Greenpanel Industries Limited

August 02, 2022

Ratings

Facilities/Instruments	**Amount (₹ crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	149.50	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Long-term / Short-term (LT/ST) Bank Facilities	115.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A; Positive / CARE A1 (Single A; Outlook: Positive / A One)
Short-term Bank Facilities	5.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**269.50 (₹ Two hundred sixty nine crore and fifty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Greenpanel Industries Limited (Greenpanel) takes into account the sustained healthy profitability and debt coverage indicators of the company on a q-o-q basis in FY22 (refers to the period April 1 to March 31) as well as in Q1FY23 backed by healthy capacity utilisation (CU) of its manufacturing facilities. The sustained growth in demand for Medium Density Fibreboard (MDF) has led to healthy volume off-take as well as increase in realisation of MDF in FY22 and Q1FY23.

The ratings continue to derive strength from its experienced promoters having satisfactory track record in the interior infrastructure industry, leadership position of the company in the domestic organized MDF industry with strong brand image and extensive distribution network and marketing support.

The ratings also factor in the strategic location of both its manufacturing units with raw material linkages. The ramp-up of its scale of operations with improved CU have led to better spread of fixed overheads leading to improved profitability margins, debt coverage indicators and return on capital employed (ROCE). The capital structure has also witnessed significant improvement as on March 31, 2022 with prepayment of a portion of its term loans and healthy accretion of profit to reserves. The company continues to have strong liquidity with healthy cash and cash equivalents and low average utilisation of its working capital limits.

The ratings also take note of the large-size brownfield expansion plan recently announced by the company at its location in Andhra Pradesh given the anticipated demand growth for MDF and healthy CU of its existing capacities.

The project cost for enhancing the MDF capacity by 35% is estimated to be around Rs.600 crore and is envisaged to be funded at a moderate debt: equity ratio of 55:45. While the size of the project is large, the management has experience of setting up and successfully ramping up large scale MDF plants which offsets the inherent risk of project implementation to an extent. Furthermore, given the comfortable capital structure (overall gearing: 0.33x as on March 31, 2022) with gradual reduction in debt over the last two years and healthy accretion of profits to reserves, the company has adequate headroom available to raise debt for the project. Despite the planned availment of debt, the capital structure is expected to remain comfortable during the project implementation phase. Furthermore, the cash generation and available liquidity is likely to be sufficient to meet the equity commitment towards the project. Nevertheless, the company remains exposed to the inherent pre and post implementation project risks associated with such large size capex, especially given that similar capacity additions have been announced in the MDF sector by other players in the industry which may increase the competitive intensity when these capacities come onstream over the next one-two years.

The ratings further remain constrained by the competition from imports and company's exposure to foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustaining the volume-driven growth in its Total Operating Income (TOI) through sustained high-capacity utilizations (above 95%) while maintaining its healthy operating profitability (PBILDT) margins and healthy ROCE.
- Improvement in its total debt/PBILDT to below 0.50x while maintaining its comfortable overall gearing ratio at around 0.30x on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in its sales volume resulting in deterioration in its PBILDT margin below 20% and ROCE below 15% on a sustained basis.
- Delay in completion of the proposed project with significant time and cost overrun adversely impacting its ROCE and capital structure (overall gearing > 0.75x and Total Debt/PBILDT > 2x on a sustained basis) as well as resulting in adverse impact on its liquidity.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters with satisfactory track record in operations: Greenpanel was incorporated in December 2017 and remained as an inactive company till the demerger of the MDF division and part of plywood division of Greenply Industries Limited (Greenply) into it. The MDF division was in operation under Greenply since 2010. Accordingly, the business has a satisfactory track record of operation of manufacturing plywood and MDF (with more than eleven years in MDF), being the first major MDF manufacturer in India.
The promoters have experience of more than two decades in the interior infrastructure sector. They are ably supported by the senior management team of Greenpanel which has extensive experience in the industry.

