Greenply Industries Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	149.30	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned**
Short Term Bank Facilities	250.00	**CARE A1+ (A One Plus)**	**Reaffirmed and removed from Credit watch with Negative Implications**
Short-term Bank Facilities #	-	**-**	**Withdrawn**
Total Facilities	**399.30 (Rs. Three Hundred Ninety-Nine Crore and Thirty Lakhs Only)**		

Details of facilities in Annexure-1

 # CARE Ratings has withdrawn the rating assigned to the proposed short-term loan facility of Greenply at the request of the company as it had not availed the same and there was no amount outstanding against it.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Greenply Industries Limited (Greenply) were placed on 'credit watch with negative implications' after taking cognizance of the approval of the Board of Directors of the company to extend its corporate guarantee to a foreign loan not exceeding Euro 12.5 million (around Rs.110 crore) provided to the erstwhile Medium Density Fibreboard (MDF) division of the company which was transferred by way of its demerger to Greenpanel Industries Limited (Greenpanel).

The credit watch has now been removed considering that Greenply did not provide the corporate guarantee pending required approvals and its decision to not provide it going forward as well, since the requirement for providing such guarantee has been waived off.

The ratings continue to derive comfort from the long track record of operations of the company with strong brand positioning in the domestic plywood industry. Greenply continues to have a pan-India presence through a strong distribution network and marketing support. The company has increased its focus on strengthening its presence in the rural markets which is expected to lead to further expansion in its customer base.

The ratings also take cognizance of the strategic location of all its manufacturing units with strong raw material linkages. The capacity utilisation (CU) of its manufacturing facilities has remained stable over the years, though moderation was witnessed during FY21 (refers to the period April 01 to March 31) and Q1FY22 due to operational challenges and demand disruption triggered by the Covid-19 outbreak. Lower sales volume had resulted in decline in its sales and profitability during FY21. However, during the intervening period its performance had witnessed substantial improvement in Q3FY21 and Q4FY21 with easing of lockdown across the country and revival of demand. The ratings also draw strength from its comfortable capital structure and healthy debt coverage indicators during FY21.

Greenply has decided to implement a large-sized project for foraying into the MDF segment apart from the ongoing expansion of its plywood manufacturing capacity in Uttar Pradesh. The two projects taken together would entail substantial capital outlay of about Rs.660 crore (Rs.550 crore for MDF and Rs.110 crore for plywood) up to the end of FY23 which the company envisages to fund through a mix of debt (about Rs.435 crore) and internal accruals (about Rs.225 crore). The company had surplus liquidity in the form of cash and cash equivalents of about Rs.100 crore as on June 30, 2021, which it plans to deploy towards these projects as part of the equity contribution. The remaining equity component is envisaged to be funded out of the cash accruals to be generated in FY22 and FY23. Financial closure for the debt portion of these projects is underway.

The size of the MDF project is large as compared to the present size of the company and the availment of substantial debt for the project would lead to moderation in its capital structure during the project implementation phase. Furthermore, there are inherent project implementation and post implementation risks associated with such a large-size project. However, the promoters have experience of setting up MDF project through Greenply's two units in Uttarakhand and Andhra Pradesh which have now been demerged to Greenpanel. Furthermore, despite availment of the debt for the project, the overall gearing would continue to remain moderate.

The demand for MDF has been witnessing significant growth and venturing into the product would lead to diversification in the revenue base of the company apart from growth in its scale. However, the ratings also take note of significant capacity additions announced in the MDF sector by other players in the industry which may increase the competitive intensity when all these capacities come onstream.

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

The ratings further continue to be constrained by its exposure to intense competition in the plywood industry from both organised and unorganised sector players.

Rating Sensitivities
Positive Factors – Factors that could lead to positive rating action/upgrade:
- Significant growth in its scale of operations through greater product diversification in its revenue mix along with improvement in its operating (PBILDT) margin beyond 15% and return on capital employed (ROCE) above 20% on a sustained basis.
- Improvement in its leverage with overall gearing below 0.5x and Total Debt/PBILDT below 1.25x on a sustained basis.

Negative Factors – Factors that could lead to negative rating action/downgrade:
- Delay in completion of the proposed projects with significant time and cost overrun adversely impacting its ROCE and capital structure beyond envisaged levels (overall gearing > unity on a sustained basis) as well as resulting in adverse impact on its liquidity.
- Significant decline in its operating profit margin (PBILDT margin <10%) on a sustained basis.

Detailed description of the key rating drivers
Key Rating Strengths
Long track record of operation in the plywood industry
Greenply, incorporated in 1990, has a long track record of operation in the plywood industry. The current promoter, Mr Rajesh Mittal, has experience of more than three decades in the interior infrastructure industry. The promoter group is ably supported by the senior management team which has extensive experience in the industry.

