Greenpanel Industries Limited

March 06, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	216.00 (Enhanced from 170.00)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	60.00 (Reduced from 65.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	-	-	Withdrawn

Details of facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Greenpanel Industries Limited (Greenpanel) continue to draw strength from its leadership position in the domestic organised medium-density fibreboard (MDF) industry, strong brand image, and extensive distribution network and marketing support. Ratings also factor in the strategic location of its manufacturing units with raw material linkages, comfortable capital structure, healthy liquidity, debt coverage indicators, and experience of its promoters in the interior infrastructure industry.

However, ratings are constrained by moderate financial performance in 9MFY24 (refers to April 01 to December 31) considering competition from imports, increasing domestic capacity for MDF, and increasing raw material price. The overall financial performance for FY24 is expected to remain moderate with continued high wood prices and intense competition. Ratings also consider profitability exposure to foreign exchange fluctuation and input price volatility apart from its large-size under-implemented brownfield expansion capex. CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the short-term (letter of credit) bank facility of Greenpanel with immediate effect, as it has been surrendered and there is no amount outstanding under the said facilities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Significantly declining sales volume, resulting in deteriorating PBILDT margin below 20% and ROCE below 15% on a sustained basis.
- Further delay in completion of the proposed project in view of any unforeseen circumstances or exigencies leading to significant time and cost overrun, adversely impacting ROCE, liquidity, and capital structure (overall gearing ratio > 0.75x and total debt/PBILDT > 2x on a sustained basis).

Analytical approach:

CARE Ratings has taken a consolidated approach for analysing Greenpanel and its wholly owned subsidiary, Greenpanel Singapore Pte Ltd, which acts as its marketing arm. The list of companies being consolidated is given in **Annexure-6**.

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 and strong brand positioning. CARE Ratings expects the financial risk profile to remain comfortable despite large-sized under-implementing capex by the company, supported by its strong business risk profile.

Detailed description of 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 and a strong brand presence. Greenpanel sells its entire product range under the brand 'Greenpanel'. It

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

enjoys healthy market share due to its superior product quality and continuous brand awareness initiatives. Unlike plywood, the MDF sector has fewer un-organised players, given the high capital requirement for setting up new plant. Greenpanel is expected to maintain its leadership position in the 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 Limited (Greenply), which was catering to the market has continued with Greenpanel, post demerger. However, for its plywood division, Greenpanel has set up a new distribution network, 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. The company is in the process of further enhancing its distribution network. Greenpanel also has a presence in export markets.

Strategic location of manufacturing units with raw material linkage

Adequate availability of raw material is a long-term driver for plywood and MDF manufacturers. Key raw materials required for manufacturing plywood includes face veneer, 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 its raw material source (Uttarakhand and Andhra Pradesh) and adjacent to the port (Krishnapatnam), making the plant preferable for catering to 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, from 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. 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 in the project phase due to large-sized expansion and debt proposed to be availed, 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. The business has a satisfactory track record of operation in 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 of Greenpanel, which has extensive experience in the industry.

Improved industry scenario for MDF in India

The Indian MDF market has limited 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 and increased consumer preference for readymade furniture (where MDF is majorly used) post COVID-19. This has resulted in the demand for MDF growing at around 15% annually. The demand for MDF has been better than expected, post the pandemic, 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 ₹261 crore (parked as fixed deposit and bank balance) and lower utilisation of fund-based limits as on December 31, 2023. The company has term-debt repayment obligation of ₹40 crore in FY24. It is expected to generate sufficient cash accruals to meet its debt repayment obligations. The company is increasing capacity in its existing MDF unit at an outlay of ₹600 crore to be implemented over FY24-FY25. Existing liquidity and internal accruals are expected to be sufficient to meet the project's equity component. 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 considering an increase in overall volume and sales realisation. Average realisation from the plywood division also witnessed an increase in FY23 compared with FY22. The PBILDT margin moderated to 23.52% in FY23 from 26.84% in FY22 though remaining healthy. The decline in margin was largely from 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 9MFY24, TOI witnessed a y-o-y decline of 12.73% compared to 9MFY23 with lower sales volumes and realisations. The PBILDT margin declined from 25.37% in 9MFY23 to 16.67% in 9MFY24, due to decline in realisations and lower capacity utilisation. The overall financial performance for FY24 is expected to remain moderate with continued high wood prices and intense competition.

Decline in capacity utilisation in FY23 and 9MFY24

The total capacity utilisation (CU) for MDF stood at about 78% in FY23 and 73% in 9MFY24 (87% in FY22). While there was an increase in production level of MDF in FY23, the CU declined due to increase in capacity, which could not be fully absorbed. The CU witnessed a dip in 9MFY24 y-o-y. Going forward, with 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 55% in 9MFY24 from 81% in FY22 from higher input prices and slower demand. CARE Ratings expects an uptick in CU from next year when raw material prices are also expected to normalise.

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 Q3FY25 (revised 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 risk of project implementation to an extent. The company already has an established customer base and distribution network to market products. Despite the project being large-sizes and the company planning to avail debt for it, CARE Ratings expects the overall gearing 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 from competitors) and meeting 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 project.

Foreign exchange fluctuation risk

Greenpanel is exposed to foreign exchange fluctuation risk due to substantial exports, dependency on raw material import (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 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 witnessed substantial capacity addition across players. Furthermore, large capacity expansions have been planned by industry players. This may lead to an increase in competitive intensity when these capacities come onstream over the next one-two years. The company continues to face intense competition from imports. Imports slowed in FY21 and FY22 due to container availability issues and higher freight costs. However, imports witnessed an increasing trend from second half of FY23, which might impact demand and profitability of 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 initiatives to preserve the environment, including tree plantation and maintains environmental compliance. It expended ₹2.32 crore for corporate social responsibility (CSR) initiatives in FY23 and an unspent amount of ₹0.37 crore is earmarked for future use. Of the six directors on the board of the company, four are independent.

Applicable criteria

- Consolidation
- Definition of Default
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Manufacturing Companies
- Financial Ratios – Non financial Sector
- Withdrawal Policy
- Short Term Instruments

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 manufacturing wood-based panel products used in interior infrastructure which includes plywood, MDF boards, and allied products. Greenpanel has two manufacturing facilities for 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 for 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) in around 16 countries. Exports comprised around 14% of its sales in FY23 (15% in FY22).

Consolidated Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,628.83	1,783.16	1,170.65
PBILDT	437.16	419.36	195.16
PAT	240.47	256.51	112.88
Overall gearing (times)	0.33	0.19	NA
Interest coverage (times)	25.57	22.02	16.15

A: Audited UA: Unaudited NA: Not Available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of rated facilities is given in Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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		-	-	-	105.00	CARE A+; Stable
Non-fund-based - LT-Letter of credit		-	-	-	111.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	60.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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	105.00	CARE A+; Stable	1)CARE A+; Stable (23-Aug-23)	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	60.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (23-Aug-23)	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)Withdrawn (23-Aug-23)	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)Withdrawn (23-Aug-23)	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	-	-	1)CARE A1+ (23-Aug-23)	1)CARE A1+ (02-Aug-22) 2)CARE A1 (07-Apr-22)	-	-
6	Non-fund-based - LT-Letter of credit	LT	111.00	CARE A+; Stable	1)CARE A+; Stable (23-Aug-23)	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 rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Letter of credit	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated as on date

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Greenpanel Singapore PTE Limited	Wholly owned	The subsidiary acts as a marketing arm of Greenpanel

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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