4,621	4,795	6,593
EBITDA	493	799	796	990	1,037
EBITDAM (%)	14.6	17.3	17.2	20.6	15.7
APAT	201	388	341	552	611
AEPS (INR)	12.3	22.9	20.1	32.6	36.1
P/E (x)	27.6	14.3	16.2	10.0	27.5
EV / EBITDA (x)	13.8	9.3	8.4	6.0	16.9
RoE (%)	18.1	23.4	17.5	23.8	21.2

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	**INR 1,131**
Target Price	**NA**
NIFTY	**18,233**

KEY STOCK DATA	
Bloomberg code	SYIL IN
No. of Shares (mn)	17
MCap (INR bn) / ($ mn)	19/232
6m avg traded value (INR mn)	59
52 Week high / low	INR 1,269/760

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.1	41.5	4.8
Relative (%)	(2.8)	25.6	1.2

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	54.61	54.61
FIs & Local MFs	11.11	11.33
FPIs	5.34	5.45
Public & Others	28.94	28.62
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Rushil Decor

MDF ramp-up boosting margin and balance sheet

Rushil Decor became the third largest MDF company in India in FY22, post its greenfield expansion in Vizag. It also has a laminates business. In FY22, MDF share in revenue soared to 70% and the rest came in mainly from laminates. Rushil expects to deliver 30%+ revenue growth in FY23 along with >20% EBITDA margin, driven by continued ramp-up of its MDF plant. This should continue to reduce gearing in FY23 (vs 11/11/6x of net debt to EBITDA in FY20/21/22). In Dec'22, it announced a rights issue of upto INR 1.24bn to reduce debt and fund its laminates expansion.

- **Strong traction in MDF offsets weakness in laminates:** Rushil Decor is present across laminates and MDF segments, operating under the brand "Vir". Rushil has 3.5mn sheets laminates capacity located in Gujarat (60% of its volume is exported) and 330k CBM MDF capacity in south (Karnataka and Andhra Pradesh). It also has a small PVC board plant. During the past five years (FY17-22), Rushil clocked 15% revenue CAGR, driven by strong 23% CAGR in the MDF sales, while laminates grew at a modest 2% CAGR. MDF's share in revenue expanded to 70% in FY22, from 50% in FY17. While MDF's margin rebounded, sharp margin compression in laminates in FY22 slowed EBITDA to 9% CAGR during FY17-22.
- **MDF ramp-up to bolster total profitability:** Rushil commissioned a 240K CBM plant in Andhra Pradesh (167% capacity increase to 330K CBM) in Mar-22, thus becoming third largest (after Greenpanel and Action Tesa). It has been slowly ramping up production, leading to its Karnataka/Andhra plants operating at 76/56% utilisation in FY22. In H1FY23, utilisation improved to 86/71% respectively. The company expects to potentially deliver 30%+ revenue growth in FY23, riding on ramp-up of its MDF. With rising utilisation, price increases and overhead rationalisation, MDF EBITDA margin also buoyed to 28% in H1FY23 (from 15% in FY22). It also expects its laminates EBITDA margin to recover from 6.5% each in FY22/H1FY23. Hence, it expects the overall EBITDA margin of >20% margin in FY23E (vs 12% YoY).
- **Deleveraging gains pace**: Subdued profitability of its laminate segment and large Capex on the Andhra MDF plant stressed Rushil's balance sheet and its net debt/EBITDA soared to ~11/11/6x during FY20/21/22. However, the MDF plant ramp-up has buoyed cash flow Q4FY22 onwards, reducing the stress. The company will be setting up a 1.2mn sheets jumbo-sized laminates plant in Gujarat by Q1FY25 (35% increase) at a Capex of INR 600mn. In Dec'22, it also announced a rights-issue of upto INR 1.24bn to reduce debt and fund its laminates expansion.

Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	3,435	3,437	3,356	3,354	6,242
EBITDA	565	366	369	350	739
EBITDAM (%)	16.4	10.7	11.0	10.4	11.8
APAT	309	143	231	122	228
AEPS (INR)	21.0	9.6	15.4	6.2	11.5
P/E (x)	28.2	60.8	37.8	71.5	38.2
EV / EBITDA (x)	17.1	30.3	34.4	35.4	17.4
RoE (%)	22.1	8.4	11.6	5.3	8.8

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	**INR 438**
Target Price	**NA**
NIFTY	**18,233**

KEY STOCK DATA

Bloomberg code	RDL IN
No. of Shares (mn)	20
MCap (INR bn) / ($ mn)	9/105
6m avg traded value (INR mn)	64
52 Week high / low	INR 675/316

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(15.8)	5.7	18.0
Relative (%)	(23.7)	(10.2)	14.5

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	55.03	55.03
FIs & Local MFs	0	0.28
FPIs	1.33	1.55
Public & Others	43.64	43.14
Pledged Shares	9.98	9.98

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Merino India

A leader in laminate; expanding in particle board

UNLISTED

Merino India is the second-largest laminates producer and the largest seller in India. It is commissioning a large, greenfield particle board plant in Gujarat in Q1FY24 and is also debottlenecking its laminate capacity by 15% in FY23 to support the upcoming particle board plant. Merino is targeting 25% revenue growth YoY in FY23.

- **Second-largest laminate producer and largest seller in India:** Merino is the second-largest laminate producer in India (capacity of 21.5mn sheets). Laminate accounted for ~73% of Merino's FY22 revenue. It also sells wood panels and furniture (17% of revenue), potato flakes (4%), and other products (6%). During FY17-22, Merino's laminate revenue grew at a 10% CAGR, in line with Greenlam's growth. Merino sells 70-75% of its laminates within India and is the largest seller in India. Merino is also the second-largest laminates exporter from India (after Greenlam).
- **Financial performance:** During FY17-22, Merino delivered 11% revenue CAGR to INR 17.5bn. However, EBITDA contracted at 1% CAGR to INR 2bn. Laminate EBITDA contracted at 4% CAGR to ~INR 1.67bn, owing to sharp raw material cost inflation in FY22, which pulled down EBITDA margin to ~13%, from ~20% in the preceding five years. Merino's laminate EBITDA margin converged towards Greenlam's margin in FY22.
- **Foray in the particle board segment**: Merino is setting up a large particle board plant of 270K CBM (INR 7bn Capex) in Gujarat (only large plant in west), which is expected to be operational in Q1FY24. The company is mostly using internal accruals for this project. As the particle board business complements the laminate business, both laminate-leaders Greenlam and Merino are entering this segment. Greenlam's 231K CBM plant in Andhra Pradesh is also expected to be commissioned by FY24-end. Merino is targeting ~60/80/100% capacity utilization during first/ second/third year respectively for its particle board business. On full utilization, Merino expects particle board business to deliver 30% EBITDA margin. Merino will also use its particle board to expand its own-manufactured furniture's sales.
- **Laminates' debottlenecking to support particle board capacity:** During FY23, Merino plans to debottleneck its laminate capacity across three locations (UP, Haryana and Dahej) by 15% to 24.5mn sheets at a Capex of INR 300-400bn. Merino expects 25% YoY overall revenue growth in FY23.
- **Future plans to enter MDF:** Merino is also interested in foraying into the MDF business in next 2-3 years. It would set up a greenfield plant in either the west or south region. The project would cost INR 8-9bn and Merino will fund it through a mix of internal accruals and debt.

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	12,029	14,721	14,737	12,969	17,479
EBITDA	2,106	2,411	2,205	2,098	2,027
EBITDAM (%)	17.5	16.4	15.0	16.2	11.6
APAT	1,205	1,409	1,294	1,319	1,322
AEPS (INR)	116.2	135.9	115.8	117.9	118.3
RoE (%)	20.5	19.4	15.2	13.6	12.0

Source: Company, HSIE Research

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Tiles Companies:

- **Kajaria Ceramics (BUY, TP 1,430)**
- **Somany Ceramics (BUY, TP 800)**
- **Prism Johnson (NOT RATED)**
- **Exxaro Tiles (NOT RATED)**

Kajaria Ceramics

Industry leading growth to continue

We maintain a BUY rating on Kajaria with a revised TP of INR 1,430/sh (21x its Mar-25E consolidated EBITDA, implying 33 P/E). We continue to like the company for its industry-leading growth and robust free cash flow outlook. Kajaria has been aggressively expanding its footprint across tier-2/3 markets and enjoys premium positioning. The company has consistently delivered industry-leading margins. We expect gas prices peaked out in Q2FY23. The rebound in exports (from Morbi) should reduce pressure in domestic markets, thereby further boosting Kajaria's margin.

- **Market share gains to continue:** Kajaria continues to grow at industry leading pace, driven by both strong traction in real estate segment and penetration in tier-2/3 cities. Companies continue to expand its dealer network (1,700 in FY22 vs 1,450 in FY19). It remains confident of delivering 15/25% revenue CAGR across the tiles/bathware segments. We expect tiles exports to rebound FY24E onwards. This in turn should reduce the supply pressure in the domestic market, leading to healthy realisation.
- **Energy cost seemingly peaked out in Q2:** ~60% of Kajaria's tiles capacity is situated in the north, operating on long-term contract gas (crude-linked pricing). With the recent cool-off in crude prices, the long-term price should trend low Q3 onwards. Even spot prices in Morbi have stabilised (on the higher side). Hence, overall gas prices should peak in Q2, thus driving margin recovery Q3 onwards.
- **Focus to grow in both tiles and bathware**: Kajaria tiles capacity is increasing by 20% in FY23 to 85MSM, driven by both organic (9MSM across north, west and south in Q1FY23) and inorganic (5MSM in Q2FY23). In FY24/25, it is also commissioning 3.3/8MSM plants in Uttar Pradesh/Nepal respectively. It is also increasing its faucet/sanitaryware capacities by 60/80% in FY23/FY24 respectively. On a low base, Kajaria is confident of growing its bathware segment (~2% market share currently) by ~25% CAGR.
- **Outlook:** We estimate Kajaria would deliver 16% tiles volume CAGR during FY22-25E, leading to revenue/EBITDA/APAT CAGRs of 21/20/22%. We estimate it would maintain a net cash balance sheet on robust OCF generation, which should support healthy ~40% dividend payout. We maintain BUY on the company, with a TP of INR 1,430, valuing it at 21x its Mar'25E EBITDA (roll forward from Sep'24E to Mar'25E).