Strong position in domestic organized plywood industry
Greenply is one of the largest players in the domestic interior infrastructure sector aided by its quality products and strong brand image. Greenply's brands like 'Green Club 500', Green Club plus 700' and 'Green Gold platinum' in the plywood segment are amongst the leading brands in the premium segment. Greenply has also captured the lower segment and mid segment plywood through the outsourcing route with three brands namely 'Ecotec', 'Bharosa' and 'Jansathi'.

Pan-India presence through a strong distribution network and marketing support
Greenply has a pan-India presence in over 900 cities and towns across 28 states and 6 Union Territories serviced through a well-entrenched distribution network of more than 2,300 dealers and authorized stockists, a retail network exceeding 6,000 and more than 50 physical and virtual branches. The company's distribution network is supported by its marketing team which is present across India. The company has launched various programmes to increase awareness about its newly launched products and increase its sales.
The company has also increased its focus on expanding its distribution network in rural and semi-urban markets. Towards this initiative, the company has added more than 300 dealers in these markets during FY21. As of March 31, 2021, Greenply had more than 900 dealers in rural and semi-urban markets. Expansion of its distribution network in rural areas has and will help the company to widen its customer base.

Strategic location of all the manufacturing units with strong raw-material linkage
Adequate availability of raw material is a key driver for the plywood industry. Key raw material required for manufacturing plywood includes face veneer, core timber and chemicals. Greenply's existing plants are strategically located near the source of its major raw material (i.e., West Bengal, Nagaland and Gujarat in India; and Gabon in South Africa) which ensures adequate availability of raw material at competitive cost. Its plants being adjacent to the port (i.e., Kandla and Kolkata) also benefits it logistically.
While face veneer is a high-quality premium timber, usually derived from matured trees and largely imported, core timber is an agroforestry timber and are mainly sourced from the domestic market. As a backward integration initiative, Greenply had set up a veneer plant in Myanmar and has a 96,000 cu meter of timber peeling capacity unit in Gabon, West Africa through a step-down subsidiary.

Satisfactory capacity utilization (CU), though moderation witnessed during FY21 and Q1FY22
The CU of its plywood segment has remained satisfactory over the years. It witnessed moderation to 107% in FY21 vis-à-vis 142% in FY20 due to unprecedented crisis triggered by the COVID outbreak since the beginning of FY21. Total suspension of operations due to the lockdown, and briefly again in West Bengal unit due to the Amphan cyclone, impacted the business performance significantly at the beginning of the fiscal. As operations resumed, the situation improved gradually from Q2FY21 but external and internal challenges like logistics disruption, migration of labour and subdued demand continued to impact the company and the industry as a whole.
Q1FY22 was again impacted due to the second wave of COVID but the CU was better at 69% as compared with 36% in

Q1FY21. The total installed capacity of the company increased to 34.90 mn sq. mt. in Q1FY22 from 24.90 mn sq. mt. in FY21 on account of reassessment of installed capacity in all the three manufacturing units. CU in Q1FY22 was also impacted due to the increase in capacity.

Greenply has started outsourcing allied products including Mat plywood (i.e., semi-finished plywood) and mid segment plywood, which it used to manufacture earlier, enabling it in maintaining higher capacity utilization of the existing units for premium product categories.

Comfortable capital structure and debt coverage indicators; albeit moderation in its TOI and operating profit margin due to the adverse impact of the pandemic

Capital structure of the company continued to remain comfortable with y-o-y improvement in the consolidated overall gearing ratio from 0.84x as on March 31, 2020 to 0.47x as on March 31, 2021 mainly owing to lower working capital utilisation and accretion of profits to net worth. The debt coverage indicators remained healthy with interest coverage of 7.21x (FY20: 7.69x), total debt to GCA of 2.31x (FY20: 4.63x) and Total Debt/PBILDT of 1.69x (FY20: 1.94x) during FY21.

On a consolidated basis, Greenply witnessed decline of about 18% y-o-y in its TOI from Rs.1,422 crore in FY20 to Rs.1,168 crore in FY21 majorly owing to COVID-19-induced lockdowns and resultant dip in demand in Q1FY21 and Q2FY21. However, the sales picked up from Q3FY21 with the easing of lockdown across the country and continued to improve in Q4FY21. Though the raw material cost increased due to sharp increase in the prices of chemicals in November 2020, the profitability margins continued to remain satisfactory and registered a decline of only 100 bps on y-o-y basis during FY21, owing to cost rationalisation measures implemented by the company during FY21.

