Greenply Industries Limited

October 09, 2023

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	118.60 (Reduced from 137.30)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	237.00 (Reduced from 250.00)	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Detailed rationale and 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. The ratings continue to get strength from its PAN-India presence through a strong distribution network and marketing support, its strong presence in the rural markets, strategic location of all its manufacturing units with strong raw material linkages.

Furthermore, comfort is drawn from large unutilised working capital limits, providing liquidity cushion.

The ratings further take into account the commissioning of the medium-density fiberboard (MDF) plant in the Vadodara district of Gujarat in May 2023 by its wholly-owned subsidiary Greenply Speciality Panels Private Limited (GSPPL: erstwhile Baahu Panels Private Limited, rated 'CARE AA-; Stable'). The demand for MDF has been witnessing significant growth and venturing into the product is expected to result in 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 capital structure and debt coverage indicators moderated due to the availment of planned term loan for the MDF project. However, going forward, CARE Ratings Limited (CARE Ratings) expects them to improve as the project is completed and expected to achieve cash break-even in FY24 and contribute high profitability FY25 onwards.

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: Factors likely to lead to rating actions

Positive factors

- 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

- Total debt/PBILDT above 3.5x and overall gearing above 1.25x on a sustained basis.
- ROCE below 12% on a sustained basis.

Analytical approach:

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 standby line of credit and corporate guarantee for debt availed by some of its subsidiaries/joint ventures. The list of entities considered in consolidation of Greenply is shown in **Annexure-6.**

Outlook: Stable

The 'stable' outlook reflects that Greenply is expected to sustain its business risk profile given its strong market position in the domestic plywood industry and diversification into high margin MDF. CARE Ratings expects the financial risk profile to remain satisfactory despite temporary moderation, supported by growing domestic demand.

Detailed description of the key rating drivers

Key strengths

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

Long track record of operation in the plywood industry

Greenply, incorporated in 1990, has a long track record of operations in the plywood industry. The current promoter, Rajesh Mittal –Chairman & Managing Director (CMD), has 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', 'Jansathi' and 'Wood Crest'.

PAN-India presence through a strong distribution network and marketing support

The company has a robust dealer network of more than 2,300 dealers who are present in over 1,100 cities, towns, and villages in 27 states and 6 union territories. They are served by 56 branches, which are prudently positioned between urban and contemporary construction hubs. As a result, the company can market its products all over the nation.

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 metre of timber peeling capacity unit in Gabon, West Africa through a step-down subsidiary.

The MDF plant commissioned under GSPPL 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. The plant is located near the port which will facilitate the export of MDF. Furthermore, GSPPL's MDF plant is amongst the first such plants in Western India which entails cost benefits in terms of logistics while catering to the market in its geographical vicinity.

Moderation in capacity utilisation in FY23 and Q1FY24, though overall production increased

The capacity utilisation (CU) of plywood witnessed moderation in FY23 and declined from 90% in FY22 (on restated capacity) to 72% in FY23 and 74% in Q1FY24 due to increased capacity of Sandila (UP) unit commissioned in June 2022. The total installed capacity of the company increased from 34.90 mn sq mt in FY22 to 48.40 mn sq mt from June 2022 onwards. However, overall production increased during the period. Furthermore, Greenply also outsources 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.

Moderation in profitability margin in FY23 and Q1FY24, though TOI witnessed improvement

On a consolidated basis, Greenply's TOI witnessed a growth of 17.92% in FY23 with TOI of ₹1,845 crore on account of both increase in sales volume (7%) and per unit realisation (5.5%) along with higher trading sales. The sales volume increased from 30.91 mn sq.mt in FY22 to 33.13 mn sq.mt in FY23, while the average realisation has increased from ₹280/sq. mt. in FY22 to ₹295/sq.mt in FY23. This was mainly on account of improved demand scenario for plywood along with price hikes taken by the company during FY23 (due to rising input costs). In Q1FY24, the TOI witnessed a growth of 5% over Q1FY23. However, operating margin witnessed moderation in view of higher raw material price, selling expenses and commissioning of MDF plant wherein the company incurred loss due to teething troubles. The capital charge also increased due to the MDF plant resulting in a substantial decline in PAT in Q1FY24 from Q1FY23. Gradually, CARE Ratings expects the performance to improve with stabilisation of MDF plant and lower ad spend in the ensuing quarters.