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	27,106	29,562	28,080	27,809	37,052	47,879	57,569	65,406
EBITDA	4,564	4,495	4,159	5,088	6,107	6,735	9,120	10,667
EBITDAM (%)	16.8	15.2	14.8	18.3	16.5	14.1	15.8	16.3
APAT	2,342	2,314	2,553	3,081	3,770	4,167	5,857	6,843
AEPS (INR)	14.7	14.6	16.0	19.4	23.7	26.2	36.8	43.0
P/E (x)	78.2	79.1	71.7	59.4	48.6	43.9	31.3	26.8
EV / EBITDA (x)	40.5	40.6	44.0	35.5	29.7	26.9	19.9	16.9
RoE (%)	17.6	15.1	14.9	16.6	18.3	18.1	22.6	23.3

Source: Company, HSIE Research

BUY

CMP *(as on 03 Jan 2023)*	INR 1,150
Target Price	INR 1,430
NIFTY	18,233

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,340	INR 1,430
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / ($ mn)	183/2,206
6m avg traded value (INR mn)	213
52 Week high / low	INR 1,375/885

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.0)	19.8	(12.6)
Relative (%)	(12.0)	4.0	(16.1)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	47.50	47.49
FIs & Local MFs	22.40	22.82
FPIs	19.58	19.44
Public & Others	10.52	10.25
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**27,106**	**29,562**	**28,080**	**27,809**	**37,052**	**47,879**	**57,569**	**65,406**
Growth %	*6.3*	*9.1*	*(5.0)*	*(1.0)*	*33.2*	*29.2*	*20.2*	*13.6*
Raw Material	10,603	11,464	11,011	12,470	15,551	18,950	23,208	26,955
Power & Fuel	5,194	6,162	5,644	4,149	7,590	12,450	13,700	14,994
Freight Expense	508	470	470	420	579	747	897	1,016
Employee cost	3,177	3,455	3,569	3,247	4,077	5,096	5,860	6,270
Other Expenses	3,061	3,517	3,228	2,436	3,148	3,902	4,785	5,502
EBITDA	**4,564**	**4,495**	**4,159**	**5,088**	**6,107**	**6,735**	**9,120**	**10,667**
EBIDTA Margin (%)	*16.8*	*15.2*	*14.8*	*18.3*	*16.5*	*14.1*	*15.8*	*16.3*
EBITDA Growth %	*(8.1)*	*(1.5)*	*(7.5)*	*22.3*	*20.0*	*10.3*	*35.4*	*17.0*
Depreciation	885	891	1,081	1,067	1,154	1,273	1,441	1,612
EBIT	**3,678**	**3,604**	**3,078**	**4,022**	**4,953**	**5,462**	**7,679**	**9,056**
Other Income	108	180	242	213	276	280	350	350
Interest	241	156	195	107	127	120	86	82
PBT	**3,546**	**3,629**	**3,125**	**4,127**	**5,102**	**5,623**	**7,943**	**9,324**
Tax	1,267	1,293	589	1,038	1,274	1,406	1,986	2,331
Minority Int	-	22	-	9	58	50	100	150
RPAT	**2,350**	**2,266**	**2,553**	**3,081**	**3,770**	**4,167**	**5,857**	**6,843**
EO (Loss) / Profit (Net Of Tax)	8	-	-	-	-	-	-	-
APAT	**2,342**	**2,314**	**2,553**	**3,081**	**3,770**	**4,167**	**5,857**	**6,843**
APAT Growth (%)	*(7.4)*	*(1.2)*	*10.3*	*20.6*	*22.4*	*10.5*	*40.6*	*16.8*
AEPS	**14.7**	**14.6**	**16.0**	**19.4**	**23.7**	**26.2**	**36.8**	**43.0**
AEPS Growth %	*(7.4)*	*(1.2)*	*10.3*	*20.6*	*22.3*	*10.5*	*40.6*	*16.8*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	159	159	159	159	159	159	159	159
Reserves And Surplus	13,351	15,590	16,984	18,530	21,065	23,356	26,578	29,999
Total Equity	**13,510**	**15,749**	**17,143**	**18,689**	**21,224**	**23,516**	**26,737**	**30,159**
Minority Int	**661**	**659**	**637**	**646**	**648**	**698**	**798**	**948**
Long-term Debt	947	568	559	467	480	480	480	480
Short-term Debt	757	635	1,101	793	1,169	528	428	428
Total Debt	**1,703**	**1,203**	**1,660**	**1,260**	**1,649**	**1,008**	**908**	**908**
Deferred Tax Liability	1,099	1,059	716	674	726	726	726	726
TOTAL SOURCES OF FUNDS	**16,973**	**18,671**	**20,156**	**21,269**	**24,246**	**25,947**	**29,168**	**32,740**
APPLICATION OF FUNDS								
Net Block	11,451	10,778	11,948	11,924	11,496	13,123	14,383	15,771
Capital WIP	176	934	266	149	2,634	1,634	1,634	1,634
Total Non-current Investments	3	3	3	-	-	-	-	-
Total Non-current Assets	**11,631**	**11,716**	**12,217**	**12,073**	**14,130**	**14,757**	**16,016**	**17,404**
Inventories	3,785	4,058	5,127	3,731	4,659	6,224	7,484	8,503
Debtors	4,507	4,751	3,967	4,317	5,133	6,633	7,975	9,061
Cash and Cash Equivalents	825	2,524	2,350	4,477	4,244	3,374	3,552	4,192
Other Current Assets (& Loans/adv)	656	671	710	655	1,693	1,717	1,742	1,768
Total Current Assets	**9,772**	**12,003**	**12,154**	**13,180**	**15,728**	**17,948**	**20,753**	**23,524**
Creditors	2,578	3,091	2,393	2,072	2,981	3,830	4,318	4,905
Other Current Liabilities & Provisions	1,853	1,957	1,822	1,912	2,630	2,927	3,284	3,284
Total Current Liabilities	**4,430**	**5,048**	**4,215**	**3,984**	**5,612**	**6,758**	**7,601**	**8,189**
Net Current Assets	**5,342**	**6,955**	**7,939**	**9,196**	**10,117**	**11,190**	**13,152**	**15,335**
TOTAL APPLICATION OF FUNDS	**16,973**	**18,671**	**20,156**	**21,269**	**24,246**	**25,947**	**29,168**	**32,740**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	3,553	3,580	3,125	4,127	5,102	5,623	7,943	9,324
Non-operating & EO Items	(14)	(9)	(164)	(101)	(221)	(280)	(350)	(350)
Interest Expenses	241	156	195	107	127	120	86	82
Depreciation	885	891	1,081	1,067	1,154	1,273	1,441	1,612
Working Capital Change	(1,009)	(117)	(987)	868	(621)	(1,943)	(1,783)	(1,543)
Tax Paid	(1,275)	(1,327)	(1,005)	(980)	(1,285)	(1,406)	(1,986)	(2,331)
OPERATING CASH FLOW (a)	**2,382**	**3,174**	**2,244**	**5,088**	**4,255**	**3,386**	**5,350**	**6,793**
Capex	(1,400)	(459)	(1,221)	(1,012)	(2,703)	(1,900)	(2,700)	(3,000)
Free Cash Flow (FCF)	981	2,715	1,024	4,076	1,552	1,486	2,650	3,793
Investments	(6)	(2,282)	134	(2,119)	(491)	-	-	-
Non-operating Income	38	132	186	176	215	280	350	350
INVESTING CASH FLOW (b)	**(1,368)**	**(2,609)**	**(901)**	**(2,955)**	**(2,979)**	**(1,620)**	**(2,350)**	**(2,650)**
Debt Issuance/(Repaid)	81	(404)	(104)	(439)	112	(641)	(100)	-
Interest Expenses	(241)	(156)	(153)	(68)	(92)	(120)	(86)	(82)
FCFE	822	2,155	767	3,569	1,572	725	2,464	3,712
Share Capital Issuance	13	(6)	3	53	52	-	-	-
Dividend	(572)	(575)	(1,150)	(1,591)	(1,273)	(1,875)	(2,636)	(3,422)
FINANCING CASH FLOW (c)	**(718)**	**(1,141)**	**(1,404)**	**(2,045)**	**(1,201)**	**(2,636)**	**(2,822)**	**(3,503)**
NET CASH FLOW (a+b+c)	**295**	**(576)**	**(60)**	**87**	**75**	**(870)**	**179**	**640**
Closing Cash & Equivalents	**815**	**248**	**2,464**	**2,437**	**4,552**	**3,374**	**3,552**	**4,192**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	16.8	15.2	14.8	18.3	16.5	14.1	15.8	16.3
EBIT Margin	13.6	12.2	11.0	14.5	13.4	11.4	13.3	13.8
APAT Margin	8.6	7.8	9.1	11.1	10.2	8.7	10.2	10.5
RoE	17.6	15.1	14.9	16.6	18.3	18.1	22.6	23.3
RoIC (pre tax)	23.7	23.1	18.8	23.5	29.1	28.5	34.2	35.6
RoCE (pre tax)	23.2	21.2	17.1	20.4	23.0	22.9	29.1	30.4
EFFICIENCY								
Tax Rate %	35.7	35.6	18.9	25.2	25.0	25.0	25.0	25.0
Fixed Asset Turnover (x)	1.6	1.8	1.6	1.5	1.9	2.3	2.4	2.4
Inventory (days)	51	50	67	49	46	47	47	47
Debtors (days)	61	59	52	57	51	51	51	51
Other Current Assets (days)	9	8	9	9	17	13	11	10
Payables (days)	35	38	31	27	29	29	27	27
Other Current Liab & Provns (days)	25	24	24	25	26	22	21	18
Cash Conversion Cycle (days)	61	55	73	62	58	60	61	62
Net Debt/EBITDA (x)	0.2	(0.3)	(0.2)	(0.6)	(0.4)	(0.4)	(0.3)	(0.3)
Net D/E	0.1	(0.1)	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Interest Coverage	15.3	23.1	15.8	37.5	38.9	45.7	89.1	110.9
PER SHARE DATA (INR)								
EPS	14.7	14.6	16.0	19.4	23.7	26.2	36.8	43.0
CEPS	20.3	20.2	22.8	26.1	30.9	34.2	45.8	53.1
Dividend	3.0	3.0	3.0	10.0	11.0	11.8	16.6	21.5
Book Value	89.1	103.2	111.8	121.5	137.4	152.1	173.0	195.4
VALUATION								
P/E (x)	78.2	79.1	71.7	59.4	48.6	43.9	31.3	26.8
P/Cash EPS (x)	56.6	58.0	50.4	44.1	37.2	33.7	25.1	21.7
P/BV (x)	13.6	11.6	10.7	9.8	8.6	7.8	6.8	6.1
EV/EBITDA (x)	40.5	40.6	44.0	35.5	29.7	26.9	19.9	16.9
Dividend Yield (%)	0.3	0.3	0.3	0.9	1.0	1.0	1.4	1.9
OCF/EV (%)	1.3	1.7	1.2	2.8	2.3	1.9	3.0	3.8
FCFF/EV (%)	0.5	1.5	0.6	2.3	0.9	0.8	1.5	2.1
FCFE/M Cap (%)	0.4	1.2	0.4	1.9	0.9	0.4	1.3	2.0

Source: Company, HSIE Research

Somany Ceramics

Focus on capacity ramp-up, product mix enhancement

We maintain BUY rating on Somany with a revised TP of INR 800/sh (13x its Mar-25E consolidated EBITDA, implying 29 P/E). We continue to like the company for its strong volume growth (new capacity ramp-up, demand tailwinds), improving product mix (new capacities to increase GVT sales share). The company plans to increase its value added and retail share to improve margins. It has tightened its working capital, boosting cash flows.

