Greenpanel Industries Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	149.50 (Enhanced from 135.00)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term (LT/ST) Bank Facilities	50.00	CARE A; Positive / CARE A1 (Single A; Outlook: Positive/ A One)	Assigned
Long Term / Short Term (LT/ST) Bank Facilities	65.00	CARE A; Positive / CARE A1 (Single A; Outlook: Positive/ A One)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	5.00	CARE A1 (A One)	Assigned
Total Bank Facilities	**269.50 (Rs. Two Hundred Sixty-Nine Crore and Fifty Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Greenpanel Industries Limited (Greenpanel) 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 Medium Density Fibreboard (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, apart from various grants and fiscal incentives available to the company.

The ratings also derive comfort from the continued growth in its total operating income (TOI) with improvement in profitability margins in 9MFY22 (FY refers to the period April 01 to March 31). With sustained growth in demand witnessed for MDF post Covid-19 unlocking, volume off-take of MDF has improved significantly and the capacity utilisation for Greenpanel improved further in 9MFY22. 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 prepayment of a portion of its term loans and accretion of profit to reserves. Going forward, with no major debt-funded capex plans, the capital structure is expected to remain comfortable.

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

Outlook: Positive

The outlook has been revised from 'Stable' to 'Positive' on the expectation that Greenpanel would be able to sustain the improvement in its profitability and debt coverage indicators with healthy capacity utilisation aided by growing demand for MDF. The outlook may be revised to 'Stable' if the company is not able to sustain the improvement in its profitability and debt coverage indicators as envisaged or if it undertakes significant capacity expansion project having the potential to impact the debt coverage indicators in the short to medium term.

Rating Sensitivities

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

- Volume-driven growth in its TOI through sustained improvement in its capacity utilizations while maintaining its healthy operating profitability (PBILDT) margins and improving its return on capital employed (ROCE) to above 15%.
- Improvement in its total debt/PBILDT to below two 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 four 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

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

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.

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 approximately 65% of the 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, the 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).

Continued improvement in capacity utilisation (CU) during 9MFY22
The new MDF plant in Chittoor, Andhra Pradesh became operational in FY19. Although initially the CU was low for the plant, it has picked up gradually.
The total capacity utilisation for the MDF plants increased in Q2FY22 compared with Q1FY22 and Q2FY21. However, in Q3FY22, the utilisation witnessed some dip on account of the closure of its plant for few days for undertaking the installation of new machineries which would lead to capacity expansion by 10% going forward. However, overall its CU for 9MFY22 stood much better on a y-o-y basis at a healthy level of 91% (58% in 9MFY21). The CU for plywood plant is also on an increasing trend over the quarters with CU of 81% in 9MFY22 (62% in 9MFY21) on account of increase in demand for the products. Going forward, with the increasing demand for MDF, the CU is expected to remain healthy.
The company has completed its installation of mat pre-heating system which shall increase its production capacity of MDF by around 10% from March 2022.

Improvement in TOI and profitability in 9MFY22
The financial performance of the company has witnessed improvement in 9MFY22 with TOI growing by 83% y-o-y. The growth is on account of increase in both sales volume as well as realisations for MDF and plywood segments. Accordingly, PBILDT margin also witnessed an improvement from 16.83% in 9MFY21 to 25.34% in 9MFY22 on account of better economies of scale with ramp-up of capacity utilisation of the plants. Further, PAT margin also witnessed an improvement with improved operating margins along with significant reduction in capital costs on account of prepayment of various term loans by the company leading to reduction in interest costs. Sustained improvement in its CU while maintaining healthy operating profitability (PBILDT) margin would remain a key rating sensitivity.

Improvement in capital structure and debt protection metrics
The overall gearing ratio of the company had improved from 0.88x as on March 31, 2020 to 0.67x as on March 31, 2021. The total debt has witnessed significant reduction during FY22 with debt outstanding as on February 28, 2022 at Rs.334 crore vis a vis total debt of Rs.438 crore as on June 30, 2021. Its interest coverage stood at a healthy 21x during 9MFY22. The company has prepaid some of its term loans during the period. Accordingly, the capital structure and debt protection metrics are expected to improve going forward.

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 9MFY22 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.
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). Furthermore, Greenpanel has borrowing from a German lender amounting to Rs.187.25 crore as on February 28, 2022, against which the company generally hedges its upcoming two instalment payments.

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 an adequate liquidity position with free cash and bank balance of Rs.170.62 crore (parked in the form of fixed deposit and bank balance) and undrawn fund-based limits of Rs.33 crore as on February 28, 2022. The company had repayment obligation of Rs.74.65 crore (at both standalone and consolidated level; excluding current portion of lease liabilities) in FY22 which has already been repaid by the company till February 28, 2022. Going forward, the repayment obligation of the company has reduced, and the company has repayment obligation of Rs.46 crore against which the company is expected to generate sufficient cash accruals. The company also maintained DSRA of Rs.32 crore as on February 28, 2022 which further acts as liquidity support. It does not have any significant capex plans in the medium term as articulated by the company management.

Analytical approach: Consolidated approach considering its subsidiary which 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
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financials Ratio-Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria on consolidation]
[Rating Methodology - 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 the manufacturing of plywood, decorative veneers and allied products.
Greenpanel is primarily engaged in the 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).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
TOI	876.57	1021.11	1154.96
PBILDT	138.10	207.41	292.61
PAT	14.46	68.81	159.88
Overall gearing (times)	0.88	0.67	NA
Interest coverage (times)	2.86	5.57	21.34

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 Instruments / Facilities

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

* 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 for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Mamta Muklania
Contact no.: +91-33-4018 1651
Email ID: mamta.khemka@careedge.in

Relationship Contact
Name: Lalit Sikaria
Contact no.: + 91-33- 4018 1607
Email ID: lalit.sikaria@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**