The performance was again impacted by the second wave of the pandemic in Q1FY22; albeit its sales and profitability were better than Q1FY21.

Going forward, its leverage is expected to deteriorate with availment of debt for the planned large-size projects. However, it is expected to remain at a moderate level.

Key Rating Weaknesses

Inherent project risk associated with its planned large-size MDF project

The company is currently undertaking two projects under its two wholly-owned subsidiaries, viz., Greenply Sandila (P) Ltd. (GSPL) and Baahu Panels Pvt Ltd. (BPPL).

Under GSPL, the company is expanding its plywood capacity through a manufacturing plant (13.5 mn sq. mt. per annum) in Sandila, Uttar Pradesh, which is expected to commence operations by March 2022. The unit will manufacture plywood and its allied products. The project cost of around Rs.110 crore is envisaged to be funded through debt of Rs.65 crore and remaining through internal cash generations. The proposed debt tie-up in still underway. The company has spent about Rs.38 crore (through internal accruals, including part in FY21) till August 2021, i.e. around 34% of the total project cost.

Under BPPL, Greenply is foraying into the MDF business to diversify its revenue and capitalise on the growing demand for MDF. The greenfield manufacturing plant would be setup in Vadodara Distt., Gujarat with an estimated cost of Rs.548 crore and is expected to commence operations by end-FY23. The company has plans to produce all product sub-categories of MDF including thin & thick, prelam and other value-added products in a phased manner. The project will be funded out of debt of about Rs.370 crore and remaining through internal cash generations/available liquidity (Greenply had around Rs.100 crore of cash and cash equivalents as on June 30, 2021). As this project is recently announced by the company, its debt tie-up is yet to be achieved.

The company is planning to avail a mix of foreign currency and INR borrowings for the debt funding which is expected to expose it to forex fluctuation risk going forward.

The company remains exposed to inherent pre and post project implementation risks for both the projects, more so for the MDF project which is very large in size. The total size of the capex is around 1.50x its consolidated net worth as well as that of its gross block as on March 31, 2021. However, the company has experience in setting up such projects and has an established marketing and distribution network which mitigates the project execution risk to an extent. Although, the demand for MDF has been witnessing significant growth and the company has ventured into this product towards product diversification in its revenue mix as well as to drive growth in its scale, the significant capacity additions announced in the MDF sector by other industry players may increase the competitive intensity when all these capacities come onstream and thus could impact the envisaged returns on this capex.

Intense competition due to unorganized nature of plywood industry

The Indian plywood market is dominated by unorganized sector players. Although Greenply enjoys a strong market share in the organized market, there are number of players operating in both organized and unorganised plywood segment. However, with rationalization of GST from 28% to 18% on plywood and introduction of E-way bill, the share of organized market is increasing with shift in demand towards organised manufacturers. Furthermore, increasing brand awareness is also expected to result in better market share for the organised sector going forward. The impact of the pandemic in terms of raw material sourcing, labour issues and stretch on working capital has also impacted the competitiveness of the unorganised sector which augurs well for the organised plywood manufacturers.

Liquidity: Strong
The company had strong liquidity marked by unencumbered cash and cash equivalents of around Rs.100 crore (approximately) as on June 30, 2021 and the utilisation of its sanctioned fund-based working capital limits of Rs.90 crore has also been negligible in the last 12 months ended June 30, 2021.
The company is expected to generate healthy cash accruals against scheduled consolidated debt repayment of obligations of about Rs.35 crore in FY22.
The company has significant capex plans in the next two years. The low overall gearing of the company allows sufficient headroom to raise debt for the project which the company is in the process of tying up. The cash balance available will be used to part finance the equity contribution towards the project and the envisaged cash accruals are likely to be sufficient to meet the remaining investment required.
Furthermore, the company has tightened its credit norms for its distributors which is expected to improve the operating cycle.

Analytical approach: Consolidated.
Earlier CARE Ratings had taken a standalone analytical approach for analysing Greenply's credit profile. However, considering that the company is taking up expansion projects in its recently incorporated/acquired Indian subsidiaries, a consolidated analytical view has now been taken. Further, all the subsidiaries/step-down subsidiaries are in similar lines of business with operational and managerial linkages. Greenply has also extended standby line of credit and corporate guarantee for debt availed by some of its subsidiaries/joint ventures (JVs). List of entities being consolidated in Greenply is shown as **Annexure – 6.**
Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on default recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing companies
Rating Methodology - Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy on Withdrawal of Ratings