- **Strong volume growth outlook:** Somany expanded its tiles capacity by 20% in Q1FY23. Newly added capacity along with strong domestic demand should support its 20% revenue growth in FY23E. It has strong focus on fast-growing tier-2/3 markets (contributing >75% of its revenue) and it plans to increase retail sales, from ~80% currently. Somany is also expanding in the bathware segment where it has ~2% market share. It expects to deliver ~35% revenue growth in bathware in FY23 (on a low base).
- **Focus on improving product mix:** The company increased its GVT capacity by 8MSM, thus increasing the share of GVT capacity to 28% currently vs 19% YoY (and 16% in FY19). As Somany is further adding a 4.5MSM slab plant next year, the share of high value tiles will increase to 33% in FY24E. It has guided its GVT revenue share would expand to 35% by FY24E (vs 28% in FY22). Increasing share of value added products and higher retail sales will help the company improve margins.
- **Capex and balance sheet**: Somany would incur INR 1.7bn towards the slab plant (4.5MSM by Q2FY24) and would be doubling its faucet capacity to 1.3mn pieces annually (in H2FY23). We expect Somany to fund this through a mix of debt and internal accruals. The company continues to keep its working capital in shape. Its cash conversion cycle has steadily reduced to 50 days in FY22, vs the peak of 113 days in FY18.
- **Outlook:** We continue to like the company for its strong volume growth (new capacity ramp-up, demand tailwinds), improving product mix (new capacities to increase GVT sales share). Somany is targeting to add 300 dealers in FY23. We expect Somany to deliver 10% tiles volume CAGR during FY22-25E leading to consolidated revenue/ EBITDA/APAT CAGRs of 14/13/10%. We maintain BUY, with a revised TP of INR 800, valuing it at 13x its Mar'25E EBITDA (roll forward from Sep'24E to Mar'25E).

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	17,127	17,151	16,101	16,507	20,945	25,099	28,320	31,304
EBITDA	1,858	1,633	1,314	1,903	2,065	1,956	2,561	2,995
EBITDAM (%)	10.9	9.5	8.2	11.5	9.9	7.8	9.0	9.6
APAT	749	586	412	756	887	639	948	1,176
AEPS (INR)	17.7	13.8	9.7	17.8	20.9	15.0	22.3	27.7
P/E (x)	26.8	34.3	48.8	26.6	22.6	31.4	21.2	17.1
EV / EBITDA (x)	13.5	15.7	19.6	12.2	11.9	13.5	10.6	9.1
RoE (%)	11.7	8.5	5.9	10.5	11.3	7.4	10.3	11.7

Source: Company, HSIE Research

BUY

CMP *(as on 03 Jan 2023)*	INR 473
Target Price	INR 800
NIFTY	18,233

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 740	INR 800
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	SOMC IN
No. of Shares (mn)	42
MCap (INR bn) / ($ mn)	20/243
6m avg traded value (INR mn)	19
52 Week high / low	INR 947/446

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(13.0)	(17.7)	(48.2)
Relative (%)	(20.9)	(33.5)	(51.8)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	54.78	54.78
FIs & Local MFs	20.44	20.8
FPIs	2.43	2.27
Public & Others	22.34	22.14
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**17,127**	**17,151**	**16,101**	**16,507**	**20,945**	**25,099**	**28,320**	**31,304**
Growth %	*(1.0)*	*0.1*	*(6.1)*	*2.5*	*26.9*	*19.8*	*12.8*	*10.5*
Raw Material	7,069	7,219	6,673	7,805	9,205	11,437	12,723	15,334
Power & Fuel	3,488	3,699	3,459	2,773	4,810	5,773	6,514	5,635
Freight Expense	436	366	313	287	363	627	651	720
Employee cost	2,175	2,275	2,391	2,252	2,571	2,957	3,253	3,578
Other Expenses	2,101	1,957	1,951	1,487	1,931	2,349	2,618	3,042
EBITDA	**1,858**	**1,633**	**1,314**	**1,903**	**2,065**	**1,956**	**2,561**	**2,995**
EBIDTA Margin (%)	*10.9*	*9.5*	*8.2*	*11.5*	*9.9*	*7.8*	*9.0*	*9.6*
EBITDA Growth %	*(20.5)*	*(12.1)*	*(19.6)*	*44.8*	*8.5*	*(5.3)*	*31.0*	*16.9*
Depreciation	413	443	590	616	640	743	865	1,010
EBIT	**1,446**	**1,191**	**724**	**1,287**	**1,426**	**1,213**	**1,697**	**1,985**
Other Income	181	192	127	128	134	100	70	70
Interest	399	459	494	401	296	376	404	412
PBT	**1,228**	**923**	**358**	**1,013**	**1,264**	**938**	**1,363**	**1,643**
Tax	393	268	(99)	222	330	244	354	427
Minority Int	87	69	45	36	47	55	60	40
RPAT	**704**	**463**	**150**	**571**	**887**	**639**	**948**	**1,176**
EO (Loss) / Profit (Net Of Tax)	-	(122)	(262)	(185)	-	-	-	-
APAT	**749**	**586**	**412**	**756**	**887**	**639**	**948**	**1,176**
APAT Growth (%)	*(26.8)*	*(21.8)*	*(29.7)*	*83.6*	*17.3*	*(28.0)*	*48.5*	*24.0*
AEPS	**17.7**	**13.8**	**9.7**	**17.8**	**20.9**	**15.0**	**22.3**	**27.7**
AEPS Growth %	*(26.8)*	*(21.8)*	*(29.7)*	*83.6*	*17.1*	*(28.0)*	*48.5*	*24.0*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	85	85	85	85	85	85	85	85
Reserves And Surplus	5,722	6,046	5,980	6,323	7,178	7,626	8,319	9,240
Total Equity	**5,807**	**6,130**	**6,064**	**6,407**	**7,263**	**7,711**	**8,404**	**9,325**
Minority Int	**959**	**896**	**941**	**997**	**1,076**	**1,131**	**1,191**	**1,231**
Long-term Debt	2,278	2,998	2,743	2,344	2,524	2,524	3,778	3,778
Short-term Debt	3,118	2,733	2,548	2,261	2,946	3,564	2,564	2,564
Total Debt	**5,396**	**5,731**	**5,290**	**4,605**	**5,471**	**6,089**	**6,343**	**6,343**
Deferred Tax Liability	524	532	358	321	323	323	323	323
TOTAL SOURCES OF FUNDS	**12,686**	**13,289**	**12,654**	**12,330**	**14,133**	**15,254**	**16,261**	**17,222**
APPLICATION OF FUNDS								
Net Block	6,482	7,129	7,779	7,588	7,520	9,278	10,513	12,003
Capital WIP	279	247	60	86	2,267	1,567	1,367	867
Total Non-current Assets	**6,761**	**7,376**	**7,839**	**7,674**	**9,788**	**10,845**	**11,880**	**12,870**
Inventories	2,597	2,545	3,282	2,455	2,737	3,514	3,823	4,226
Debtors	5,037	4,179	2,798	2,211	2,368	3,012	3,398	3,600
Cash and Cash Equivalents	1,278	1,083	542	2,389	2,086	961	534	450
Other Current Assets (& Loans/adv)	718	1,461	1,058	806	903	927	953	1,014
Total Current Assets	**9,630**	**9,269**	**7,680**	**7,861**	**8,095**	**8,414**	**8,708**	**9,290**
Creditors	2,332	2,021	1,729	1,839	2,255	2,510	2,832	3,443
Other Current Liabilities & Provns	1,373	1,334	1,136	1,366	1,495	1,495	1,495	1,495
Total Current Liabilities	**3,705**	**3,355**	**2,865**	**3,206**	**3,750**	**4,005**	**4,327**	**4,938**
Net Current Assets	**5,925**	**5,913**	**4,815**	**4,656**	**4,345**	**4,409**	**4,381**	**4,352**
TOTAL APPLICATION OF FUNDS	**12,686**	**13,289**	**12,654**	**12,330**	**14,133**	**15,254**	**16,261**	**17,222**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	1,184	801	96	828	1,264	938	1,363	1,643
Non-operating & EO Items	(78)	(147)	245	145	(94)	(100)	(70)	(70)
Interest Expenses	399	459	494	401	296	376	404	412
Depreciation	413	443	590	616	640	743	865	1,010
Working Capital Change	(482)	(381)	255	1,828	(187)	(1,189)	(400)	(55)
Tax Paid	(327)	(315)	(152)	(255)	(353)	(244)	(354)	(427)
OPERATING CASH FLOW (a)	**1,109**	**859**	**1,527**	**3,563**	**1,566**	**523**	**1,807**	**2,513**
Capex	(1,299)	(1,559)	(664)	(414)	(2,680)	(1,800)	(1,900)	(2,000)
Free Cash Flow (FCF)	(190)	(700)	863	3,149	(1,115)	(1,277)	(93)	513
Investments	59	547	375	(555)	52	-	-	-
Non-operating Income	136	122	140	73	76	100	70	70
INVESTING CASH FLOW (b)	**(1,104)**	**(889)**	**(148)**	**(896)**	**(2,553)**	**(1,700)**	**(1,830)**	**(1,930)**
Debt Issuance/(Repaid)	399	721	(838)	(911)	814	618	254	-
Interest Expenses	(396)	(410)	(483)	(399)	(312)	(376)	(404)	(412)
FCFE	(187)	(390)	(458)	1,840	(613)	(1,034)	(243)	101
Share Capital Issuance	38	97	-	20	(2)	-	-	-
Dividend	(137)	(138)	(204)	(102)	-	(191)	(255)	(255)
FINANCING CASH FLOW (c)	**(96)**	**269**	**(1,526)**	**(1,391)**	**499**	**51**	**(405)**	**(667)**
NET CASH FLOW (a+b+c)	**(91)**	**239**	**(147)**	**1,275**	**(489)**	**(1,125)**	**(427)**	**(84)**
Closing Cash & Equivalents	**1,335**	**1,517**	**937**	**1,817**	**1,900**	**961**	**534**	**450**

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	10.9	9.5	8.2	11.5	9.9	7.8	9.0	9.6
EBIT Margin	8.4	6.9	4.5	7.8	6.8	4.8	6.0	6.3
APAT Margin	4.4	3.4	2.6	4.6	4.2	2.5	3.3	3.8
RoE	11.7	8.5	5.9	10.5	11.3	7.4	10.3	11.7
RoIC	14.0	10.3	6.0	11.7	14.5	10.7	12.5	13.1
RoCE	13.4	10.6	6.5	11.3	11.7	8.9	11.2	12.2
EFFICIENCY								
Tax Rate %	32.0	29.1	(27.8)	21.9	26.1	26.0	26.0	26.0
Fixed Asset Turnover (x)	2.7	2.3	1.8	1.7	2.1	2.2	2.1	2.0
Inventory (days)	55	54	74	54	48	51	49	49
Debtors (days)	107	89	63	49	41	44	44	42
Other Current Assets (days)	15	31	24	18	16	13	12	12
Payables (days)	50	43	39	41	39	37	37	40
Other Current Liab & Provns (days)	29	28	26	30	26	22	19	17
Cash Conversion Cycle (days)	99	103	97	50	39	50	50	45
Net Debt/EBITDA (x)	2.2	2.8	3.6	1.2	1.6	2.6	2.3	2.0
Net D/E	0.6	0.7	0.7	0.3	0.4	0.6	0.6	0.6
Interest Coverage	3.6	2.6	1.5	3.2	4.8	3.2	4.2	4.8
PER SHARE DATA (INR)								
EPS	17.7	13.8	9.7	17.8	20.9	15.0	22.3	27.7
CEPS	27.4	24.3	23.6	32.4	36.0	32.5	42.7	51.5
Dividend	2.7	2.0	2.0	2.4	3.0	4.5	6.0	6.0
Book Value	159.6	165.8	165.3	174.7	196.4	208.3	226.0	248.7
VALUATION								
P/E (x)	26.8	34.3	48.8	26.6	22.6	31.4	21.2	17.1
P/Cash EPS (x)	18.0	22.2	27.2	16.9	13.2	14.5	11.1	9.2
P/BV (x)	3.5	3.3	3.3	3.1	2.8	2.6	2.4	2.2
EV/EBITDA (x)	13.5	15.7	19.6	12.2	11.9	13.5	10.6	9.1
EV/MSM (INR mn)	484	474	489	442	466	414	383	337
Dividend Yield (%)	0.6	0.4	0.4	0.5	0.6	1.0	1.3	1.3
OCF/EV (%)	4.4	3.4	5.9	15.3	6.4	2.0	6.7	9.2
FCFF/EV (%)	(0.8)	(2.7)	3.4	13.5	(4.5)	(4.8)	(0.3)	1.9

