Greenply Industries Limited

September 06, 2022

Ratings

Facilities/Instruments	**Amount (₹ crore)**	**Ratings[1]**	**Rating Action**
Long-term bank facilities	137.30 (Reduced from 149.30)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	250.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**387.30 (₹ Three hundred eighty seven crore and thirty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Greenply Industries Limited (Greenply) continue to derive comfort from its long track record of operations 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 take cognisance of the strategic location of all its manufacturing units with strong raw material linkages.

Greenply reported significant increase in its consolidated total operating income (TOI) by about 35% in FY22 (refers to the period April 1 to March 31) driven by both increase in sales volume and realisations. The capacity utilisation witnessed improvement with gradual revival in demand after being significantly impacted in FY21 on account of the COVID-19 pandemic. The operating (PBILDT) margin remained relatively stable despite significant increase in overhead costs and higher input prices. Greenply continues to have a comfortable capital structure and healthy debt coverage indicators with strong liquidity. The ratings also take note of the commissioning of its greenfield plywood unit under one of its wholly-owned subsidiaries in Uttar Pradesh in June 2022.

The company reported significant improvement in TOI and profitability in Q1FY23 on y-o-y basis with improvement in sales volumes and realisation; albeit on a lower base of Q1FY22 which was impacted due to the second wave of the pandemic.

The ratings are, however, constrained by the pre and post implementation project risk associated with the large-size Medium Density Fiberboard (MDF) project being undertaken through its wholly owned subsidiary Baahu Panels Private Limited (BPPL, rated CARE AA-; Stable) which entails a capital outlay of about ₹555 crore. Apart from the inherent project implementation risk, the significant amount of debt planned to be availed for the project is expected to lead to moderation in the consolidated capital structure of Greenply during the project-implementation phase. Nevertheless, the debt coverage indicators on a consolidated basis are expected to remain comfortable. This apart, the implementation risk is partially offset by the promoter's experience of executing similar projects in the past. Financial closure for the project has also been achieved.

The demand for MDF has been witnessing significant growth and venturing into the product would lead to diversification in the revenue base of Greenply 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.

The ratings also continue to be constrained by Greenply's exposure to volatility in raw material prices apart from intense competition in the plywood industry from both organised and unorganised sector players and its linkages to demand from the cyclical real estate industry.

Rating Sensitivities

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

- Significant growth in its consolidated 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 MDF project with significant time and cost overrun adversely impacting its consolidated 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, Rajesh Mittal – Executive Chairman & Managing Director (CMD), has

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

experience of more than three decades in the interior infrastructure industry. The promoter group is ably supported by the senior management team who also has extensive experience in the industry.

Strong position in domestic organised plywood industry: Greenply is one of the largest players in the domestic interior infrastructure sector aided by its quality product 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 more than 1,100 cities and towns across 27 states and six Union Territories serviced through a well-entrenched distribution network of more than 2,300 dealers and authorised stockists, a retail network exceeding 6,000 and 56 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 which will enhance its customer base.

Strategic location of manufacturing units of Greenply 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, Gujarat and Uttar Pradesh 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 agro-forestry timber and is 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 cubic meter of timber peeling capacity unit in Gabon, West Africa through a step-down subsidiary.
The MDF plant being implemented under BPPL is also strategically located near the source of its major raw material (in Gujarat) which would ensure adequate availability of raw material at competitive cost. Furthermore, the plant is coming up near the port which will facilitate export of MDF. Furthermore, BPPL's MDF plant would be amongst the first such plants in Western India which would entail cost benefits in terms of logistics while catering to the market in its geographical vicinity.

