Greenpanel Industries Limited

August 23,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	120.00	CARE A+; Stable	Reaffirmed
Long-term bank facilities*	50.00 (Enhanced from 30.00)	CARE A+; Stable	Revised from CARE A+; Stable / CARE A1+
Long-term/short-term bank facilities	65.00	CARE A+; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	5.00	CARE A1+	Reaffirmed
Long-term/short-term bank facilities#	-	-	Withdrawn
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.
*Reclassified from long-term/short-term facilities to long-term facility
#Proposed limit allocated to long-term facility from long-term/short-term facilities

Rationale and key rating drivers

The ratings assigned to the bank facilities of Greenpanel Industries Limited (Greenpanel) continue to draw strength from its leadership position in the domestic organised 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 and comfortable capital structure with healthy liquidity and debt coverage indicators apart from experience of its promoters in the interior infrastructure industry.
The ratings are however constrained by decline in its operating profitability, competition from imports as well as increasing domestic capacity for MDF, exposure to foreign exchange fluctuation and input price volatility apart from its large size under implementation brownfield expansion capex.
CARE Ratings has withdrawn the rating assigned to the long-term (term loan) bank facility of Greenpanel with immediate effect as the company has fully repaid the aforementioned term loan and there is no outstanding against the same.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining the volume-driven growth in its total operating income (TOI) through sustained high-capacity utilisations (above 95%) while maintaining its healthy operating profitability (PBILDT) margins and healthy return on capital employed (ROCE).
- Improvement in its total debt/PBILDT to below 0.50x while maintaining its comfortable overall gearing ratio at around 0.30x on a sustained basis.

Negative factors

- Significant decline in its sales volume resulting in deterioration in its PBILDT margin below 20% and ROCE below 15% on a sustained basis.
- Delay in completion of the proposed project with significant time and cost overrun adversely impacting its ROCE and capital structure (overall gearing > 0.75x and total debt/PBILDT > 2x on a sustained basis) as well as resulting in adverse impact on its liquidity.

Analytical approach:

CARE Ratings has taken a consolidated approach for analysing Greenpanel along with its wholly-owned subsidiary, Greenpanel Singapore Pte Ltd, which acts as a marketing arm of Greenpanel.

Outlook: Stable

The 'stable' outlook reflects that Greenpanel is expected to sustain its healthy business risk profile given its leadership position in the MDF industry with a strong brand positioning. CARE Ratings expects the financial risk profile to remain comfortable despite large-size under implementation capex by the company, supported by its strong business risk profile.

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

Detailed description of the key rating drivers:

Key strengths

Leadership position in domestic organised MDF industry with strong brand image

Greenpanel is currently the largest MDF manufacturing company in the country and commands an established position in the organised MDF market with a strong brand presence. Greenpanel sells its entire product range under the brand 'Greenpanel'. It enjoys healthy market share due to its superior product quality and continuous brand awareness initiatives. Unlike plywood, the MDF sector has less un-organised players given the high capital requirement for setting up new plant. Greenpanel is expected to maintain its leadership position in domestic MDF industry in the near to medium term.

Extensive distribution network and marketing support

The distribution network for the erstwhile MDF division of Greenply Industries Ltd. (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's presence across India. . Greenpanel has a pan-India marketing network with 17 branches, more than 2,500 distributors/stockists and 12,500 retailers across the country. The company is in the process of further enhancing its distribution network. Greenpanel also has a presence in the export markets.

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. The 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%. The existing plants of Greenpanel 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 markets.

Comfortable capital structure and debt protection metrics

The company has a comfortable capital structure with overall gearing ratio improving from 0.33x as on March 31, 2022 to 0.19x as on March 31, 2023, on account of gradual repayment of term debt, low reliance on borrowings for working capital and accretion of profits to reserves. The interest coverage ratio remained healthy at 22.02x in FY23. Furthermore, total debt/gross cash accruals (TD/GCA) improved from 0.87x as on March 31, 2022, to 0.63x as on March 31, 2023. Similarly, its TD/PBILDT also improved from 0.72x as on March 31, 2022, to 0.54x as on March 31, 2023.