Source: Company, HSIE Research

Prism Johnson

Trying to get back in shape

Prism Johnson is present across cement, tiles and ready-mix concrete businesses in India. A decade ago, it was the market leader in tiles in India; it lost market share thereafter to fast-growing Kajaria and Somany Ceramics. However, in the past three years, the company has been able to arrest its market share fall and all three leaders grew at a similar pace. Focus on distribution, utilization (five year high of 69% in FY22) and cost rationalization in the past three years has also led to segmental operating margin of tiles, bath, kitchen division (TBK) climbing to 9-11% FY21-22 vs sub-5% in the preceding eight years. The company has also let go its inefficient plants (20% capacity reduction) and is adding new plants (11MSM) during FY22-24. Going forward, the management is focusing on improving product mix, expanding distribution network and implementing timely Capex plans.

- **Third largest tiles company in India:** Prism Johnson operates in three business segment - cement (central India), (TBK, pan-India), and RMC (pan-India). It is one of the oldest tiles company in India, with current installed tiles capacity of 60MSM (owned and through JVs). Its owned plants are located in MP, Maharashtra, and the south. The JVs are all in the Morbi cluster, Gujarat. TBK comprised 35% of Prism's FY22 consolidated revenue. During FY19-H1FY23, Prism trimmed its inefficient tiles capacity by ~20% and it is adding 11MSM in new plants (from FY22-24).
- **Business turning around:** Over the last 10 years, its tiles segment lost market share to Kajaria and Somany and slipped to the No. 3 spot in India, owing to various reasons. However, it has arrested its market share loss in the past three years as its sales volume grew at similar pace to that of Kajaria and Somany (6% CAGR in FY19-22). Utilisation in FY22 jumped to 69% vs ~60% in the preceding four years. Focus on distribution, utilisation and cost rationalisation in the past three years has also caused TBK segmental operating margin to climb to 9-11% FY21-22 vs sub-5% in the preceding eight years.
- **Growth plans:** During Q3FY22, Prism expanded its capacity by 4MSM at its JV (total Capex INR 500mn). In Q1FY23, it closed a 3.9MSM inefficient plant at its JV in Gujarat. It plans to add 1.2MSM at its JV in Gujarat by Mar-23 and a 5.5MSM greenfield plant in West Bengal by Jun-23. The company notes its key forward areas as follows: improving product mix, expanding distribution network, and timely implementation of Capex plans.

Financial summary (Tiles, Bath, Kitchen (TBK) division)

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	16,613	18,273	18,226	18,325	22,259
YoY %	5.1	10.0	-0.3	0.5	21.5
EBITDA	630	582	694	1,590	2,351
EBITDAM (%)	3.8	3.2	3.8	8.7	10.6
ROCE (pre-tax) (%)	0.4	0.4	(1.9)	(0.3)	16.2

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	INR 104
Target Price	NA
NIFTY	18,233

KEY STOCK DATA	
Bloomberg code	PRSMJ IN
No. of Shares (mn)	503
MCap (INR bn) / ($ mn)	52/627
6m avg traded value (INR mn)	76
52 Week high / low	INR 160/97

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(18.9)	(3.8)	(22.0)
Relative (%)	(26.8)	(19.7)	(25.6)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	74.87	74.87
FIs & Local MFs	5.46	4.34
FPIs	3.34	3.42
Public & Others	16.33	17.37
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Exxaro Tiles

Small player with major focus on niche tiles

Exxaro Tiles is a domestic-focused tiles manufacturer, based in Gujarat. The company mainly sells high-value GVT (60% of revenue) that helps it deliver the best-in-industry EBITDA margin (similar to industry leader Kajaria's). After almost seven years, the company expanded its capacity by 10% in Oct-22 to 14.6MSM. This can potentially double its GVT revenue by FY25E and buoy its EBITDA margin.

- **Domestic focused company:** Founded in 2008, Exxaro Tiles has a 14.6MSM tiles capacity across two plants in Gujarat. It is a domestic focused player (~90% sales) with large retail focus (more than 70% of its domestic sales). Within India, it sells 45% in the west, 30% in the south, 15% in the east and 10% in the north. In FY22, the company operated at 82% utilization.
- **Major presence in high-value tiles:** The company product portfolio is largely focused on high-value GVTs, which comprised 60% of its total revenue (FY22), and double-charge tiles (30%). It also sells low-end tiles from outsourced plants that accounted for 10% of its revenue in FY22. Owing to its superior product mix, Exxaro delivered an EBITDA margin (4-year mean FY19-22: ~17%) slightly ahead of industry leader Kajaria's (four-year mean 16.4%). During FY17-22, Exxaro delivered revenue/ EBITDA/APAT CAGRs of 14/9/8% respectively.
- **Recent expansion to further boost its GVT portfolio:** After seven years, Exxaro expanded its capacity by 10% in Oct-22 to 14.6MSM. It has set-up a large-sized (brownfield) slab plant (GVT) at Talod, Gujarat, costing INR 300mn. The company expects this high-value expansion to contribute INR 2.5bn in revenue along with 18-20% operating margin. These large slabs are expected to capture the market from marble/granite owing to cost advantage. Its GVT share in revenue is expected to rise to 70% over next 2-3 years. To promote the brand and ramp up sales, the company has recently signed up Mr Ajay Devgn as its brand ambassador on a two-year contract.
- **Outlook:** During FY22-25E, Exxaro expects to deliver 20%+ revenue CAGR, riding on new plant ramp-up and increased share of outsourced tile sales (to 20% vs 10% in FY22). The company expects EBITDA margin to recover Q3FY23 onwards on strong volumes and gas cost stabilisation and contribution from high-margin slab plant (20% EBITDA margin). Exxaro has also increased propane consumption to offset the overall energy cost inflation.

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	2,195	2,423	2,407	2,551	3,253
EBITDA	394	378	430	484	484
EBITDAM (%)	18.0	15.6	17.8	19.0	14.9
APAT	91	89	113	152	181
AEPS (INR)	2.7	2.7	3.4	4.5	4.0
P/E (x)	60.7	62.2	49.3	36.4	30.6
EV / EBITDA (x)	17.8	18.3	16.6	14.7	12.2
RoE (%)	9.3	8.5	9.8	11.9	9.0

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	INR 124
Target Price	NA
NIFTY	18,233

KEY STOCK DATA	
Bloomberg code	EXXARO IN
No. of Shares (mn)	45
MCap (INR bn) / ($ mn)	6/66
6m avg traded value (INR mn)	20
52 Week high / low	INR 150/93

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.7	14.6	(15.1)
Relative (%)	9.8	(1.2)	(18.7)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	42.07	42.07
FIs & Local MFs	4.86	4.86
FPIs	4.13	4.23
Public & Others	48.95	48.85
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Plastic Pipes Companies:

- **Supreme Industries (ADD, TP 2,580)**
- **Astral (REDUCE, TP 1,940)**
- **Prince Pipes (BUY, TP 705)**
- **Finolex Industries (NOT RATED)**

INSTITUTIONAL RESEARCH

Supreme Industries

Market leader in pipes; healthy outlook

Supreme Industries (SIL) continues to increase its value added product offerings in the pipes segment to deliver strong growth and retain its market leadership. The company also continues to generate superior return ratios and free cash flows. While EBITDA margin will be adversely impacted in FY23 by the sharp fall in PVC resin prices, the impact should moderate, owing to its varied product offerings and high share of value-added products. We estimate SIL to deliver revenue/EBITDA CAGRs of 9/5% during FY22-25E. The stock has run-up recently, limiting upside over next one year. Hence, we cut our rating on SIL to ADD (from BUY), with a revised SOTP target price of INR 2,580/sh.

- **Leadership across most categories**: During FY12-22, SIL delivered revenue/EBITDA/PAT CAGRs of 10/10/15% respectively. The plastic pipes segment (~65% of revenue) reported higher revenue/EBITDA CAGRs of 14/18%. SIL is the largest pipes manufacturer in India, enjoying a ~13% market share, and it has a pan-India presence. Similarly, it enjoys ~12% market share in material handling products, >15% market share in many of its packaging products, and ~14% in the plastic furniture industry (second largest in India).
- **Focus on value added products:** SIL's revenue share from VAP (pipes) continues to rise (~40% of revenue). SIL's CPVC revenue in FY22 grew 37% YoY despite resin supply disruption from its supplier Kaneka. With supply resumption in FY23, CPVC revenue growth should accelerate. In FY23, SIL is doubling its HDPE pipes production locations to six, and plastic tanks production locations to eight (from five). It has also started manufacturing specialty valves. In FY23E, it expects to deliver 20% overall volume growth (pipes: >25%), with 12-12.5% EBITDA margin.
- **Capex and outlook:** During FY23E, SIL plans to incur Capex of INR 7bn, (including INR 2.8bn carry forward commitments) mainly towards its new plants in Odisha and Tamil Nadu. SIL has continuously generated FCF (>10 years), despite its steady investments in growth Capex. SIL has also been able to sweat its assets well (>2x asset turnover), bolstering its return ratios (>20%). In FY23E, we expect SIL's EBITDA margin to compress 360bps YoY, owing to large inventory (PVC) losses in H1FY23. However, we expect that, with resin prices bottoming out by Q3FY23, EBITDA margin should expand FY24E onwards. Our SOTP target price is INR 2,580 based on standalone business at 21x its Mar-25E EBITDA (roll forward from Sep'24E to Mar'25E) and SIL's holding in Supreme Petrochem at 30% discount to its current mcap.