Improvement in capacity utilisation (CU) in FY22 and Q1FY23: The CU of its plywood segment witnessed improvement in FY22 compared with FY21 due to increase in demand for the product along with change in the product mix. The CU increased from 77% in FY21 (calculated on capacity restated in FY22) to 90% in FY22. In Q1FY23, the CU continued to remain comfortable at 91% (93% in Q4FY22). The total installed capacity of the company has increased from 34.90 mn sq mt in FY22 to 48.40 mn sq mt from June 24, 2022 onwards with the commencement of its Sandila unit in Uttar Pradesh.
Greenply also outsources its allied products including Mat plywood (i.e., semi-finished plywood) and mid-segment plywood, which it used to manufacture earlier, enabling it to maintain higher capacity utilisation of the existing units for premium product categories.

Improvement in TOI and profit in FY22 and Q1FY23: On a consolidated basis, Greenply witnessed a growth of about 35% y-o-y in FY22 with TOI of ₹1,565 crore in FY22 on account of both increase in sales volume and per unit realisation. This is mainly on account of improved demand scenario for plywood along with price hikes taken by the company during FY22 (due to rising input costs).
On the raw material front, the rise in crude oil prices along with higher sea freight rates and container shortage led to increase in prices of phenol in FY22. Increasing prices of phenol has pushed the prices of glue and resins that added up to the input cost of plywood. The PBILDT margin remained largely stable in FY22.
Despite slightly lower operating margin in FY22, PAT margin witnessed an improvement from 5.24% in FY21 to 6.05% in FY22 on account of reduction in capital costs.
In Q1FY23, TOI witnessed a significant growth of 74% y-o-y on account of increase in both volumes and per unit realisations. Also, Q1FY22 was a COVID-19 pandemic affected quarter wherein the sales were significantly affected. However, on comparison with Q4FY22 also, TOI has witnessed marginal growth in Q1FY23. While the margin was significantly better in Q1FY23 as compared to Q1FY22, in comparison to Q4FY22, the PBILDT margin was lower. This was due to sharp increase in raw material prices as well as change in product mix which was partially set-off by the price hikes taken by the company in June 2022. Further, there was increase in advertisement cost in Q1FY23 which impacted margins to an extent.

Comfortable capital structure and debt protection metrics; albeit expected to moderate due to ongoing capex: The capital structure of Greenply continues to remain comfortable. However, with the company being in expansion mode through partially debt-funded projects, the overall gearing ratio moderated from 0.47x as on March 31, 2021 to 0.59x as on March 31, 2022. Nevertheless, the debt coverage indicators remained healthy with interest coverage ratio of 12.81x in FY22 (6.91x in FY21) and Total Debt/GCA of 2.59x as on March 31, 2022 (2.31x as on March 31, 2021).
Going forward, the capital structure is expected to deteriorate in the project phase due to the large size of the expansion project and debt proposed to be availed to fund the same. However, it is expected to remain at a moderate level.

Liquidity: Strong
Greenply has strong liquidity position marked by unencumbered cash and cash equivalents of ₹32 crore as on June 30, 2022 and the utilisation of its fund-based working capital limits of ₹90 crore has also been negligible in the last 12 months ended July 2022. The company is expected to generate healthy cash accruals against scheduled consolidated debt repayment obligation of ₹36 crore in FY23.
The company has significant capex plan in FY23 for the MDF project. The company has already tied-up the ₹400 crore term loan for the project in BPPL against which ₹88 crore has been drawn till June 2022. The equity contribution for the project is also almost entirely infused by Greenply in the subsidiary.
Furthermore, Greenply has tightened its credit norms for its distributors which has resulted in improvement in its operating cycle in FY22.

Key rating weaknesses
Inherent project risk associated with the large-sized MDF plant being implemented in the backdrop of large upcoming capacities in this segment: 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 is being setup in Vadodara Distt., Gujarat with an estimated cost of ₹555 crore and is expected to commence operations in Q4FY23. The company has plans to produce all product sub-categories of MDF including thin and thick, prelam and other value-added products in a phased manner. The project is being funded out of debt of ₹400 crore and remaining through internal cash generations/available liquidity (already infused by Greenply). The financial closure has been achieved. The company has already incurred cost of ₹221 crore (excluding capex LC of ₹70 crore) till June 28, 2022.
The company is availing a mix of foreign currency and INR borrowings for the debt funding which is expected to expose it to forex fluctuation risk going forward.
Greenply remains exposed to the inherent pre and post project implementation risks for the project. The total size of the capex is around 1.28x of its consolidated net worth as on March 31, 2022. 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 faced by Greenply: The Indian plywood market is dominated by unorganised sector players. Although Greenply enjoys a strong market share in the organized market, there are number of players operating in both organised and unorganised plywood segment. However, with rationalisation 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.

