Greenpanel Industries Limited

August 07, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	43.00 (Reduced from 216.00)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	105.00	CARE A+; Stable / CARE A1+	Assigned
Long-term / Short-term bank facilities	20.00 (Reduced from 60.00)	CARE A+; Stable / CARE A1+	Reaffirmed

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. Even though the negative rating sensitivity with respect to the operating profitability and return on capital employed (ROCE) was triggered in view of subdued performance, ratings continue to derive significant comfort from its large surplus liquidity and robust capital structure, despite considering the ongoing debt-funded capex. CARE Ratings Limited (CARE Ratings) further notes that the subdued financial performance in FY24 (refers to April 01 to March 31) and Q1FY25 was largely due to increased competition with commissioning of new capacities by new and existing players, increased imports and rising timber cost, which is an industry-wide phenomenon. Overall financial performance for FY25 is expected to remain moderate with continued high timber prices and intense competition and improve thereafter, with easing of timber prices. Ratings also factor in the strategic location of its manufacturing units with raw material linkages and experience of its promoters in the interior infrastructure industry.

However, ratings are constrained by profitability exposure to foreign exchange fluctuation and input price volatility apart from its large size under implementation brownfield expansion capex.

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 (CU) (above 95%) while improving its operating profitability (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) margins and healthy ROCE.
- Improving total debt/PBILDT to below 0.50x while maintaining its comfortable overall gearing ratio at around 0.30x on a sustained basis.

Negative factors:

- Declining sales volume of MDF below 4.50 lakh cubic metre (CBM) with sales realisation below ₹25,000/CBM putting pressure on its profitability on a sustained basis.
- Delaying completion of the ongoing project with significant time and cost overrun, due to unforeseen circumstances adversely impacting its ROCE and capital structure beyond envisaged levels (overall gearing > 0.75x and total debt/PBILDT > 2x on a sustained basis) adversely impacting its liquidity.

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**. However, the subsidiary ceased its operations from October 2022 and was winded up in December 2023. Hence, figures from April 01, 2023, to December 28, 2023, were consolidated by the company based on accounts approved by official liquidator. Going forward, standalone approach is being considered.

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-implementation capex by the company, supported by expected improvement in 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 key rating drivers:

Key strengths

Leadership position in domestic organised MDF industry with strong brand image

Greenpanel is currently India's largest MDF manufacturing company commanding an established position in the organised MDF market and 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 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 2,300 distributors/stockists and 12,500 retailers (company made sales to about 2165 dealers accounting for about 80% of total sales in FY24). The concentration on dealer also remains limited as the top 10 dealers accounted for only 15% of total sales in FY24. The company is in the process of further enhancing its distribution network. Greenpanel also has a presence in export markets with two overseas branches, which support for better exports to 11 countries.

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 include 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 balance 35%. Greenpanel's existing plants 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 an overall gearing ratio of 0.23x. Though moderated from the earlier level of 0.19x as on March 31, 2023, the capital structure continues to remain healthy. The moderation has been owing to increase in term debt for the ongoing project and is further likely to increase in FY25 with the project phase (due to the large size of the expansion and debt proposed to be availed for the same). Nonetheless, unutilised working capital lines and steady accretion to reserves shall continue to support for healthy gearing over the medium term.

The interest coverage ratio stood comfortable at 20.27x in FY24 (22.02x in FY23). The moderation in interest coverage is considering reduction in PBILDT in FY24. Total debt to gross cash accruals (TDGCA) also witnessed moderation from 0.63x as on March 31, 2023, to 1.40x as on March 31, 2024 considering higher term debt and lower profitability.

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. Being the first major MDF manufacturer in India, Greenpanel's business has a satisfactory track record of operations in manufacturing plywood and MDF. 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.

Liquidity: Strong

The company has a strong liquidity position with free cash and liquid investment of ₹237.83 crore and undrawn working capital limits of ₹118 crore as on March 31, 2024. The company has term debt principal repayment obligation of ₹30-32 crore in FY25. The company is expected to generate enough cash accruals to meet its debt repayment obligations.

The ongoing capex of ₹600 crore as a brownfield expansion of project in Andhra Pradesh is under implementation. Out of which, ₹324 crore has already been incurred by March 2024. The debt tie-up for ₹290 crore of the capex has already been completed from foreign bank and ₹204 crore was drawn till March 31, 2024. Strong liquidity and robust capital structure is expected to support its financial profile amidst pressure on its profitability in the near term.

Key weaknesses

Moderation in financial performance in FY24 and Q1FY25

Greenpanel's TOI witnessed degrowth of ~12% year-on-year (y-o-y) in FY24 as compared to FY23 considering decrease in volume and sales realisation. While the average realisation of MDF segment dropped by 5%, the overall volumes dropped by about 4%. The same was largely owing to excessive supply in the domestic market based on the new/enhanced capacity brought in by existing players and increased imports. The plywood division further witnessed a degrowth of about 28% in terms of volume y-o-y, while the average realisation fell by 8%. The PBILDT margin moderated to 15.84% in FY24 from 23.52% in FY23. The decline in margin was largely from lower CU and increase in input cost, including power and fuel cost apart from significant decline in segmental margin of the plywood division.