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	49,074	55,580	55,115	63,552	77,728	84,280	92,324	1,00,692
EBITDA	7,244	7,306	8,346	12,842	12,421	10,469	12,975	14,408
EBITDAM (%)	14.8	13.1	15.1	20.2	16.0	12.4	14.1	14.3
APAT	3,691	3,274	4,674	9,781	9,684	7,048	8,698	9,541
AEPS (INR)	29.1	25.8	36.8	77.0	76.2	55.5	68.5	75.1
P/E (x)	81.8	92.2	64.6	30.9	31.2	42.8	34.7	31.6
EV / EBITDA (x)	41.9	41.5	36.4	22.9	23.9	28.4	22.7	20.3
RoE (%)	20.6	16.2	21.2	36.0	27.6	17.5	19.5	19.2

Source: Company, HSIE Research

ADD

CMP *(as on 03 Jan 2023)*	**INR 2,375**
Target Price	**INR 2,580**
NIFTY	**18,233**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	ADD
Price Target	INR 2,450	INR 2,580
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / ($ mn)	302/3,635
6m avg traded value (INR mn)	181
52 Week high / low	INR 2,608/1,666

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	13.5	34.2	6.5
Relative (%)	5.6	18.3	2.9

SHAREHOLDING PATTERN (%)	**Jun-22**	**Sep-22**
Promoters	48.85	48.85
FIs & Local MFs	19.69	19.14
FPIs	15.79	16.33
Public & Others	15.67	15.68
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**49,074**	**55,580**	**55,115**	**63,552**	**77,728**	**84,280**	**92,324**	**100,692**
Growth %	*10.6*	*13.3*	*(0.8)*	*15.3*	*22.3*	*8.4*	*9.5*	*9.1*
Raw Material	32,921	38,199	35,783	40,427	53,532	55,725	61,034	65,550
Power & Fuel	1,736	2,055	2,161	1,986	2,134	2,950	3,231	3,524
Freight Expense	892	1,078	1,082	1,110	1,293	1,686	1,754	1,913
Employee cost	2,421	2,546	2,790	3,104	3,453	3,798	4,178	4,596
Other Expenses	3,860	4,397	4,954	4,084	4,895	9,652	9,152	10,702
EBITDA	**7,244**	**7,306**	**8,346**	**12,842**	**12,421**	**10,469**	**12,975**	**14,408**
EBIDTA Margin (%)	*14.8*	*13.1*	*15.1*	*20.2*	*16.0*	*12.4*	*14.1*	*14.3*
EBITDA Growth %	*(1.6)*	*0.8*	*14.2*	*53.9*	*(3.3)*	*(15.7)*	*23.9*	*11.0*
Depreciation	1,672	1,835	2,057	2,128	2,295	2,629	2,891	3,216
EBIT	**5,573**	**5,470**	**6,289**	**10,714**	**10,126**	**7,840**	**10,084**	**11,192**
Other Income	35	750	14	169	200	162	163	202
Interest	206	260	202	221	52	46	46	46
PBT	**5,401**	**5,960**	**6,101**	**10,662**	**10,274**	**7,957**	**10,202**	**11,348**
Tax	2,057	2,158	1,739	2,341	2,633	2,108	2,703	3,007
Share in associates profit	(347)	(144)	(312)	(1,460)	(2,044)	(1,200)	(1,200)	(1,200)
RPAT	**3,691**	**3,946**	**4,674**	**9,781**	**9,684**	**7,048**	**8,698**	**9,541**
EO (Loss) / Profit (Net Of Tax)	-	672	-	-	-	-	-	-
APAT	**3,691**	**3,274**	**4,674**	**9,781**	**9,684**	**7,048**	**8,698**	**9,541**
APAT Growth (%)	*(8.8)*	*(11.3)*	*42.7*	*109.3*	*(1.0)*	*(27.2)*	*23.4*	*9.7*
AEPS	**29.1**	**25.8**	**36.8**	**77.0**	**76.2**	**55.5**	**68.5**	**75.1**
AEPS Growth %	*(8.8)*	*(11.3)*	*42.7*	*109.3*	*(1.0)*	*(27.2)*	*23.4*	*9.7*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	254	254	254	254	254	254	254	254
Reserves And Surplus	18,695	21,286	22,358	31,438	38,190	41,923	46,812	52,290
Total Equity	**18,949**	**21,540**	**22,612**	**31,692**	**38,444**	**42,177**	**47,066**	**52,545**
Long-term Debt	167	15	307	373	457	457	457	457
Short-term Debt	2,310	1,609	4,101	4	-	-	-	-
Total Debt	**2,477**	**1,624**	**4,408**	**377**	**457**	**457**	**457**	**457**
Deferred Tax Liability	1,134	1,204	1,326	919	904	904	904	904
TOTAL SOURCES OF FUNDS	**22,560**	**24,367**	**28,345**	**32,988**	**39,805**	**43,538**	**48,427**	**53,906**
APPLICATION OF FUNDS								
Net Block	13,534	15,210	16,078	17,143	17,673	20,532	22,628	24,401
Capital WIP	750	900	929	510	1,558	1,058	1,058	1,058
Total Non-current Investments	1,937	2,223	2,073	3,366	4,759	4,759	4,759	4,759
Total Non-current Assets	**16,221**	**18,334**	**19,080**	**21,019**	**23,989**	**26,348**	**28,445**	**30,217**
Inventories	6,970	7,504	8,906	7,608	12,602	12,642	13,849	15,104
Debtors	3,819	3,874	3,128	3,899	4,668	5,478	6,001	6,545
Cash and Cash Equivalents	363	373	2,314	7,684	5,264	5,337	7,022	9,576
Other Current Assets (& Loans/adv)	1,988	2,208	2,758	2,614	3,436	3,534	3,638	3,746
Total Current Assets	**13,140**	**13,959**	**17,106**	**21,805**	**25,969**	**26,991**	**30,509**	**34,971**
Creditors	4,898	5,574	5,475	6,462	7,940	7,585	8,309	9,062
Other Current Liabilities & Provns	1,903	2,351	2,365	3,374	2,214	2,216	2,218	2,220
Total Current Liabilities	**6,801**	**7,925**	**7,840**	**9,836**	**10,154**	**9,801**	**10,527**	**11,282**
Net Current Assets	**6,340**	**6,034**	**9,266**	**11,969**	**15,815**	**17,190**	**19,982**	**23,688**
TOTAL APPLICATION OF FUNDS	**22,560**	**24,367**	**28,345**	**32,988**	**39,805**	**43,538**	**48,427**	**53,906**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	6,375	5,972	6,413	12,122	12,318	7,957	10,202	11,348
Non-operating & EO Items	(491)	(345)	(106)	(1,642)	(2,152)	(162)	(163)	(202)
Interest Expenses	268	334	296	221	51	46	46	46
Depreciation	1,672	1,835	2,059	2,130	2,295	2,629	2,891	3,216
Working Capital Change	(576)	317	(1,647)	1,955	(4,939)	(1,302)	(1,107)	(1,152)
Tax Paid	(2,172)	(2,557)	(1,621)	(2,322)	(2,868)	(2,108)	(2,703)	(3,007)
OPERATING CASH FLOW (a)	**5,076**	**5,557**	**5,393**	**12,464**	**4,705**	**7,059**	**9,165**	**10,248**
Capex	(2,816)	(2,297)	(2,397)	(2,210)	(4,661)	(4,988)	(4,988)	(4,988)
Free Cash Flow (FCF)	2,260	3,260	2,997	10,254	44	2,071	4,177	5,260
Investments	(7)	(280)	263	80	139	-	-	-
Non-operating Income	154	181	174	124	487	162	163	202
INVESTING CASH FLOW (b)	**(2,669)**	**(2,396)**	**(1,959)**	**(2,006)**	**(4,035)**	**(4,826)**	**(4,825)**	**(4,786)**
Debt Issuance/(Repaid)	(286)	(882)	2,380	(4,104)	(11)	-	-	-
Interest Expenses	(259)	(287)	(271)	(166)	(10)	(46)	(46)	(46)
FCFE	1,715	2,091	5,105	5,984	24	2,025	4,131	5,214
Dividend	(2,293)	(1,991)	(3,522)	(635)	(2,922)	(2,114)	(2,609)	(2,862)
FINANCING CASH FLOW (c)	**(2,838)**	**(3,160)**	**(1,414)**	**(4,905)**	**(2,942)**	**(2,160)**	**(2,655)**	**(2,908)**
NET CASH FLOW (a+b+c)	**(431)**	**1**	**2,020**	**5,553**	**(2,273)**	**73**	**1,685**	**2,554**
Closing Cash & Equivalents	**367**	**364**	**2,393**	**7,867**	**5,412**	**5,337**	**7,022**	**9,576**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	14.8	13.1	15.1	20.2	16.0	12.4	14.1	14.3
EBIT Margin	11.4	9.8	11.4	16.9	13.0	9.3	10.9	11.1
APAT Margin	7.5	5.9	8.5	15.4	12.5	8.4	9.4	9.5
RoE	20.6	16.2	21.2	36.0	27.6	17.5	19.5	19.2
RoIC (pre tax)	27.1	24.4	25.9	42.6	34.9	22.4	26.0	19.7
RoCE (pre tax)	25.7	23.5	23.7	35.3	28.3	19.2	22.3	16.4
EFFICIENCY								
Tax Rate %	38.1	36.2	28.5	22.0	25.6	26.5	26.5	26.5
Fixed Asset Turnover (x)	2.0	2.1	1.9	2.0	2.2	2.1	2.1	2.0
Inventory (days)	52	49	59	44	59	55	55	55
Debtors (days)	28	25	21	22	22	24	24	24
Other Current Assets (days)	15	14	18	15	16	15	14	14
Payables (days)	36	37	36	37	37	33	33	33
Other Current Liab & Provns (days)	14	15	16	19	10	10	9	8
Cash Conversion Cycle (days)	44	37	46	25	50	51	51	51
Net Debt/EBITDA (x)	0.3	0.2	0.3	(0.6)	(0.4)	(0.5)	(0.5)	(0.6)
Net D/E	0.1	0.1	0.1	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage	27.0	21.0	31.1	48.4	196.6	171.6	220.8	245.0
PER SHARE DATA (INR)								
EPS	29.1	25.8	36.8	77.0	76.2	55.5	68.5	75.1
CEPS	42.2	40.2	53.0	93.7	94.3	76.2	91.2	100.4
Dividend	12.0	13.0	14.0	22.0	24.0	16.6	20.5	22.5
Book Value	149.1	169.5	178.0	249.4	302.6	332.0	370.5	413.6
VALUATION								
P/E (x)	81.8	92.2	64.6	30.9	31.2	42.8	34.7	31.6
P/Cash EPS (x)	56.3	52.2	44.8	25.3	25.2	31.2	26.0	23.7
P/BV (x)	15.9	14.0	13.3	9.5	7.8	7.2	6.4	5.7
EV/EBITDA (x)	41.9	41.5	36.4	22.9	23.9	28.4	22.7	20.3
Dividend Yield (%)	0.5	0.5	0.6	0.9	1.0	0.7	0.9	0.9
OCF/EV (%)	1.7	1.8	1.8	4.2	1.6	2.4	3.1	3.5
FCFF/EV (%)	0.7	1.1	1.0	3.5	0.0	0.7	1.4	1.8
FCFE/M Cap (%)	0.6	0.7	1.7	2.0	0.0	0.7	1.4	1.7

Source: Company, HSIE Research

Astral

Industry-leading growth factored in high valuation

We maintain REDUCE rating on Astral owing to expensive valuation, with a revised TP of INR 1,940/sh (30x its Mar-25E consolidated EBITDA, implying 48 P/E). Astral is among India's fastest-growing pipe companies and its adhesive segment is growing at a healthy pace. We like Astral for its leadership presence in the CPVC segment, strong retail franchise, superior revenue/earnings growth, and healthy return ratios. Astral has also forayed in paints and bathware businesses in FY23. Aided by market share gains in the existing business and additional contribution from new business, we estimate Astral's revenue/EBITDA/APAT would grow at 21/18/19% CAGR during FY22-25E.

