Greenply Industries Limited
February 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	128.00	**CARE AA-; (Double A Minus) (Credit watch with negative implications)**	**Placed on credit watch with negative implications**
Short term Bank Facilities	250.00	**CARE A1+ (A One Plus) (Credit watch with negative implications)**	
Total	**378.00 (Rs. Three hundred and Seventy Eight crore only)**		

Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has placed the ratings assigned to Greenply Industries Ltd (GIL) on credit watch with negative implications. The rating action follows the approval by the board of directors to extend corporate guarantee to a foreign loan not exceeding Euro 12.5 million (~Rs.100 crore) provided to the erstwhile MDF division of the company which has been shifted by way of demerger to Greenpanel Industries Limited (Greenpanel).

Extension of aforesaid guarantee is subject to approval of shareholders and other regulatory authorities. CARE would continue to closely monitor the developments in this regard and will take a view once the exact implication of the above is clear on the credit profile of GIL.

The ratings continue to derive strength from the long track record of operations and experience of promoters, healthy position in the domestic organized plywood industry, strong distribution network & marketing support, strategic location of all the manufacturing units with strong raw-material linkage, improvement in operational performance with improved capacity utilization, significant reduction in debt post-demerger resulting in comfortable financial risk profile in FY19 and 9MFY20 and strong liquidity profile. The ratings also factor in the successful commencement of operation of face veneer plant at Gabon West Africa through its step down subsidiary and commencement of commercial production of decorative veneer adjacent to its existing plywood plant at Gujarat. This alongwith GIL's policy to focus on asset light model through outsourcing for medium & low end variant of plywood is likely to have a positive impact on profitability. Given the nature of business, the management recognizes that maintaining low financial risk profile and strong operating efficiencies are crucial from credit profile perspective. The ratings factor in this enunciation in the analysis.

The ratings however continue to be constrained by the working capital intensive nature of operations and dominance of unorganized sector players in the domestic plywood sector leading to intense competition.

Rating Sensitivities

Positive Rating Sensitivities

- Improvement in profitability margins with optimization of fixed overheads
- Improvement in the capacity utilization to its full capacity of the recently commenced operations of decorative veneer plant in Gujarat.

Negative Rating Sensitivities

- Inability to improve the performance of its subsidiary.
- Non-maintenance of healthy liquidity & profitability margin.
- Moderation in financial risk profile as a result of extension of corporate guarantee and/or deterioration in capital structure due to large debt funded capex in the near future, if any.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operation and experienced promoters

Greenply, incorporated in 1990, has a long track record of operation in the plywood industry. The promoters have experience of more than two decades in the interior infrastructure industry. Post demerger, Mr. Shiv Prakash Mittal is associated with Greenpanel and Mr. Rajesh Mittal along with his son Mr. Sanidhya Mittal is involved with Greenply. They are ably supported by the senior management team which has extensive experience in the industry.

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

Strong position in domestic organized plywood industry

Greenply is one of the largest players in the interior infrastructure sector with its quality product and strong brand image. Greenply's brand like 'Green Club', Green Club plus' 'Green Gold platinum' 'Green Gold', 'Green Abolute', 'Green 710' and 'Wood Crest' in the plywood segment are the leading brands in the premium segment. The company has also captured the mid segment and lower segment of plywood through the outsourcing route with three brands 'Ecotec', 'Bharosa' and 'Jansathi'.

Pan India presence through a strong distribution network and marketing support

GIL has a pan-India presence with strong distribution network of 1,870 distributors/stockists and 6,000 retailers for plywood across the country. The company's distribution network is supported by its marketing team which is present across India. As a marketing strategy the company has launched various programmes for contractors and architect to increase awareness about its newly launched products and increase its sales.

Strategic location of all the manufacturing units with strong raw-material linkage

Adequate availability of raw material is a key driver for the plywood manufacturers. Key raw material required for manufacturing Plywood includes core timber and chemicals. Greenply's existing plant are strategically located near to the source of raw-material (i.e., West Bengal, Nagaland, Gujarat and Gabon in South Africa) and adjacent to the port (i.e. Kandla and Kolkata). This ensures adequate availability of raw-material at a competitive cost. While face veneer is a high-quality premium timber, usually derived from matured trees and largely imported, core timber is mainly sourced from the domestic market. As a backward integration initiative, GIL had set up a veneer plant in Myanmar and has already commenced operations of 96,000 cu meter of face veneer unit in Gabon, West Africa through a step down subsidiary.

Improved capacity utilization (CU)

The CU of remained satisfactory at 139% in FY19 vis-à-vis 108% in FY18. The CU further improved and stood at 148% in 9MFY20 on account of improved sales. Also the company started outsourcing of Mat plywood (semi-finished plywood) which it used to manufacture earlier, enabling them in increasing the capacity utilization of the existing units.
Consequently the same has enabled the company to increase its revenue without incurring the capital expenditure, thus generating higher returns for the business.