Leadership position in domestic organized MDF industry with strong brand image: Greenpanel is currently the largest MDF manufacturing company in the country and commands an established position in the organized MDF market with a strong brand image. Greenpanel sells its entire product range under the brand 'Greenpanel'. It enjoys healthy market share due to its superior product quality and continuous brand awareness initiatives. Unlike plywood, there are no unorganized players in the MDF sector given high capital requirement for setting up new plant.

Extensive distribution network and marketing support: The distribution network for the erstwhile MDF division of Greenply which was catering to the market has continued with Greenpanel post its demerger. However, for plywood division, Greenpanel has set up its new distribution network which is supported by its marketing team present across India. Greenpanel has a pan-India marketing network with seventeen branches, more than 2,500 distributors/stockists and 12,500 retailers across the country. The company is in the process of further enhancing its distribution network.
This apart the company has a wholly owned subsidiary Greenpanel Singapore PTE Limited which is acting as a commission agent for export of its products.

Strategic location of both the manufacturing units with raw material linkage: Adequate availability of raw material is a long-term driver for the plywood and MDF manufacturers. Key raw materials required for manufacturing plywood includes face veneer i.e. outer and back layer of plywood, core timber and chemicals. For MDF, timber accounts for approximately 65% of total raw-material cost (which is domestically available) and chemicals account for the remaining 35%. Greenpanel's existing plants are strategically located near the source of raw material (i.e. Uttarakhand and Andhra Pradesh) and adjacent to the port (i.e. Krishnapatnam), making the plant preferable for catering to the export market.

Improvement in CU in FY22 and further improvement in Q1FY23: The total CU of its MDF plants witnessed improvement in FY22 and remained higher than the preceding two financial years. Further, the CU remained higher in H1FY22 compared with H2FY22 as utilisation was impacted in H2FY22 on account of the closure of its plants for few days for undertaking the installation of new machineries (which have led to capacity expansion by 22%) along with closure of its Uttarakhand plant for few days in Q3FY22 due to a machine failure. The overall CU remained healthy at 87% in FY22 compared with 69% in FY21. The CU further improved from 79% in Q4FY22 to 81% in Q1FY23 even on the back of enhanced capacity. Going forward, with the increasing demand for MDF, the CU is expected to remain healthy.
The CU for its plywood plant is also on an increasing trend over the years with CU of 81% in FY22 compared with 71% in FY21 on account of increase in market penetration and higher demand. The CU further improved from 81% in Q4FY22 to 89% in Q1FY23.

Significant improvement in financial performance in FY22 and Q1FY23: Greenpanel's TOI witnessed a growth of about 60% y-o-y in FY22. The growth was mainly on account of ramp-up in CU of MDF plants to meet the increased demand post Covid-19 unlocking. This led to significant growth in sales volume of MDF along with steep increase in average realisation. The sales realisation was higher owing to change in product mix with incremental sales coming from domestic market which have higher realisations as compared with export sales. The sales volume and average realisation from plywood division also witnessed an increase in FY22 compared with FY21. The PBILDT margin, too, witnessed significant improvement from 20.31% in FY21 to 26.84% in FY22 on account of better spread of fixed overheads, reduction in power and fuel cost and employee cost as a percentage of cost of sales along with increased realisation. Furthermore, PAT margin witnessed a significant improvement from 6.74% in FY21 to 14.76% in FY22 due to increase in operating margins and lower interest costs.
In Q1FY23, TOI has witnessed a y-o-y growth of 50% compared with Q1FY22 on account of both increase in sales realisation as well as sales volumes for MDF and plywood. The PBILDT margin has witnessed an improvement from 22.23% in Q1FY22 to 28.35% in Q1FY23, on account of reduction in cost of material consumed as a % of cost of sales in Q1FY23 compared with Q1FY22.