- **Plumbing segment—focus on niche CPVC and non-agri pipes:** Astral is India's fastest-growing plastic pipes manufacturer. It is the fourth largest pipes company, with ~8% market share. Astral is among the two largest players in the high-margin CPVC pipes segments (>40% of its pipes revenue). Astral has very low exposure to the price sensitive agri segment (sub-5%). Over the next three years, its growth visibility looks strong, driven by robust demand in piping segment and the company's expansion in plastic tanks, valves, and bathware businesses. These should drive its plumbing segment revenue/EBITDA CAGRs of 17/13% during FY22-25E.
- **Adhesive business—another high growth segment:** Astral diversified into the adhesive business in 2010, and it has mainly grown through inorganic acquisitions (during 2014-17) in India, the UK, and the US. Its entry in the paint business through the Gem Paints acquisition will further boost its profitability. Aided by Astral's entry in paint business, continued new product launches, distribution rationalisation, and healthy demand, we expect segmental revenue/EBITDA CAGRs of 32/39% during FY22-25E.
- **Focus on asset sweating:** With its foray into paints and bathware through acquisitions, we believe Astral's Capex will peak out in FY23E (~INR 4bn, including INR 2bn towards 51% stake in GEM Paints). The company will focus on asset sweating FY24E onwards.
- **Outlook:** In the last 10 years, Astral's consolidated revenue /EBITDA/PAT grew at 22/25/28% CAGRs. The company targets to double its topline over the next five years, driven by continued market share gain in existing businesses and additional contribution from new business. We like Astral for its leadership presence in the CPVC segment, strong retail franchise, superior revenue/earnings growth, and healthy return ratios. We maintain REDUCE rating, with a TP of INR 1,940, valuing it at 30x its Mar'25E EBITDA (roll forward from Sep'24E to Mar'25E).

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	20,729	25,073	25,779	31,763	43,940	55,079	67,076	77,391
EBITDA	3,168	3,849	4,429	6,445	7,553	8,029	10,869	12,555
EBITDAM (%)	15.3	15.4	17.2	20.3	17.2	14.6	16.2	16.2
APAT	1,751	1,958	2,479	4,044	4,838	4,965	6,951	8,229
AEPS (INR)	8.8	9.8	12.3	20.1	24.0	24.7	34.5	40.9
P/E (x)	231.2	206.8	163.3	100.1	83.7	81.5	58.2	49.2
EV / EBITDA (x)	128.3	105.7	91.6	62.2	52.9	49.8	36.6	31.3
RoE (%)	18.5	16.9	17.6	23.6	22.6	18.6	21.3	21.2

Source: Company, HSIE Research

REDUCE

CMP *(as on 03 Jan 2023)*	INR 2,011
Target Price	INR 1,940
NIFTY	18,233

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,810	INR 1,940
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	ASTRA IN
No. of Shares (mn)	201
MCap (INR bn) / ($ mn)	404/4,872
6m avg traded value (INR mn)	1,017
52 Week high / low	INR 2,655/1,582

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(8.8)	21.1	(13.9)
Relative (%)	(16.7)	5.3	(17.5)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	55.73	55.85
FIs & Local MFs	13.60	14.37
FPIs	16.07	16.26
Public & Others	14.60	13.53
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**20,729**	**25,073**	**25,779**	**31,763**	**43,940**	**55,079**	**67,076**	**77,391**
Growth %	*9.4*	*21.0*	*2.8*	*23.2*	*38.3*	*25.4*	*21.8*	*15.4*
Raw Material	13,834	16,477	15,957	19,689	29,280	37,927	45,592	51,832
Power & Fuel	532	653	703	643	777	974	1,186	1,369
Freight Expense	463	561	638	679	788	988	1,203	1,388
Employee cost	1,065	1,391	1,752	1,910	2,453	2,944	3,532	3,886
Other Expenses	1,667	2,142	2,300	2,397	3,089	4,218	4,694	6,362
EBITDA	**3,168**	**3,849**	**4,429**	**6,445**	**7,553**	**8,029**	**10,869**	**12,555**
EBIDTA Margin (%)	*15.3*	*15.4*	*17.2*	*20.3*	*17.2*	*14.6*	*16.2*	*16.2*
EBITDA Growth %	*20.1*	*21.5*	*15.1*	*45.5*	*17.2*	*6.3*	*35.4*	*15.5*
Depreciation	571	814	1,079	1,165	1,269	1,724	2,026	2,110
EBIT	**2,597**	**3,035**	**3,350**	**5,280**	**6,284**	**6,305**	**8,843**	**10,445**
Other Income	127	154	121	251	349	401	443	500
Interest	216	319	394	131	129	147	147	147
PBT	**2,508**	**2,870**	**3,077**	**5,400**	**6,504**	**6,558**	**9,138**	**10,798**
Tax	724	861	565	1,248	1,581	1,508	2,102	2,483
Minority Int	32	51	33	108	85	85	85	85
RPAT	**1,751**	**1,958**	**2,479**	**4,044**	**4,838**	**4,965**	**6,951**	**8,229**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	**1,751**	**1,958**	**2,479**	**4,044**	**4,838**	**4,965**	**6,951**	**8,229**
APAT Growth (%)	*20.2*	*11.8*	*26.6*	*63.1*	*19.6*	*2.6*	*40.0*	*18.4*
AEPS	**8.8**	**9.8**	**12.3**	**20.1**	**24.0**	**24.7**	**34.5**	**40.9**
AEPS Growth %	*20.2*	*11.8*	*25.8*	*62.8*	*19.6*	*2.6*	*40.0*	*18.4*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	120	120	151	201	201	201	201	201
Reserves And Surplus	10,063	12,657	14,878	18,757	23,165	27,470	33,116	39,785
Total Equity	**10,182**	**12,777**	**15,029**	**18,958**	**23,366**	**27,671**	**33,317**	**39,986**
Minority Int	**135**	**150**	**168**	**212**	**278**	**2,218**	**2,218**	**2,218**
Long-term Debt	1,835	2,439	1,676	517	471	471	530	530
Short-term Debt	56	304	234	285	512	512	453	453
Total Debt	**1,891**	**2,743**	**1,910**	**802**	**983**	**983**	**983**	**983**
Deferred Tax Liability	330	532	429	400	398	398	398	398
Long-term Liab+ Provisions	16	31	866	444	617	737	737	737
TOTAL SOURCES OF FUNDS	**12,555**	**16,233**	**18,402**	**20,816**	**25,642**	**32,007**	**37,653**	**44,322**
APPLICATION OF FUNDS								
Net Block	8,425	11,054	12,549	13,145	14,960	19,640	19,614	19,504
Capital WIP	731	808	444	566	1,232	232	732	1,732
Total Non-current Investments	-	2	2	-	-	-	-	-
Total Non-current Assets	**9,156**	**11,864**	**12,995**	**13,711**	**16,192**	**19,872**	**20,346**	**21,236**
Inventories	3,572	3,970	5,404	4,721	7,334	8,813	11,403	13,156
Debtors	3,067	3,391	2,278	2,767	2,691	4,131	5,366	6,191
Cash and Cash Equivalents	437	981	1,301	4,760	6,418	7,924	10,271	14,983
Other Current Assets (& Loans/adv)	518	785	913	768	1,234	1,518	1,888	2,026
Total Current Assets	**7,594**	**9,127**	**9,896**	**13,016**	**17,677**	**22,386**	**28,928**	**36,356**
Creditors	3,491	3,897	4,754	5,172	7,484	9,363	10,732	12,383
Other Current Liabilities & Provns	705	861	(265)	739	743	888	888	888
Total Current Liabilities	**4,196**	**4,758**	**4,489**	**5,911**	**8,227**	**10,251**	**11,620**	**13,271**
Net Current Assets	**3,398**	**4,369**	**5,407**	**7,105**	**9,450**	**12,135**	**17,307**	**23,086**
TOTAL APPLICATION OF FUNDS	**12,555**	**16,233**	**18,402**	**20,816**	**25,642**	**32,007**	**37,653**	**44,322**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	2,507	2,834	3,061	5,330	6,485	6,558	9,138	10,798
Non-operating & EO Items	(7)	(87)	147	35	(69)	(401)	(443)	(500)
Interest Expenses	216	319	394	131	129	147	147	147
Depreciation	571	814	1,079	1,165	1,269	1,724	2,026	2,110
Working Capital Change	161	308	188	1,142	(705)	(1,059)	(2,826)	(1,066)
Tax Paid	(629)	(768)	(815)	(1,162)	(1,678)	(1,508)	(2,102)	(2,483)
OPERATING CASH FLOW (a)	**2,818**	**3,420**	**4,054**	**6,641**	**5,431**	**5,462**	**5,941**	**9,005**
Capex	(1,839)	(2,196)	(2,133)	(1,711)	(3,446)	(3,464)	(2,500)	(3,000)
Free Cash Flow (FCF)	980	1,224	1,921	4,930	1,985	1,998	3,441	6,005
Investments	(21)	(792)	(1,055)	(2,862)	4,126	-	-	-
Non-operating Income	7	54	11	32	35	401	443	500
INVESTING CASH FLOW (b)	**(1,853)**	**(2,934)**	**(3,177)**	**(4,541)**	**715**	**(3,063)**	**(2,057)**	**(2,500)**
Debt Issuance/(Repaid)	(421)	354	(981)	(1,242)	134	-	-	-
Interest Expenses	(211)	(312)	(409)	(140)	(123)	(147)	(147)	(147)
FCFE	348	1,266	531	3,548	1,996	1,850	3,294	5,858
Share Capital Issuance	-	2	-	1	-	-	-	-
Dividend	(79)	(94)	(240)	(151)	(451)	(745)	(1,390)	(1,646)
FINANCING CASH FLOW (c)	**(711)**	**(50)**	**(1,630)**	**(1,532)**	**(440)**	**(892)**	**(1,538)**	**(1,793)**
NET CASH FLOW (a+b+c)	**255**	**436**	**(753)**	**568**	**5,706**	**1,506**	**2,346**	**4,712**
Closing Cash & Equivalents	**437**	**873**	**228**	**1,869**	**10,466**	**7,924**	**10,271**	**14,983**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	15.3	15.4	17.2	20.3	17.2	14.6	16.2	16.2
EBIT Margin	12.5	12.1	13.0	16.6	14.3	11.4	13.2	13.5
APAT Margin	8.4	7.8	9.6	12.7	11.0	9.0	10.4	10.6
RoE	18.5	16.9	17.6	23.6	22.6	18.6	21.3	21.2
RoIC (pre tax)	23.5	23.5	21.5	32.8	37.5	30.1	35.0	38.5
RoCE (pre tax)	16.3	15.5	16.4	21.7	21.6	17.9	20.5	20.6
EFFICIENCY								
Tax Rate %	28.9	30.0	18.4	23.1	24.3	23.0	23.0	23.0
Fixed Asset Turnover (x)	2.3	2.2	1.8	1.9	2.3	2.3	2.4	2.6
Inventory (days)	63	58	77	54	61	58	62	62
Debtors (days)	54	49	32	32	22	27	29	29
Other Current Assets (days)	9	11	13	9	10	10	10	10
Payables (days)	61	57	67	59	62	62	58	58
Other Current Liab & Provns (days)	13	13	9	14	11	11	9	8
Cash Conversion Cycle (days)	52	49	46	22	20	23	34	35
Net Debt/EBITDA (x)	0.5	0.5	0.1	(0.6)	(0.7)	(0.9)	(0.9)	(1.1)
Net D/E	0.1	0.1	0.0	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Interest Coverage	12.0	9.5	8.5	40.3	48.7	42.8	60.0	70.8
PER SHARE DATA (INR)								
EPS	8.8	9.8	12.3	20.1	24.0	24.7	34.5	40.9
CEPS	11.6	13.9	17.7	25.9	30.3	33.2	44.6	51.4
Dividend	0.6	0.7	1.0	1.8	3.0	3.7	6.9	8.2
Book Value	51.6	64.7	75.6	95.2	117.4	148.4	176.4	209.6
VALUATION								
P/E (x)	231.2	206.8	163.3	100.1	83.7	81.5	58.2	49.2
P/Cash EPS (x)	174.4	146.1	113.8	77.7	66.3	60.5	45.1	39.2
P/BV (x)	39.8	31.7	26.9	21.4	17.3	14.6	12.2	10.1
EV/EBITDA (x)	128.3	105.7	91.6	62.2	52.9	49.8	36.6	31.3
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.4
OCF/EV (%)	0.7	0.8	1.0	1.7	1.4	1.4	1.5	2.3
FCFF/EV (%)	0.2	0.3	0.5	1.2	0.5	0.5	0.9	1.5
FCFE/M Cap (%)	0.1	0.3	0.1	0.9	0.5	0.5	0.8	1.4

