Greenpanel Industries Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	135.00 (Reduced from 177.87)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term (LT/ST) Bank Facilities	65.00 (Reduced from 70.00)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)
Total Bank Facilities	**200.00 (Rs. Two hundred crore 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) is on account of the sustained q-o-q improvement in operating and financial performance of the company in FY21 (refers to the period from April 01 to March 31) which continued in Q1FY22, even though there was some impact of the pandemic. With improvement in demand for Medium Density Fibreboard (MDF) witnessed post Covid-19 unlocking, volume off-take of MDF has improved significantly and the capacity utilisation for Greenpanel improved in FY21 and Q1FY22 despite the impact of the pandemic. The sales realisations have also increased both in the domestic and export markets. The performance of its plywood division remained relatively stable. The ramp-up of its scale of operations have led to better spread of fixed overheads leading to improved profitability margins and debt coverage indicators. The capital structure also witnessed improvement with gradual repayment of term loans, lower working capital limits utilisation due to healthy cash flow from operations and accretion of profits to reserves. Going forward, with no major debt funded capex plans, the capital structure is expected to remain comfortable.

The ratings continue to derive strength from its experienced promoters having satisfactory track record in the 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 the strategic location of both its manufacturing units with raw material linkages, apart from various grants and fiscal incentives available to the company.

The ratings are, however, constrained by the company’s exposure to foreign exchange fluctuation risk and competition from imports. Further, the ratings take cognizance of the large capacity expansions planned by other players in the MDF industry which might lead to increased competitive intensity and thus exert pressure on its realisations when these capacities come onstream over the next two years.

Rating Sensitivities

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

- Volume driven growth in its total operating income (TOI) through sustained improvement in its capacity utilizations while maintaining its healthy operating profitability (PBILDT) margins and improving its ROCE to above 15%.
- Improvement in its Total Debt/PBILDT to below 2 times while maintaining its comfortable overall gearing ratio.

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 15% and ROCE below 10% on a sustained basis.
- Any large-scale debt funded capex or significant stretch in its working capital requirements leading to deterioration in its Total Debt/PBILDT beyond 4 times and overall gearing beyond unity on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with satisfactory track record of operations

Greenpanel was incorporated in December 2017 and remained as an inactive company till the demerger of the MDF division and part of the 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, 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 who have extensive experience in the industry.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Leadership position in the domestic organized MDF industry with strong brand image
Greenpanel is one of the largest integrated MDF manufacturing companies in the country and commands an established position in the organized MDF market with its quality products and strong brand image. Greenpanel sells its entire product range under the brand 'Greenpanel'. Greenpanel 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 the high capital requirement for setting up a 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 fifteen branches, more than 2,000 distributors/stockists and 10,000 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 currently acting as a commission agent for exports of its products.

Strategic location of both 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 roughly 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.
The plants of Greenpanel are eligible for various fiscal incentives and government grants. The Uttarakhand unit is eligible for GST refund. In the Andhra Pradesh plant (operational since July 2018), the company is currently adjusting its pending GST input credit on capital goods against GST liability on the final product. Also, for this plant, the company is eligible for refund of SGST for a period of 7 years (till June 2025).
Furthermore, company has several government grants receivable as on March 31, 2021 on account of capital incentive subsidies, power cost reimbursement subsidies, GST refunds, etc (Rs.41.31 crore as on March 31, 2021).

Continuous improvement in capacity utilisation (CU) from Q2FY21 onwards
With the new MDF plant in Chittoor, Andhra Pradesh becoming operational in FY19, initially the CU was low for that plant, but it has gradually picked up. However, due to the pandemic, the demand for the product was impacted in Q1FY21 leading to decline in CU. Post that, the CU started picking up and increased to 69% in FY21 (despite the pandemic hit year) from 60% in FY20. Despite Q1FY22 being a pandemic hit quarter (with second wave of covid), the CU for MDF remained high at 91% compared to 21% in Q1FY21, though witnessed a slight decline from Q4FY21 (CU: 102%). Moreover, CU for plywood, though impacted in Q1FY22 due to second wave of pandemic, it continued to remain higher than Q1FY21. Going forward, with the envisaged increase in demand for MDF, the capacity utilisation is expected to remain healthy.
The company is planning to incur capex for installation of Mat pre-heating system which is expected to increase production of MDF by around 10% at an estimated cost of around Rs.10 crore.

