Greenpanel Industries Limited

March 09, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	177.87	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	70.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)
Total Bank Facilities	**247.87 (Rs. Two hundred forty seven crore and eighty seven 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) is on account of steady improvement witnessed in volume offtake of MDF during Q2FY21 and Q3FY21 due to improved overall demand post lifting of Covid-19 restrictions and ramping up of scale of operations including that of the latest MDF plant which was commissioned in July 2018. This has led to better absorption of fixed overheads leading to improved financial performance in 9MFY21, debt coverage indicators and liquidity profile of the company. This would lead to better financial performance in FY21 than earlier envisaged. Sustainability of such ramp-up in scale of operations remains key rating monitorable.

The ratings continue to derive strength from the experience and long track record of its promoters, leadership position in the domestic organized MDF industry with satisfactory brand image, extensive distribution network & marketing support, strategic location of the manufacturing units with raw-material linkages and improvement in capital structure.

The ratings also take note of the company's exposure to its wholly owned foreign subsidiary company which acts as a commission agent for exports of its products.

The ratings are however, constrained by its exposure to foreign exchange fluctuation risk, large chunky repayments over the next few years exposing the debt protection metrics to the vulnerability and working capital intensive nature of operations.

Rating Sensitivities

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

- Substantial improvement in capacity utilisation beyond 95% on a sustained basis.
- Improvement in overall gearing ratio below 0.50x on a sustained basis.

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

- Decline in capacity utilisation going below 80% on a sustained basis.
- Any further large-scale debt funded capex leading to deterioration in debt protection metrics (TDGCA going above 6x) and capital structure (overall gearing ratio going above 0.75x).

Detailed description of the key rating drivers

Key Rating Strengths

Experience and track record of promoters

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; rated CARE AA-/CARE A1+; Credit Watch with Developing Implications) into it. The MDF division was in operation under Greenply since 2010. Accordingly, the business has a satisfactory track record of operation of manufacturing of plywood and MDF (with more than ten years in MDF), being the first major MDF manufacturer in India.

The promoters have experience of more than two decades in the interior infrastructure industry. Post demerger, Mr. Shiv Prakash Mittal along with his son is involved with Greenpanel. They are ably supported by senior management team which has extensive experience in the industry.

Leadership position in domestic organized MDF industry with satisfactory 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 product and satisfactory brand image. Greenpanel sells its entire product under the brand 'Greenpanel'. Unlike plywood, there are no unorganized players in the MDF sector given high capital requirement for setting up new plant.

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

Extensive distribution network and marketing support
Distribution network for MDF division catering the market has continued post demerger with the MDF division. Though, 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, 1,400 distributors/stockists and 7,000 retailers across the country. The company is in the process of further enhancing its distribution network.

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 material required for manufacturing plywood includes: (1) face veneer i.e. outer and back layer of plywood (~12-15% of raw material cost) (2) core timber (~65-70% of raw material cost) and (3) chemicals (~20-25% of raw material cost). 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 to the source of raw-material (i.e. Uttarakhand and Andhra Pradesh) and adjacent to the port (i.e. Krishnapatnam) making the plant preferable for the exports market.