Though the capital structure is expected to moderate during the project phase due to the large size of the expansion and debt proposed to be availed for the same, CARE Ratings expects it to remain at a comfortable level.

Experienced promoters with satisfactory track record in operations

Although incorporated in December 2017, Greenpanel remained as an inactive company till the demerger of the MDF division and part of plywood division of 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 company continues to benefit from the experience of more than two decades of its promoters in the interior infrastructure sector. They are ably supported by the senior management team of Greenpanel which has extensive experience in the industry.

Improved industry scenario for MDF in India

The Indian MDF market has limited number of players and is mainly dominated by the organised 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. The demand for MDF has been better than expected since unlocking due to higher offtake for readymade furniture and shift from low-end plywood. Going forward, CARE Ratings expects the demand to remain healthy in near to medium term.

Liquidity: Strong

The company has a strong liquidity position with free cash and bank balance of ₹325 crore (parked in the form of fixed deposit and bank balance) and lower utilisation of fund-based limits as on June 30, 2023. The company has term debt repayment obligation of ₹19.35 crore remaining in FY24. It is expected to generate sufficient cash accruals to meet its debt repayment obligations.

The company is increasing capacity in its exiting MDF unit at an outlay of ₹600 crore to be implemented over the next two years. The existing liquidity and internal accruals are expected to be sufficient to meet the equity component of the project. The debt tie-up is also completed.

Key weaknesses

Declining trend in operating profitability

Greenpanel's consolidated TOI witnessed a growth of 9.47% y-o-y in FY23 on account of an increase in both overall volume and sales realisation. The average realisation from the plywood division also witnessed an increase in FY23 compared with FY22.

The PBILDT margin however moderated to 23.52% in FY23 from 26.84% in FY22 though remaining healthy. The decline in margin was largely on account of lower CU as well as increase in input cost, including power and fuel cost apart from significant decline in segmental margin of the plywood division.

In Q1FY24, TOI witnessed a y-o-y decline of 16.77% compared with Q1FY23 with lower sales volumes. The PBILDT margin declined from 28.35% in Q1FY23 to 17.04% in Q1FY24, on account of the continued high input cost and lower CU amidst shutdown of the Rudrapur plant for maintenance work in April 2023 for 19 days. Going ahead, while operating profit margins are expected to improve with increasing share of value-added products in the sales mix, CARE Ratings expects the same to remain at around 20% given the increase in industry capacity and impact of imports.

Decline in capacity utilisation in FY23 and Q1FY24

The total capacity utilisation (CU) for MDF stood at about 78% in FY23 and 73% in Q1FY24 (87% in FY22). While there was an increase in production level of MDF in FY23, the CU declined on account of the increase in capacity which could not be fully absorbed. The CU witnessed a dip in Q1FY24 because of the Rudrapur plant which was shut down for 19 days in the month of April 2023 on account of repair and maintenance. Going forward, with the increasing demand for MDF, the CU is expected to remain healthy.

The CU for its plywood plant also declined to about 74% in FY23 and 58% in Q1FY24 from 81% in FY22 on account of higher input prices and slower demand. CARE Ratings expects an uptick in CU post monsoon, when the raw material prices are also expected to normalize.

Inherent project implementation risk associated with large-size capex

Greenpanel is undertaking a brownfield expansion of its MDF capacity by 700 cubic metre (CBM) per day at its existing Andhra Pradesh plant at an estimated project cost of ₹600 crore. The enhanced capacity is expected to be operational from Q2FY25. The project is being funded in a debt: equity ratio of 50:50 with financial closure already achieved for the debt portion. The management has experience of setting up and successfully ramping-up large-scale MDF plants which offsets the risk of project implementation to an extent. Furthermore, the company already has an established customer base and distribution network to market the products. Despite the project being of large size and the company planning to avail debt for the same, CARE Ratings expects the overall gearing of the company to remain comfortable.