Improvement in capital structure and debt protection metrics: The company has a comfortable capital structure with overall gearing ratio improving from 0.67x as on March 31, 2021 to 0.33x as on March 31, 2022 on account of scheduled repayment of debt obligations, pre-payment of term loans amounting to Rs.138 crore along with accretion of profits to reserves. The interest coverage ratio improved from 5.57x in FY21 to 25.57x in FY22 on account of both increase in operating profits along with reduction in interest costs. Furthermore, with the increase in GCA along with reduction in total debt, TDGCA improved from 3.23x as on March 31, 2021 to 0.87x as on March 31, 2022. Similarly, its Total Debt/PBILDT also improved significantly from 2.35x as on March 31, 2021 to 0.72x as on March 31, 2022.
Though the capital structure is expected to moderate during the project phase due to the large size of the expansion and debt proposed to be availed for the same, it is expected to remain at a comfortable level.

Improved industry scenario for MDF in India: The Indian MDF market has limited number of players and is mainly dominated by the organized sector. Greenpanel is currently the largest player in the MDF segment. MDF has been substituting the market of low and medium end plywood due to pricing differential coupled with increased consumer preference for readymade furniture (where MDF is majorly used) post Covid-19 pandemic. This has resulted in demand for MDF growing at around 15% p.a. which has enabled Greenpanel to ramp-up its CU substantially as reflected in its growth in FY22 and Q1FY23 despite the impact of the pandemic. The demand for MDF has been better than expected since unlocking due to higher offtake for readymade furniture, a shift away from low-end plywood and a slowdown in imports (25%-30% of the market). The imports had slowed due to container availability issues and higher freight cost. Going forward, the demand is expected to remain healthy.

Liquidity: Strong
The company has a strong liquidity position with free cash and bank balance of Rs.192 crore (parked in the form of fixed deposit and bank balance) and undrawn fund-based limits of Rs.100 crore as on June 30, 2022. The company has term debt repayment obligation of Rs.45 crore in FY23 against which the company has already repaid Rs.19 crore till June 30, 2022. The company is expected to generate sufficient cash accruals to meet its debt repayment obligations. The company also maintains DSRA of Rs.32 crore as on June 30, 2022 for its foreign currency term loan, which further acts as liquidity support.
The company has announced capex for capacity expansion in its exiting MDF unit at an outlay of Rs.600 crore to be implemented over the next two years. The company shall be utilising a portion of its existing cash balance available with it to part finance the equity contribution towards the project. The low overall gearing of the company allows sufficient headroom to raise debt for the project which the company is envisaged to tie-up in due course.

Key Rating Weaknesses
Inherent project implementation risk associated with large-size capex: Greenpanel has announced to undertake a brownfield expansion of its MDF capacity by 700 cubic meter (CBM) per day at its existing Andhra Pradesh plant at an estimated project cost of Rs.600 crore. The enhanced capacity is expected to be operational from Q1FY25. The project is envisaged to be funded in a debt: equity ratio of 55:45 with plans to avail mix of rupee and foreign currency term loans for the debt portion. The management has experience of setting up and successfully ramping up large scale MDF plants which offsets the risk of project implementation to an extent. Furthermore, the company already has an established customer base and distribution network to market the products. Despite the project being of large size and company planning to avail debt for the same, the overall gearing of the company is expected to remain comfortable.
The company is coming up with the project to enhance its manufacturing capacity to maintain its market share (as additional capacities are also coming up by various competitors) along with meeting the increasing demand of MDF (which is growing at a CAGR of 15%).
However, it remains exposed to the inherent pre and post implementation risk associated with such large projects.

Foreign exchange fluctuation risk: Greenpanel is exposed to foreign exchange fluctuation risk due to substantial exports, dependency on import of raw materials (face veneer and thin laminates) and high reliance on foreign currency borrowings. However, most of the currency fluctuation risks are covered either through natural hedging or through currency hedging undertaken by the company. Export receivables are hedged by availment of packing credit in dollar terms against the finished goods exported. As articulated by the company, raw material imports are hedged completely as soon as they are purchased through currency hedging.
The company had net outstanding un-hedged foreign currency borrowing of Rs.178.84 crore as on March 31, 2022 (Rs.267.40 crore as on March 31, 2021). Greenpanel earned notional forex gain of Rs.3.79 crore in FY22 as against notional loss of Rs.7.11 crore in FY21. The company generally hedges its upcoming two instalment payments for the foreign currency term loan.