Steady improvement in CU during the last 2 quarters (Q2FY21 and Q3FY21):
With the new MDF plant in Chittoor, Andhra Pradesh becoming operational in FY19, initially the CU was low for that plant, but gradually the CU has picked up. Again, due to the outbreak of covid-19 pandemic followed by subsequent lockdowns ordered by the Central and State Government(s) in India, the manufacturing activity of the company was impacted during Q1FY21. Post Covid-19 unlocking in India, the MDF demand has witnessed improvement during Q2FY21 and Q3FY21 owing to higher consumer preference of readymade furniture post-Covid coupled with lower imports due to container unavailability. The CU of the MDF plant has improved from 60% in FY20 to 80% in Q2FY21 and 93% in Q3FY21. Further, for the plywood division, CU stood stable at 78% in Q2FY21 compared to FY20 and improved to 87% in Q3FY21.
Better quarter-on quarter and 9MFY21 performance than envisaged
Greenpanel's total operating income witnessed a growth of 1.25% y-o-y in 9MFY21. Despite a sharp fall in revenue during Q1FY21, the company has been able to achieve a growth of 1.25% during 9MFY21 on the back of significant revenue growth during Q2FY21 and Q3FY21. The increase in revenue is mainly on account of sharp ramp-up in CU of MDF plants to meet the improved demand post Covid-19 unlocking. This has led to jump in sales volume of MDF (from 2,25,667 CBM in 9MFY20 to 2,40,942 CBM in 9MFY21) along with slight increase in realization (from Rs.19,396/CBM during 9MFY20 to Rs.19,939/CBM during 9MFY21). The sales realization was higher owing to change in product mix with incremental sales coming mainly from domestic market which have higher realizations as compared to export sales. Despite lower realizations from exports, the company has to continue with exports to fulfill export obligations in respect of goods imported under Export Promotion Capital Goods (EPCG) scheme amounting to Rs.336.14 crore as on March 31, 2020.
However, the sales volume and average realization for the plywood division have witnessed a decline during 9MFY21 compared to 9MFY20.
The PBILDT margin witnessed an improvement from 14.87% in 9MFY20 to 17.04% in 9MFY21 on account of better spread of fixed overheads, wastage reduction along with increased realizations. Greenpanel's interest expense stood at Rs.38.97 crore in 9MFY21 vis a vis the projected interest expense of Rs.20.82 crore on account of foreign exchange loss (MTM basis) of Rs.17.59 crore (out of which Rs.15.85 crore is notional) on borrowings for the MDF plant in Andhra Pradesh along with other notional losses and lease rental payments of Rs.5.37 crore. Excluding the notional loss on foreign fluctuation loans, MTM on IRS, principal swaps, etc from the interest expenses, the actual cash outflow of interest cost stood at Rs.17.75 crore during 9MFY21 in line with earlier expectations.
Despite increase in capital costs (including notional losses) during 9MFY21, PAT margins witnessed an improvement from 1.53% in 9MFY20 to 2.90% in 9MFY21 due to increase in operating margins. The company earned a GCA of Rs.65.71 crore (cash loss of Rs.19.9 crore in Q1FY21, cash profits of Rs.32.18 crore in Q2FY21 and Rs.53.42 crore in Q3FY21) vis-à-vis debt repayment obligation of Rs.42.55 crore in 9MFY21. Further, given the notional nature of above provisions, GCA stood at Rs.85.98 crore during 9MFY21 (Rs.65.82 crore during 9MFY20) without such provisions.
Improvement in capital structure and debt protection metrics
Overall gearing ratio of the company improved from 0.80x as on March 31, 2020 to 0.68x as on December 31, 2020 on account of scheduled repayment of debt obligations along with accretion of profits to reserves. The interest coverage ratio (including notional forex loss) stood at 2.76x in 9MFY21 as compared to 2.98x in 9MFY20 mainly on account of foreign exchange notional loss booked in finance cost. Excluding this notional loss, interest coverage ratio witnessed an improvement from 4.10x in 9MFY20 to 5.75x in 9MFY21. Further, with the increase in GCA along with reduction in total debt, TDGCA improved from 7.29x as on March 31, 2020 to 6.83x as on December 31, 2020.
Improved industry scenario of MDF in India
The Indian MDF market (Rs.20 bn in FY19) is mainly dominated by few organized players. Greenpanel is the largest MDF player with ~29% market share. 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 12-14% y-o-y during FY21 which has enabled Greenpanel to ramp-up its capacity utilization substantially as reflected in the growth in its current year despite COVID

impact.
Further, imports accounts for ~25% of total domestic MDF market. Although, the government imposed anti-dumping duty (ADD) on plain MDF (more than 6mm thickness) in July'2016 on imports from select players from Vietnam and Indonesia for five years, it had a limited beneficial impact on domestic MDF manufacturers. However, the domestic players are in discussion with GOI for Countervailing Duty (CVD) on plain MDFs of all thickness and not specific to any exporters in those countries. The ADD which was imposed on China PR, Malaysia, Thailand and Sri Lanka has expired in January 2021. The relevant authority has recommended for the extension of ADD for Malaysia, Thailand and Sri Lanka for another 5 years. The same is under consideration of Central Government.