About the Company
Greenply, incorporated in November 1990, is one of India's largest interior infrastructure companies. It is engaged in the manufacturing of plywood and allied products. The company has three manufacturing facilities of plywood, one each in Nagaland, West Bengal and Gujarat with a combined installed capacity of 34.90 million sq. mt (post reassessment of installed capacities in FY22). The company's major brands in the plywood premium segment are 'Green Club 500' 'Green Club plus 700' 'Green Gold platinum' etc., whereas, 'Ecotech', 'Jansathi' and 'Bharosa Ply' are among the plywood mid and low segment. Furthermore, as part of backward integration initiatives, the company has timber peeling capacity of 96,000 CBM in Gabon, West Africa. Greenply demerged its MDF business (including one plywood facility in Pantnagar, Uttarakhand) into a separate entity, Greenpanel w.e.f. April 01, 2018. It has recently incorporated/acquired two subsidiaries, GSPL and BPPL, towards setting-up new plywood and MDF manufacturing plants.

Brief Financials – Consolidated (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	1,421.81	1,167.97
PBILDT	159.81	120.11
PAT	47.25	60.91
Overall gearing (times)	0.84	0.47
Interest coverage (times)	7.69	7.21

A: Audited
In Q1FY22, Greenply earned PAT of Rs.4.03 crore on TOI of Rs.260.77 crore as against net loss of Rs.11.27 crore on TOI of Rs.132.71 crore in Q1FY21.
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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	-	-	-	110.00	CARE AA-; Stable
Term Loan-Short Term	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	Jun 2025	39.30	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	250.00	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 (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	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (20-Nov-19)	1)CARE A1+ (CWD) (05-Oct-18)2)CARE A1+ (CWD) (15-Jun-18)
2	Fund-based - LT-Cash Credit	LT	110.00	CARE AA-; Stable	-	1)CARE AA- (CWN) (10-Sep-20)	1)CARE AA- (CWN) (19-Feb-20)2)CARE AA-; Stable (20-Nov-19)	1)CARE AA- (CWD) (05-Oct-18)2)CARE AA- (CWD) (15-Jun-18)
3	Term Loan-Short Term	ST	-	-	-	1)CARE A1+ (CWN) (10-Sep-20)	1)CARE A1+ (CWN) (19-Feb-20)2)CARE A1+ (20-Nov-19)	1)CARE A1+ (CWD) (05-Oct-18)2)CARE A1+ (CWD) (15-Jun-18)
4	Term Loan-Long Term	LT	39.30	CARE AA-; Stable	-	1)CARE AA- (CWN) (10-Sep-20)	1)CARE AA- (CWN) (19-Feb-20)2)CARE AA-; Stable (20-Nov-19)	1)CARE AA- (CWD) (05-Oct-18)2)CARE AA- (CWD) (15-Jun-18)
5	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	-	1)CARE A1+ (CWN) (10-Sep-20)	1)CARE A1+ (CWN) (19-Feb-20)2)CARE A1+ (20-Nov-19)	1)CARE A1+ (CWD) (05-Oct-18)2)CARE A1+ (CWD) (15-Jun-18)

Annexure 3: Detailed explanation of covenants of the rated instruments: 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	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple
4	Term Loan-Short Term	Simple

Annexure 5: Bank Lender Details for this company

To view the lender-wise details of bank facilities please click here

Annexure- 6: Details of entities consolidated

Type	Name of the Company	%Equity Interest	Country of incorporation and operation	Nature of Business
Subsidiary#	Greenply Holdings Pte. Ltd.@	100%	Singapore	Investment Company
	Greenply Middle East Ltd.	100%	Dubai	Trading of Veneers
Step down Subsidiary	Greenply Gabon SA (*Wholly owned subsidiary of Greenply Middle East Ltd.*)	100%	Gabon, West Africa	Manufacturing and Trading of Veneers and Lumber

#Greenply also has an Indian wholly-owned subsidiary namely Greenply Sandila Private Limited (GSPL) which was incorporated on May 24, 2021 for manufacturing of plywood and its allied products.
Furthermore, Greenply has acquired Baahu Panels Private limited on August 04, 2021, as a Wholly-Owned Subsidiary for setting-up of a new unit in Vadodara, Gujarat for manufacturing of Medium Density Fibreboard

@Greenply Holding Pte. Ltd. (Singapore) has invested in a joint venture (50% ownership interest) company namely Greenply Alkemal (Singapore) Pte. Ltd which is engaged in trading of veneers and panel products. Further, Greenply Alkemal (Singapore) Pte. Ltd has invested in a wholly owned subsidiary company, i.e., Greenply Industries (Myanmar) Private Limited which is engaged in manufacturing and trading of veneer and lumber.

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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