Exposure to volatility in raw material prices and cyclical real estate industry: The prices of key raw materials (such as various types of wood as well as crude-oil based chemicals) required by the interior infrastructure industry are inherently volatile which make the profitability margins of the sector susceptible to significant rise in cost of these inputs especially in an inflationary economic scenario which could limit the ability of the sector to fully pass-on by way of price hikes in the end-products without having an adverse impact on demand. Furthermore, as the real estate industry is a key end-user the demand for products of the interior infrastructure sector is also susceptible to the inherent cyclicality associated with the real estate industry.

Analytical approach: Consolidated
CARE Ratings has taken a consolidated view of Greenply and all its subsidiaries as they operate in similar line of business and have strong operational and managerial linkages. Greenply has also extended its standby line of credit and corporate guarantee for debt availed by some its subsidiaries/joint ventures. The list of entities considered in consolidation of Greenply is shown as **Annexure 6**.

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy of Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Manufacturing Companies
Criteria for Short term Instruments
Rating Methodology - Consolidation

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 four manufacturing facilities of plywood, one each in

Nagaland, West Bengal, Gujarat and Uttar Pradesh with a combined installed capacity of 48.40 million sq mt (post reassessment of installed capacities in FY22 and commencement of its Sandila unit in Uttar Pradesh under its subsidiary Greenply Sandila Private Limited). 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 is also implementing a MDF project through its wholly owned subsidiary BPPL in Gujarat.

Brief Consolidated Financials (₹crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	1162.98	1565.41	453.54
PBILDT	115.11	152.86	41.09
PAT	60.91	94.73	20.73
Overall gearing (times)	0.47	0.59	NA
Interest coverage (times)	6.91	12.81	8.04

A: Audited; UA: Unaudited; 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		-	-	-	110.00	CARE AA-; Stable
Term Loan-Long Term		-	-	June 2025	27.30	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 (₹ 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	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (20-Nov-19)
2	Fund-based - LT-Cash Credit	LT	110.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA- (CWN) (10-Sep-20)	1)CARE AA- (CWN) (19-Feb-20) 2)CARE AA-; Stable (20-Nov-19)
3	Term Loan-Short Term	ST	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A1+ (CWN) (10-Sep-20)	1)CARE A1+ (CWN) (19-Feb-20) 2)CARE A1+ (20-Nov-19)
4	Term Loan-Long Term	LT	27.30	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA- (CWN) (10-Sep-20)	1)CARE AA- (CWN) (19-Feb-20) 2)CARE AA-; Stable (20-Nov-19)
5	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (CWN) (10-Sep-20)	1)CARE A1+ (CWN) (19-Feb-20) 2)CARE A1+ (20-Nov-19)

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	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

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

Annexure-6: List of entities consolidated with Greenply
Following entities have been considered for consolidation of Greenply:

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
	Greenply Sandila Pvt Ltd	100%	India	Manufacturing of plywood and allied products
	Baahu Panels Pvt Ltd	100%	India	Proposed manufacturing of MDF
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 Holdings Pte Ltd (Singapore) has invested in a joint venture (50% ownership interest) company named Greenply Alkemal (Singapore) Pte Ltd which is engaged in trading of veneers and panel products. Furthermore, Greenply Alkemal (Singapore) Pte Ltd has invested in a wholly-owned subsidiary company i.e. Greenply Industries (Myanmar) Pvt Ltd 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@careedge.in for any clarifications.

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About us:
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