While the overall volumes remained stable in Q1FY25 (in comparison to FY24), the overall performance further moderated due to lower realisation and increased cost. The price cut for MDF which was taken in January 2024, showed its full impact with blended realisation down quarter-on-quarter. Owing to higher other expenses (such as branding and marketing cost through channels like IPL), the overall profitability remained low in Q1FY25. In the medium term, the company is likely to implement cost-cutting measures and adopt a strategy of mixing different types of timber to manage overall input costs, which is likely to boost the PBILDT margins from 9.88% in Q1FY25 to a range of 13-14% for the entire fiscal. Nonetheless, market factors such as competition and import will continue to impact the overall CU and pricing, and thereby its impact on the company will remain key monitorable over the near to medium term.

Decline in CU in FY24

The total CU for MDF plants witnessed an increasing trend over the years from FY19 to FY22, however, moderated in FY23 and FY24 at 78% and 74%, respectively. The moderation was largely owing to changing industry scenario wherein there has been significant expansion in domestic capacities in FY24 and higher imports in FY24 compared to FY23 and more capacity additions are schedule in the current year.

Going forward, post addition of new 231,000 CBM capacity by Greenpanel, sustaining healthy utilisation levels will remain key monitorable. CARE Ratings expects an uptick in CU from FY26 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 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 in Q3FY25. The project is expected to be funded in a debt: equity ratio of 48:52 with plans to avail mix of rupee and ECB loan for the debt portion. The management has past experience of setting up and successfully ramping up of a large scale MDF plant which offsets the risk of project implementation to an extent. 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 fund the same in a debt: equity ratio of 48:52 (₹290 crore of debt and ₹310 crore of internal accruals), the company's overall gearing is not expected to moderate beyond 0.40x.

The company has incurred a total of ₹324.18 crore on this project by March 31, 2024, which has been funded from debt of ₹204.18 crore and ₹120 crore of internal accruals. The company also has undrawn debt of ₹85.82 crore, which is likely to be drawn in FY25.

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. Export receivables are hedged by availment of packing credit in dollar terms against the finished goods exported. Raw material imports are hedged through currency hedging immediately upon purchasing. In FY24, the company exported finished goods worth ₹170.75 crore and imported raw materials amounting to ₹11.25 crore. The company has foreign currency borrowing amounting to ₹267.96 crore as on March 31, 2024, which is partially hedged by the company (hedged for servicing of upcoming two to three installments). Greenpanel earned forex gain of ₹1.54 crore in FY24 as against gain of ₹0.30 crore in FY23.

Increasing competitive industry

In the recent past, the domestic MDF market witnessed substantial capacity addition across players. Large capacity expansions have been planned by industry players. This may lead to 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 FY23 and grew significantly in FY24, which impacted the 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 maintain environmental compliance. It expended ₹4.84 crore for corporate social responsibility (CSR) initiatives in FY24 and further an unspent amount of ₹0.37 crore in FY23 has been kept earmarked for future use. Of the six directors on the company's board, four are independent directors.

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
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 markets (for MDF) in around 16 countries. Exports comprised around 11% of sales in FY24 (13% in FY23).

Consolidated Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)*
Total operating income	1,783.16	1,568.79	364.95
PBILDT	419.36	248.56	36.04
PAT	256.51	142.68	15.71
Overall gearing (times)	0.19	0.23	NA
Interest coverage (times)	22.02	20.27	153.51

*Standalone Financials, 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: Annexure-2

Covenants of rated facility: Annexure-3

Complexity level of Facilities 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		-	-	-	23.00	CARE A+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	105.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT-Letter of credit		-	-	-	20.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	20.00	CARE A+; Stable / CARE A1+

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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	23.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-24) 2)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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (06-Mar-24) 2)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)
3	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (23-Aug-23)	1)CARE A+; Stable (02-Aug-22)	1)CARE A; Stable (05-Oct-21)

							2)CARE A; Positive (07-Apr-22)	
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)Withdrawn (06-Mar-24) 2)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	20.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-24) 2)CARE A+; Stable (23-Aug-23)	1)CARE A+; Stable / CARE A1+ (02-Aug-22) 2)CARE A; Positive / CARE A1 (07-Apr-22)	-
7	Fund-based/Non-fund-based-LT/ST	LT/ST	105.00	CARE A+; Stable / CARE A1+				

LT: Long term; ST: Short term; LT/ST: 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	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - LT-Letter of credit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated (up to December 28, 2023)

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Greenpanel Singapore Pte Limited	Full	Subsidiary

Note on complexity levels of 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 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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