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Prince Pipes and Fittings

Strong growth momentum

We maintain our BUY rating on Prince Pipes, with a revised target price of INR 705/sh (18.5x its Mar-25E EBITDA). Prince Pipes is the fifth-largest plastic pipes manufacturer in India, with ~7% market share. Over the past 10 years, Prince's pipes volume has grown at 10% CAGR, gaining market share. Strong demand has also boosted margin, leading to revenue/EBITDA/APAT CAGRs of 18/32/39%. The company continues to focus on expanding its capacity, distribution and on new product launches to maintain its robust growth, with a focus on building materials/plumbing segments (>65%). Prince is also entering the bathware segment to leverage its brand and distribution.

- **Stellar growth trajectory:** Over the past 10 years, Prince grew at a fast pace, becoming a pan-India player currently. It outpaced industry growth, delivering 10% volume CAGR and in the journey became the fifth largest, with current market share at ~7%. During the last ten years, continued capacity and distribution expansions, new product launches and demand tailwinds drove Prince Pipes' revenue/ EBITDA/APAT by 18/32/39% CAGRs respectively. Prince has plants spread across the north, west and south regions and has ~1,500 distributors spread across India. It also has a vast product range of over 7,200 SKUs. It has high exposure to plumbing segments (>65% revenue) and has >20% revenues from CPVC pipes.
- **Resin price volatility to pull down FY23 performance:** After soaring 120% during 2020-2021, PVC resin prices have been falling sharply in 2022 (halved from its peak) on account of weak demand in China. This is resulting in high inventory losses in FY23E and will continue to hit profitability for all PVC pipes manufacturers. Falling prices is also impacting primary sales.
- **Portfolio expansion in bathware:** The company is entering the bathware segment to leverage the Prince brand and its pan-India dealer network. The launch is expected in Mar-23 and, for the next 2-3 years, it would operate on an asset-light model before building its own manufacturing capacities.
- **Outlook:** There is no major Capex in the pipeline for the company; it plans to ramp up capacity utilization of Jaipur and Telangana plant. Prince continues to focus on retail distribution sweating, new product launches, and increase penetration in project sales. On a high base of FY22, we estimate revenue/EBITDA/APAT CAGRs of 4/-1/-3% respectively. We roll forward the valuation to Mar-25E (vs Sep-24E earlier) and maintain our BUY rating, with a revised target price of INR 705/sh (18.5x its Mar-25E EBITDA).

Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	13,150	15,718	16,357	20,715	26,568	23,672	25,862	30,187
EBITDA	1,633	1,840	2,288	3,616	4,157	1,953	3,347	4,041
EBITDAM (%)	12.4	11.7	14.0	17.5	15.6	8.3	12.9	13.4
APAT	728	821	1,125	2,218	2,495	795	1,811	2,267
AEPS (INR)	8.1	9.1	10.2	20.2	22.6	7.2	16.4	20.5
P/E (x)	90.6	80.3	58.6	29.7	26.5	83.3	36.6	29.2
EV / EBITDA (x)	42.6	37.3	28.8	17.8	16.1	33.2	19.2	15.6
RoE (%)	26.0	22.9	18.2	23.6	21.6	6.1	12.8	14.3

Source: Company, HSIE Research

BUY

CMP *(as on 03 Jan 2023)*	INR 599
Target Price	INR 705
NIFTY	18,233

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 645	INR 705
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	PRINCPIP IN
No. of Shares (mn)	111
MCap (INR bn) / ($ mn)	66/796
6m avg traded value (INR mn)	111
52 Week high / low	INR 748/510

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.9	0.9	(14.5)
Relative (%)	(5.0)	(15.0)	(18.1)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	62.94	62.94
FIs & Local MFs	14.51	14.58
FPIs	4.15	3.98
Public & Others	18.40	18.50
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Income Statement

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**13,150**	**15,718**	**16,357**	**20,715**	**26,568**	**23,672**	**25,862**	**30,187**
Growth %	***5.5***	***19.5***	***4.1***	***26.6***	***28.3***	***(10.9)***	***9.2***	***16.7***
Raw Material	9,214	11,274	11,264	13,789	18,914	17,469	17,760	20,771
Power & Fuel	343	387	449	420	451	765	879	1,021
Freight Expense	136	232	232	259	338	379	445	522
Employee cost	684	776	902	997	1,162	1,255	1,355	1,491
Other Expenses	1,140	1,209	1,222	1,635	1,546	1,851	2,076	2,342
EBITDA	**1,633**	**1,840**	**2,288**	**3,616**	**4,157**	**1,953**	**3,347**	**4,041**
EBIDTA Margin (%)	***12.4***	***11.7***	***14.0***	***17.5***	***15.6***	***8.3***	***12.9***	***13.4***
EBITDA Growth %	***0.4***	***12.6***	***24.3***	***58.1***	***14.9***	***(53.0)***	***71.4***	***20.7***
Depreciation	381	436	520	594	703	825	931	1,059
EBIT	1,252	1,404	1,768	3,022	3,454	1,128	2,416	2,982
Other Income	60	71	69	176	55	60	100	150
Interest	361	363	332	207	139	111	48	48
PBT	952	1,112	1,506	2,991	3,369	1,077	2,467	3,084
Tax	224	292	381	773	875	281	657	817
RPAT	**728**	**821**	**1,125**	**2,218**	**2,495**	**795**	**1,811**	**2,267**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	**728**	**821**	**1,125**	**2,218**	**2,495**	**795**	**1,811**	**2,267**
APAT Growth (%)	***(1.9)***	***12.8***	***37.1***	***97.2***	***12.5***	***(68.1)***	***127.7***	***25.2***
AEPS	8.1	9.1	10.2	20.2	22.6	7.2	16.4	20.5
AEPS Growth %	*(51.0)*	*12.8*	*12.2*	*97.2*	*11.9*	*(68.1)*	*127.7*	*25.2*

Source: Company, HSIE Research

Balance Sheet

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS								
Share Capital	907	917	1,123	1,100	1,106	1,106	1,106	1,106
Reserves And Surplus	2,258	3,091	7,254	9,335	11,547	12,223	13,762	15,689
Total Equity	**3,166**	**4,008**	**8,377**	**10,435**	**12,653**	**13,329**	**14,868**	**16,795**
Long-term Debt	2,008	1,556	588	13	-	-	-	-
Short-term Debt	1,716	1,473	2,054	867	1,519	419	419	419
Total Debt	**3,724**	**3,030**	**2,642**	**880**	**1,519**	**419**	**419**	**419**
Deferred Tax Liability	127	135	133	133	123	123	123	123
Long-term Liab+ Provisions	236	238	167	17	22	24	27	29
TOTAL SOURCES OF FUNDS	**7,253**	**7,411**	**11,318**	**11,465**	**14,317**	**13,895**	**15,437**	**17,366**
APPLICATION OF FUNDS								
Net Block	3,447	3,696	4,886	5,030	6,456	6,631	7,200	7,641
Capital WIP	147	615	75	765	226	326	176	176
Other Non-current Assets	766	743	687	394	425	425	425	425
Total Non-current Investments	7	8	6	15	17	17	17	17
Total Non-current Assets	**4,366**	**5,062**	**5,655**	**6,204**	**7,123**	**7,398**	**7,817**	**8,258**
Inventories	2,415	2,011	3,445	2,273	6,188	4,261	4,397	4,528
Debtors	2,394	2,504	1,797	3,308	4,346	3,551	3,879	4,528
Cash and Cash Equivalents	96	223	2,571	2,299	687	1,804	2,494	3,637
Other Current Assets (& Loans/adv)	527	605	635	1,744	1,046	1,046	1,046	1,046
Total Current Assets	**5,432**	**5,342**	**8,448**	**9,625**	**12,267**	**10,662**	**11,816**	**13,740**
Creditors	1,970	2,152	1,808	3,144	3,986	3,077	3,362	3,924
Other Current Liabilities & Provns	576	841	976	1,220	1,088	1,088	834	707
Total Current Liabilities	**2,546**	**2,993**	**2,784**	**4,363**	**5,074**	**4,165**	**4,196**	**4,632**
Net Current Assets	**2,887**	**2,349**	**5,664**	**5,262**	**7,194**	**6,497**	**7,620**	**9,108**
TOTAL APPLICATION OF FUNDS	**7,253**	**7,411**	**11,318**	**11,465**	**14,317**	**13,895**	**15,437**	**17,366**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	952	1,113	1,506	2,991	3,369	1,077	2,467	3,084
Non-operating & EO Items	415	332	450	(74)	100	-	-	-
Interest Expenses	-	-	-	181	123	111	48	48
Depreciation	381	436	520	594	703	825	931	1,059
Working Capital Change	37	611	(1,081)	(127)	(3,529)	1,816	(431)	(342)
Tax Paid	(163)	(305)	(372)	(646)	(960)	(281)	(657)	(817)
OPERATING CASH FLOW (a)	**1,622**	**2,186**	**1,023**	**2,920**	**(195)**	**3,548**	**2,360**	**3,032**
Capex	(1,703)	(1,051)	(1,106)	(1,210)	(1,687)	(1,100)	(1,350)	(1,500)
Free Cash Flow (FCF)	(81)	1,136	(83)	1,710	(1,882)	2,448	1,010	1,532
Investments	1	-	(2,571)	354	1,846	-	-	-
Non-operating Income	0	0	0	159	46	-	-	-
INVESTING CASH FLOW (b)	**(1,703)**	**(1,051)**	**(3,677)**	**(697)**	**205**	**(1,100)**	**(1,350)**	**(1,500)**
Debt Issuance/(Repaid)	425	(689)	(388)	(1,761)	639	(1,100)	-	-
Interest Expenses	(38)	(360)	(330)	(207)	(139)	(111)	(48)	(48)
FCFE	306	87	(802)	(258)	(1,382)	1,237	962	1,483
Share Capital Issuance	(314)	-	3,394	(6)	107	-	-	-
Dividend	(18)	-	(110)	(165)	(385)	(119)	(272)	(340)
FINANCING CASH FLOW (c)	**55**	**(1,049)**	**2,566**	**(2,139)**	**222**	**(1,331)**	**(320)**	**(388)**
NET CASH FLOW (a+b+c)	**(25)**	**87**	**(88)**	**84**	**232**	**1,117**	**690**	**1,143**
Closing Cash & Equivalents	**99**	**183**	**135**	**2,654**	**2,531**	**1,804**	**2,494**	**3,637**