The company is coming up with the project to enhance its manufacturing capacity to maintain its market share (as additional capacities are also coming up by various competitors) along with meeting the increasing demand of MDF (which is growing at a compounded annual growth rate [CAGR] of around 15%).

However, it remains exposed to the inherent pre and post-implementation risk associated with such a large size project.

Foreign exchange fluctuation risk

Greenpanel is exposed to the 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. As articulated by the company, raw material imports are hedged completely as soon as they are purchased through currency hedging.

In FY23, the company exported finished goods worth ₹247 crore and imported raw materials amounting to ₹39 crore. It has borrowings in foreign currency and the project debt planned is also in foreign currency. Greenpanel earned notional forex gain of ₹0.30 crore in FY23 as against gain of ₹3.79 crore in FY22.

Increasing competitive industry

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 an increase in competitive intensity when these capacities come onstream over a period of the next one-two years. Furthermore, the company continues to face intense competition from imports. The imports slowed in FY21 and FY22 due to container availability issues and higher freight costs. However, imports have witnessed an increasing trend from second half of FY23 which might impact the demand and profitability of the domestic players and would remain a key rating monitorable.

Environment, social, and governance (ESG) risks

Greenpanel is exposed to tightening environmental compliance and emission norms since it uses wood-based raw materials and chemicals. The company is taking various initiatives to preserve the environment including tree plantation and maintains environmental compliance.

It expended ₹2.32 crore for various corporate social responsibility (CSR) initiatives during FY23 and an unspent amount of ₹0.37 crore is earmarked for future use. Out of the six directors on the board of the company, four are independent directors.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

Although incorporated in December 2017, Greenpanel remained as an inactive company till the demerger of the MDF business segment and part of plywood segment of Greenply into Greenpanel. Greenpanel is primarily engaged in the manufacturing 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 660,000 CBM per annum (increased from 540,000 CBM in March 2022). The company also has a manufacturing facility of plywood with installed capacity of 10.5 million square metres at Pantnagar, Uttarakhand.

Apart from domestic market, the company also has presence in the export market (for MDF) with presence in around 16 countries, whereby exports comprised around 14% of its sales in FY23 (15% in FY22).

Brief consolidated financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1,628.83	1,783.16	386.19
PBILDT	437.16	419.36	65.80
PAT	240.47	256.51	37.26
Overall gearing (times)	0.33	0.19	NA
Interest coverage (times)	25.57	22.02	16.62

A: Audited UA: Unaudited; NA: Not available
Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	120.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	13/07/2023*	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Letter of credit		-	-	-	50.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	65.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A1+

*Repaid on July 13,2023 having maturity as on March 31, 2025

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	120.00	CARE A+; Stable	-	1)CARE A+; Stable (02-Aug-22) 2)CARE A; Positive (07-Apr-22)	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (09-Mar-21) 2)CARE BBB+; Stable (31-Jul-20) 3)CARE BBB+ (CW with Negative Implications) (28-Apr-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	65.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Aug-22) 2)CARE A; Positive / CARE A1 (07-Apr-22)	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 (CW with Negative Implications) (28-Apr-20)

3	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (02-Aug-22) 2)CARE A; Positive (07-Apr-22)	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (09-Mar-21) 2)CARE BBB+; Stable (31-Jul-20) 3)CARE BBB+ (CW with Negative Implications) (28-Apr-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	-	-	-	1)CARE A+; Stable / CARE A1+ (02-Aug-22) 2)CARE A; Positive / CARE A1 (07-Apr-22)	-	-
5	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1+	-	1)CARE A1+ (02-Aug-22) 2)CARE A1 (07-Apr-22)	-	-
6	Non-fund-based - LT-Letter of credit	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable / CARE A1+ (02-Aug-22) 2)CARE A; Positive / CARE A1 (07-Apr-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-Letter of credit	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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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