Increasing competitive industry: In the recent past, the domestic MDF market has witnessed substantial capacity addition from various players. Furthermore, large capacity expansions have been planned by various industry players. This may lead to increase in competitive intensity when these capacities come onstream over a period of next one-two years. Furthermore, the company continues to face intense competition from imports.

Analytical approach: Consolidated
Consolidated approach considering its subsidiary which acts as a marketing arm of Greenpanel. Entity being consolidated is as under:

Subsidiary	% of ownership
Greenpanel Singapore Pte Ltd	100.00

Applicable Criteria
Rating Outlook and Credit Watch
Policy on default recognition
Consolidation
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Short term instruments
Manufacturing companies

About the Company
Greenpanel was incorporated in December 2017 and remained as an inactive company till the demerger of the MDF segment and part of plywood segment of Greenply into Greenpanel. Greenply was incorporated in August 1984 and is engaged in manufacturing of plywood, decorative veneers and allied products.
Greenpanel is primarily engaged in manufacture of wood-based panel products used in interior infrastructure which includes plywood, MDF boards and allied products. Greenpanel has two manufacturing facilities of MDF - one each in Pantnagar, Uttarakhand and Chittoor, Andhra Pradesh, with combined installed capacity of 6,60,000 CBM per annum (increased from 5,40,000 CBM in March 2022). The company also has a manufacturing facility of plywood with installed capacity of 10.5 million square meters at Pantnagar, Uttarakhand.
The company also has presence in the export market (for MDF) with presence in 16 countries, whereby with exports comprised around 15% of its sales in FY22 (12% in FY21).

Brief Consolidated Financials (₹crore)	FY21 (A)	FY22 (A)	Q1FY23 (Unaudited)
TOI	1021.10	1628.83	464.00
PBILDT	207.40	437.16	131.55
PAT	68.81	240.47	77.60
Overall gearing (times)	0.67	0.33	NA
Interest coverage (times)	5.57	25.57	50.02

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	120.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	65.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan		-	-	March 2025	29.50	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	20.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A1+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	30.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	120.00	CARE A+; Stable	1)CARE A; Positive (07-Apr-22)	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (09-Mar-21) 2)CARE BBB+; Stable (31-Jul-20) 3)CARE BBB+ (CWN) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	65.00	CARE A+; Stable / CARE A1+	1)CARE A; Positive / CARE A1 (07-Apr-22)	1)CARE A; Stable / CARE A1 (05-Oct-21)	1)CARE A-; Stable / CARE A2+ (09-Mar-21) 2)CARE BBB+; Stable / CARE A2 (31-Jul-20) 3)CARE BBB+ / CARE A2 (CWN) (28-Apr-20)	1)CARE BBB+; Stable / CARE A2 (28-Nov-19)
3	Fund-based - LT-Term Loan	LT	29.50	CARE A+; Stable	1)CARE A; Positive (07-Apr-22)	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (09-Mar-21) 2)CARE BBB+; Stable (31-Jul-20) 3)CARE BBB+ (CWN) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	20.00	CARE A+; Stable / CARE A1+	1)CARE A; Positive / CARE A1 (07-Apr-22)	-	-	-
5	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1+	1)CARE A1 (07-Apr-22)	-	-	-
6	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	30.00	CARE A+; Stable / CARE A1+	1)CARE A; Positive / CARE A1 (07-Apr-22)	-	-	-

*Long-term/ Short-term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities
Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - LT/ ST-Letter of credit	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank Lender Details
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Mamta Muklania
Phone: +91-33-4018 1651
E-mail: mamta.khemka@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: +91-33-4018 1607
E-mail: lalit.sikaria@careedge.in

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