Source: Company, HSIE Research

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY %								
EBITDA Margin	12.4	11.7	14.0	17.5	15.6	8.3	12.9	13.4
EBIT Margin	9.5	8.9	10.8	14.6	13.0	4.8	9.3	9.9
APAT Margin	5.5	5.2	6.9	10.7	9.4	3.4	7.0	7.5
RoE	26.0	22.9	18.2	23.6	21.6	6.1	12.8	14.3
RoIC (pre tax)	19.8	20.7	23.2	35.4	31.7	9.0	19.7	22.7
RoCE (pre tax)	19.9	20.1	19.6	28.1	27.2	8.4	17.2	19.1
EFFICIENCY								
Tax Rate %	23.5	26.2	25.3	25.8	26.0	26.1	26.6	26.5
Fixed Asset Turnover (x)	3.7	3.5	2.9	3.1	3.3	2.4	2.4	2.4
Inventory (days)	67	47	77	40	85	66	62	55
Debtors (days)	66	58	40	58	60	55	55	55
Other Current Assets (days)	36	31	30	38	20	23	21	18
Payables (days)	55	50	40	55	55	47	47	47
Other Current Liab & Provns (days)	23	25	26	22	15	17	12	9
Cash Conversion Cycle (days)	92	61	81	59	95	79	78	71
Net Debt/EBITDA (x)	2.2	1.5	0.0	(0.4)	0.2	(0.7)	(0.6)	(0.8)
Net D/E	1.1	0.7	0.0	(0.1)	0.1	(0.1)	(0.1)	(0.2)
Interest Coverage	3.5	3.9	5.3	14.6	24.8	10.1	50.1	61.9
PER SHARE DATA (INR)								
EPS	8.1	9.1	10.2	20.2	22.6	7.2	16.4	20.5
CEPS	12.3	14.0	14.9	25.6	28.9	14.7	24.8	30.1
Dividend	-	-	1.0	3.5	3.5	1.1	2.5	3.1
Book Value	35.2	44.5	76.1	94.8	114.4	120.6	134.5	151.9
VALUATION								
P/E (x)	90.6	80.3	58.6	29.7	26.5	83.3	36.6	29.2
P/Cash EPS (x)	59.5	52.5	40.1	23.4	20.7	40.9	24.2	19.9
P/BV (x)	20.8	16.4	7.9	6.3	5.2	5.0	4.5	3.9
EV/EBITDA (x)	42.6	37.3	28.8	17.8	16.1	33.2	19.2	15.6
EV/MT (INR bn)	0.30	0.30	0.26	0.25	0.23	0.21	0.19	0.17
Dividend Yield (%)	-	-	0.2	0.6	0.6	0.2	0.4	0.5
OCF/EV (%)	2.3	3.2	1.6	4.5	(0.3)	5.5	3.7	4.8
FCFF/EV (%)	(0.1)	1.7	(0.1)	2.7	(2.8)	3.8	1.6	2.4
FCFE/M Cap (%)	0.5	0.1	(1.2)	(0.4)	(2.1)	3.7	1.5	2.3

Source: Company, HSIE Research

Finolex Industries

Non-agri mix rising; cash pile soars amid no Capex

Finolex Industries is the third-largest manufacturer of both PVC pipes and PVC resins in India. The company has largely focused on the price-sensitive agri pipes, which leads to its low margin in the pipes segment. However, the company is gradually increasing its plumbing sales as well as high-value CPVC and fittings to boost up margins. In resins, Finolex has higher margin owing to ~60% of its resins manufacturing through backward integrated EDC route. Finolex sells only ~30% of its resin externally and uses the rest for its PVC pipes manufacturing. During FY17-22, Finolex clocked revenue/EBITDA/PAT CAGRs of 12/13/14%, driven by resin division. Owing to no Capex in the past five years, net cash on books surged to INR14bn in Mar-22.

- **Leading pipe manufacturer:** Finolex is the third-largest pipe manufacturer (370K MT capacity across Maharashtra and Gujarat) in India after Supreme Industries and Ashirvad Pipes. It is the only backward integrated pipe manufacturer, with captive PVC resin production. Finolex is gradually improving its product mix away from agri to plumbing segment—from 70% in FY19, agri revenue has come down to 59% in FY22. In volume terms, agri share has reduced to 67% in FY22 vs ~75% 2-3 years back. During FY17-22, pipes segment sales volume/revenue/EBITDA grew at 2/15/8% CAGRs. The volume growth is driven by increased share of CPVC/fittings volumes to 5/11% in FY22 vs 2/7% in FY18. Its segmental EBITDA margin remains low vs peers owing to higher share of agri pipes.
- **Third-largest resin manufacturer; mostly captive consumption:** Finolex is also the third-largest PVC resin manufacturer in India (after RIL and Chemplast) with an installed capacity of 272K MT (in Ratnagiri Maharashtra). It makes resins using both the backward-integrated EDC route (~60%) and VCM route (~40%), leading to its high EBITDA margin (> 20%). It consumes ~70% of its resins internally. During FY17-22, total/external resin sales volume contracted at 1/8% rate. However, higher realisation drove segmental revenue/ EBITDA CAGRs of 14/15% respectively.
- **Future plans:** Finolex plans to expand pipes distribution network mainly in the northern and eastern regions (it has a strong presence in the west and south markets). Finolex has not expanded its resin capacity over the past 10 years and even the pipes capacity has remained unchanged since FY18. Low Capex has increased net cash pile to INR 14bn in Mar-22. Owing to low utilization across both segments (FY22: pipes/resins 62/79%), Finolex has no expansion plans in the medium term. For FY23, it would incur ~INR 2.5bn in Capex (to add new moulds and towards routine maintenance).

Consolidated Financial summary

YE Mar (INR mn)	FY18	FY19	FY20	FY21	FY22
Net Sales	27,378	30,913	29,860	34,628	46,473
EBITDA	4,805	5,997	4,481	9,893	10,237
EBITDAM (%)	17.6	19.4	15.0	28.6	22.0
APAT	3,063	3,951	3,327	7,378	6,753
AEPS (INR)	4.9	6.4	5.4	11.9	10.9
P/E (x)	38.1	29.5	35.1	15.8	17.3
EV / EBITDA (x)	24.3	19.2	26.2	11.1	10.1
RoE (%)	12.0	14.7	14.6	28.8	19.1

Source: Company, HSIE Research

NOT RATED

CMP *(as on 03 Jan 2023)*	INR 188
Target Price	NA
NIFTY	18,233

KEY STOCK DATA	
Bloomberg code	FNXP IN
No. of Shares (mn)	620
MCap (INR bn) / ($ mn)	117/1,412
6m avg traded value (INR mn)	166
52 Week high / low	INR 207/122

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	37.0	40.1	(7.7)
Relative (%)	29.1	24.2	(11.2)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	52.47	52.47
FIs & Local MFs	9.82	9.82
FPIs	5.69	5.59
Public & Others	32.02	32.12
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Thematic reports by HSIE

Cement: WHRS – A key cog in the flywheel

Autos: Where are we on "S" curve?

FMCG: Defensive businesses but not valuations

Autos: A changed landscape

Banks: Double whammy for some

India Equity Strategy: Atma Nirbhar Bharat

Indian IT: Demand recovery in sight

Life Insurance: Recovery may be swift with protection driving margins

Retail: Whole flywheel is broken?

Appliances: Looing beyond near-term disruption

Pharma: Chronic therapy – A portfolio prescription

Indian Gas: Looking beyond the pandemic

India Equity Strategy: Quarterly flipbook

Real Estate: Ripe for consumption

Indian IT: expanding centre of gravity

Indian Chemical: Evolution to revolution!

Life Insurance: ULIP vs. MF

Infrastructure: On the road to rerating

Cement: Spotting the sweet spot

Pharma: Cardiac: the heartbeat of domestic market

Life Insurance: Comparative annual report analysis

Indian microfinance: Should you look micro as macros disappoint?

India Equity Strategy: Quarterly flipbook

Autos: Divergent trends in PVs and 2Ws

India Internet: the stage is set

FMCG: Opportunity in adversity - A comparative scorecard

Logistics: Indian Railways - getting aggressive

Industrials: Triggering a new cycle

Indian IT: raising the bar

India Equity Strategy: Quarterly flipbook

FinTech Playbook: P2M Payments | Surging pool, dwindling yields

India Hospitals: capital discipline improving, sustenance is key

Autos: Will EVs impact the 'EV'?

Cement: Riding High

Power: Reforms essential for rennaissance

Fashion & Lifestyle: From a disruptor's lens II

India Equity Strategy: Quarterly flipbook

Indian Gas Sector: Resilience in the eye of the storm

Consumer Durables: Fans - a compounding story but underrated

Quarterly flipbook: Q2FY22– Demand environment improves but input cost inflation dents profitability

FinTech Playbook: Discount Brokers

Footwear: No bargains here!

Holdcos for portfolio diversification

Cement: A concrete road for net-zero emissions

FinTech Playbook: Buy Now Pay Later | De-mystifying the tablestakes

India Equity Strategy: PLI: Spearheading India's manufacturing push

Power: Shifting energy landscape: Grey to green gains pace

IT sector: Decoding signal from noise

Vehicle Financing: Secular opportunity meets cyclical tailwinds

Health Insurance 1.0: Advantage SAHIs

India Equity Strategy - Capex: on a sustainable upswing

India City Gas Sector: Weathering the 'Perfect Storm'

Indian Chemical Sector 2.0: Catalysts for growth in place

1 Yr Price History

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Keshav Lahoti, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does have/ does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock - **No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com