Improvement in TOI and profitability during FY21 and Q1FY22
Greenpanel's TOI witnessed growth of 16.49% y-o-y in FY21. Despite a sharp fall in revenue during Q1FY21, the company was able to achieve this growth due to significant increase in revenue from Q3FY21 onwards. The increase in revenue was mainly on account of sharp ramp-up in CU of its MDF plants to meet the improved demand post Covid-19 unlocking. This has led to jump in sales volume of MDF (from 3,16,022 CBM in FY20 to 3,80,431 CBM in FY21). The sales realisation also increased (from Rs.19,419/CBM during FY20 to Rs.20,585/CBM during FY21). However, the sales volume and average realisation from plywood division remained stable in FY21 compared with FY20.
The PBILDT margin witnessed significant improvement from 15.75% in FY20 to 20.31% in FY21 on account of better spread of fixed overheads, wastage reduction, reduction in power and fuel cost as a percentage of cost of sales along with increased realisations.
Furthermore, the PAT margin witnessed an improvement in FY21 due to increase in operating margins and lower interest costs. The company earned a GCA of Rs.150.51 crore in FY21 as against Rs.78.29 crore in FY20. The ROCE which had remained subdued in the past, improved to 11.14% in FY21 (4.95% in FY20).
In Q1FY22, the TOI of the company witnessed a growth of 242% y-o-y as Q1FY21 was significantly hit due to the pandemic. The company achieved healthy sales volume during the quarter and the realisations also witnessed substantial improvement on the back of increase in raw material cost.

Improvement in capital structure and debt protection metrics
The overall gearing ratio of the company improved from 0.88x as on March 31, 2020 to 0.67x as on March 31, 2021 and

further to 0.58x as on June 30, 2021 on account of scheduled repayment of debt obligations and lower working capital utilization along with accretion of profits to reserves. The interest coverage ratio (including notional forex loss) improved from 2.86x in FY20 to 5.57x in FY21 on account of both increase in operating profits along with reduction in interest costs. Excluding this notional loss, interest coverage ratio witnessed an improvement from 4.57x in FY20 to 8.39x in FY21. Furthermore, with the improvement in profitability along with reduction in total debt, its Total Debt/PBILDT improved from 4.19x as on March 31, 2020 to 2.35x as on March 31, 2021.
With significant free liquidity (about Rs.124 crore) available with the company, it has decided to prepay a part of its foreign currency term debt to the tune of around Rs.80 crore apart from creation of requisite DSRA (as part of the condition of its foreign bank to waive-off the requirement for extension of Greenply’s corporate guarantee towards it), which is expected to result in further improvement in its leverage and debt coverage indicators.

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 capacity utilization substantially as reflected in its growth in FY21 and Q1FY22 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.

Key Rating Weaknesses
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. Raw material imports are hedged completely as soon as they are purchased through currency hedging.
Furthermore, Greenpanel has borrowing from a German lender amounting to Euro 33 million (equivalent to Rs.285 crore) as on June 30, 2021, against which the company generally hedges its upcoming two instalment payments. The company had net outstanding un-hedged foreign currency borrowing of Rs.265.05 crore as on March 31, 2021 (Rs.317.23 crore as on March 31, 2020). Greenpanel incurred notional forex losses of Rs.7.11 crore in FY21 (Rs.21.78 crore in FY20).

Increasing competitive intensity
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 two years. Furthermore, the company continues to face intense competition from cheaper imports.

Liquidity: Adequate
The company has adequate liquidity with free cash and bank balance of Rs.124 crore (in the form of fixed deposit and bank balance) and undrawn working capital limits of Rs.95 crore as on September 23, 2021. The company has instalment repayment obligation of Rs.74.65 crore in FY22 out of which the company has already repaid Rs.58.24 crore (including prepayments of Rs.29.32 crore) till August 31, 2021. The company is expected to generate sufficient cash accruals to meet its repayment obligations. With planned prepayment of part of its foreign currency loan its liquidity is expected to moderate; albeit at the same time its subsequent scheduled instalment repayments is expected to reduce proportionately. The company has also maintained DSRA of Rs.6 crore as on July 31, 2021 which is also likely to increase further towards its foreign currency loan. The company does not have significant capex plans in the medium term and the routine capex can be met out of internal generations.

Analytical approach: Consolidated.
The analytical approach is being changed from Standalone to Consolidated considering that its subsidiary acts as a marketing arm of Greenpanel. Entity being consolidated is as under:

Sl. No.	Name of Subsidiaries & Associates	% of ownership interest as at March 31, 2021
1	Greenpanel Singapore Pte Limited	100.00

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
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 5.4 million cubic meters per annum. 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 exports comprising 12% of its sales in FY21 (18% in FY20).

Consolidated Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	876.57	1,021.11
PBILDT	138.10	207.41
PAT	14.46	68.81
Overall gearing (times)	0.88	0.67
Interest coverage (times)	2.86	5.57

A: Audited

In Q1FY22, Greenpanel earned PAT of Rs.29.74 crore on a TOI of Rs.308.32 crore as against net loss of Rs.36.49 crore on a TOI of Rs.90.16 crore in Q1FY21.
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument/facilities: 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
Bank Lender details: Annexure – 5

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	85.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	65.00	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	Mar 2025	50.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	85.00	CARE A; Stable	-	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-; 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	50.00	CARE A; Stable	-	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)	-

* Long-term/ Short-term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this company
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@careratings.com for any clarifications.*

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