Liquidity: Strong

The company has strong liquidity position marked by unencumbered cash and cash equivalents of ₹31.42 crore as on March 31, 2023 and the utilisation of its sanctioned fund-based working capital limits of ₹90 crore has also been negligible in the last 12 months ended June 2023. With completion of all the ongoing projects, CARE Ratings expects the company to generate adequate accruals to meet the repayment obligations of the recently completed projects.

Key weaknesses

Project implementation risk mitigated with commissioning of MDF project, stabilisation risk remains

Greenply has commenced operations of MDF plant through its wholly-owned subsidiary, GSPPL, in May 2023 (revised from March 2023), at Vadodara, Gujarat, with an installed capacity of 240,000 Cubic Metres (CBM) p.a. The project cost of ₹580 crore (revised from ₹554 crore) was funded by term loan of ₹400 crore and balance out of surplus liquid funds and internal accruals over the last two years. CU of recently commissioned MDF plant remained low in the first half of FY24 due to shut down taken for streamlining the production of different product categories. CARE Ratings expects the same to improve gradually with stabilisation of production which also remains a key monitorable. However, the promoters have experience of setting up and successfully ramping up of MDF plant through erstwhile MDF division which was demerged to Greenpanel Industries Ltd in FY19; thus, mitigating the project stabilisation risk to a large extent.

Intense competition

The Indian plywood market is dominated by unorganised sector players. Although Greenply enjoys a strong market share in the organised market, there are number of players operating in both organised and unorganised plywood segments. However, with rationalisation of GST from 28% to 18% on plywood and introduction of E-way bill, the share of organised 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 in working capital has also impacted the competitiveness of the unorganised sector which augurs well for the organised plywood manufacturers.

Although the demand for MDF has been witnessing significant growth and the company has ventured into this product to achieve 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.

Moderation in capital structure and debt coverage indicators

The capital structure moderated due to the availment of planned term loan for the MDF project. The overall gearing ratio moderated from 0.59x as on March 31, 2022 to 1.14x as on March 31, 2023. Accordingly, debt coverage indicators moderated in FY23. However, going forward, CARE Ratings expects the capital structure and debt coverage indicators to improve as the project is completed and expected to generate relatively high margin from FY25 onwards.

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. This 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.

Environment, social, and governance (ESG) risks

The company is aiming to minimise its carbon footprint for which Greenply also manufactures eco-friendly and Zero-emission (emits negligible quantities of formaldehyde as per E-0 and E-1 formaldehyde emission levels) plywood. The company has been the pioneer in India to launch E-0 grade plywood. Also, the company has signed MoU for sourcing 5 MW of wind and solar energy, which will be able to meet around 40% requirement of its MDF unit. Gabon forests are operated under a sustainable forest management system wherein 25-year management plan is drawn.

This apart, the total CSR amount spent during the year amounts to ₹1.88 crore.

The Board of directors of Greenply consists of eight members out of which five are independent directors. Also, there have been no whistle blower complaints and penalties, no fines or strictures have been imposed on the company by any Stock Exchange or SEBI or any Statutory Authority on any matter related to capital markets during the last three financial years.

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

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 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', 'Bharosa Ply' and 'Wood Crest' 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 p.a. in Gabon, West Africa, through its step-down subsidiary.
Greenply ventured into MDF (medium density fibreboard) through its wholly-owned subsidiary GSPPL, by commissioning its MDF unit on May 05, 2023 at Vadodara, Gujarat with an installed capacity of 2,40,000 CBM per annum.

Brief Consolidated Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1,565.41	1,845.87	476.14
PBILDT	152.86	169.54	29.49
PAT	94.73	91.43	0.82
Overall gearing (times)	0.59	1.14	NA
Interest coverage (times)	12.81	6.46	2.27

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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	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		-	-	-	110.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	237.00	CARE A1+
Term loan-Long term		-	-	June 2025	8.60	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the 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	110.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Sep-22)	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA- (CW with Negative Implications) (10-Sep-20)
2	Term loan-Short term	ST	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A1+ (CW with Negative Implications) (10-Sep-20)
3	Term loan-Long term	LT	8.60	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Sep-22)	1)CARE AA-; Stable (05-Oct-21)	1)CARE AA- (CW with Negative Implications) (10-Sep-20)
4	Non-fund-based - ST-BG/LC	ST	237.00	CARE A1+	-	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (CW with Negative Implications) (10-Sep-20)

Annexure-3: Detailed explanation of covenants of the rated 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	Non-fund-based - ST-BG/LC	Simple
3	Term loan-Long term - LT	Simple

Annexure-5: 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
	Greenply Speciality 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 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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