Key Rating Weaknesses
Foreign exchange fluctuation risk
Though Greenpanel is exposed to foreign exchange transactions by way of substantial exports, dependency on import of raw materials and high reliance on foreign currency borrowings, most of the currency fluctuation risks are covered either through natural hedging or through currency hedging undertaken by the company. Exports 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 has refinanced one of its external currency borrowings of $8.8 million (equivalent to Rs.64.5 crore out of which Rs.4.5 crore was paid at the time of closure of the old loan and Rs.60 crore refinanced) from Standard Chartered Bank into Rupee denominated loan from State Bank of India in January 2021 with same repayment terms. This shall lead to slight reduction in notional losses of the company due to foreign exchange fluctuations, as now only one loan is outstanding in foreign currency (i.e. from Landesbank Baden-Wurttenberg amounting to Euro 35.64 million equivalent to ~Rs.320 crore as on December 31, 2020), against which the company generally hedges a instalment payment. Greenpanel incurred notional forex losses and MTM on IRS, principal swap of Rs.18.53 crore in 9MFY21 (Rs.21.78 crore in FY20).

Working Capital intensive nature of operations
The operations of the company are working capital intensive in nature on account of moderate inventory period of 80 days as on March 31, 2020 (105 days as on March 31, 2019) owing to large number of product variants & SKUs (50-60 SKUs in MDF segment & 80-100 SKUs in plywood segment). The company provides credit of about 30 days and avail credit from its suppliers of about 50-55 days. The operating cycle of the company stood at 55 days in FY20 (80 days in FY19).

Large chunky repayments over the next few years exposes the debt protection metrics to the vulnerability
The company had a debt repayment obligation of Rs.51.88 crore in FY21 (post availment of moratorium) against which the company earned sufficient cash accruals and the same has been entirely paid off. Over the next few years, the company has chunky repayment obligations of Rs.82.44 crore each in FY22 and FY23 and Rs.79.31 crore in FY24. Given the trend of cash accruals (excluding impact of notional losses) in the past (Rs.67.26 crore in FY19 and Rs.76.24 crore in FY20 and Rs.65.71 crore in 9MFY21), the large chunky repayments over the next few years exposes the debt protection metrics to vulnerability in cash flows.

Liquidity Analysis – Adequate
The company has an adequate liquidity position with free cash and bank balance of Rs.46 crore (parked in the form of fixed deposit and bank balance) and undrawn limits of Rs.67 crore as on January 31, 2021. In FY22, the company has repayment obligation of Rs.82.44 crore against which the company is expected to generate sufficient cash accruals given the ramp up in its scale of operations. Further, the company availed moratorium under Covid-19 relief package of the Reserve Bank of India for Rs.5.57 crore from Axis bank and HDFC bank in the current year to preserve on liquidity during the pandemic. The company also maintained DSRA of Rs.12 crore (for three quarter principal payment obligation of HDFC bank) as on December 31, 2020 which further acts as liquidity support.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

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 a wood based interior infrastructure company, primarily engaged in manufacture of wood- based panel products 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. The company also has a manufacturing facility of plywood with installed capacity of 10.5 million square meters at Pantnagar, Uttarakhand. The products manufactured by Greenpanel are sold across the country under the brand name of “Greenpanel”.
Further, Greenpanel has a fund-based exposure of Rs.52.45 crore as on March 31, 2020 (Rs.47.10 crore as on March 31, 2019) which is ~7.53% of the networth as on March 31, 2020 in its subsidiary company Greenpanel Singapore Pte. Limited. The subsidiary is currently acting as a commission agent for exports of its products and the management expects the subsidiary to breakeven in the coming years given increasing scale of exports from Andhra Pradesh MDF plant.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	597.77	859.80
PBILDT	93.87	135.63
PAT	44.13	16.20
Overall gearing (times)	0.85	0.80
Interest coverage (times)	3.93	2.85

A: Audited;

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: Not Applicable

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

Annexure-1: Details of Facilities/Instruments

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-Proposed fund-based limits	-	-	-	80.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	70.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	March 2025	97.87	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Proposed fund based limits	LT	80.00	CARE A-; Stable	1)CARE BBB+; Stable (31-Jul-20) 2)CARE BBB+ (CWN) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	70.00	CARE A-; Stable / CARE A2+	1)CARE BBB+; Stable / CARE A2 (31-Jul-20) 2)CARE BBB+ / CARE A2 (CWN) (28-Apr-20)	1)CARE BBB+; Stable / CARE A2 (28-Nov-19)	-	-
3.	Fund-based - LT-Term Loan	LT	97.87	CARE A-; Stable	1)CARE BBB+; Stable (31-Jul-20) 2)CARE BBB+ (CWN) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)	-	-

Annexure 3: Detailed explanation of covenants of the rated instruments: NA

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

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

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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