Improvement in operational performance and profitability during FY19 and 9MFY20

Greenply's total operating income improved significantly to Rs.1,288.79 crore in FY19 vis-à-vis Rs.893.84 crore in FY18 on account of substantial increase in sales volume of plywood (~40%) coupled with marginal increase in average realization. During FY19, Greenply started asset light model of business through outsourcing of Mat plywood (semi-finished plywood) which it used to manufacture on its own prior to outsourcing. This led to significant ramp up of the capacity utilization with better absorption of fixed overheads. Going forward the company is focusing on the asset light model of outsourcing business of Mat plywood which accounted for 27% of net sales in FY19 along with value added products like decorative veneer.

PBILDT margin improved to 9.85% in FY19 vis-a-vis 8.41% in FY18 on account of moderate increase in average realisations of plywood and higher margins from value added product. PAT margin also improved to 4.76% in FY19 (FY18: 3.95%) with higher PBILDT despite increase in capital charges in FY19.
In 9MFY20 (standalone), Greenply reported PAT of Rs.57.23 crore on total income of Rs.973.52 crore vis-à-vis PAT of Rs.42.93 crore on total income of Rs.944.97 crore during 9MFY19. The PBILDT margin improved to 10.80% in 9MFY20 vis-à-vis 9.16% in 9MFY19 on account of better absorption of fixed overheads and increase in sale of higher margin products.

Comfortable capital structure and debt coverage indicators

Post demerger total debt of Greenply as on March 31, 2019 stood at Rs.143.64 crore with majority of the term debt being shifted to Greenpanel pertaining to the MDF unit at Andhra Pradesh. Consequently overall gearing ratio stood at 0.44x as on March 31, 2019. Greenply's capital structure continued to remain at comfortable level with networth base of Rs.323.82 crore as on March 31, 2019. However, recently board of directors of GIL subject to approval of shareholders and other regulatory authorities has approved extension of corporate guarantee to a foreign loan provided to the erstwhile MDF division of the company which has been shifted by way of demerger to Greenpanel Industries Limited (Greenpanel). Subsequently the same will impact the credit profile once the approval are in place.
The interest coverage ratio was comfortable and stood at 8.57x in FY19 despite increase in interest cost y-o-y on account of term debt availed for Rajkot unit in Gujarat during FY18 along with higher utilization of working capital for that unit which was capitalized during April 2018. Total debt to GCA stood at 1.62x in FY19 with decrease in total debt and remained comfortable.

Successful completion of major ongoing projects as per schedule

The company commenced a new decorative veneers/decorative plywood plant adjacent to its existing plywood plant at Gujarat with a capacity of producing 3 mn sq. mt. in a year from April'18.
Greenply also implemented a project in Gabon, West Africa, through a step down subsidiary for face veneers. The project partially commissioned (36,000 cu. mt.) in FY19 and was fully commissioned in November 2019 with installed capacity of 96,000 cu. mt.

Key Rating Weaknesses
Working capital intensive nature of business
The operations of the company are working capital intensive in nature on account of its high inventory period (49 days as on March 31, 2019) due to large number of product variants and having 90-100 SKU's in the plywood segment and more than 1000 SKU's for decorative veneer. The working capital cycle of the company improved from 61 days in FY18 to 54 days in FY19 primarily on the back of reduction in inventory period from 55 days in FY18 to 49 days in FY19 and improved collection period from 90 days in FY18 to 80 days in FY19.

Intense competition due to unorganized nature of plywood industry
The Indian plywood market is dominated by unorganized players. Although GIL enjoys a strong position in the organized plywood market, there are number of players operating in both organized and unorganized plywood segment.
However, with reduction in rate of GST from 28% to 18% on plywood and introduction of E-way bill the share of organised market is expected to increase with shift in consumption towards organized manufacturers.

Exposure to group company and contingent liabilities
GIL has an exposure of Rs.64.34 crore which is ~20% of the networth as on March 31, 2019 in its group companies. Further GIL has also provided corporate guarantee for loan availed by the group companies to the extent of Rs.125.14 crore.
However in H1FY20 GIL has already received ~Rs.3crore towards the loan advanced to its wholly owned subsidiary Greenply Middle East Limited.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Watch and Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology- Manufacturing Companies
Rating Methodology- Factoring linkages in Ratings
Policy on Withdrawal of ratings

Liquidity: Strong

The liquidity position of the company was strong with GCA of Rs.88.60 crore in FY19 vis-a- vis debt repayment obligation of Rs.13.25 crore. In FY20 and FY21, GCA projected is sufficient to meet debt repayment obligation of Rs.13.19 crore (repaid Rs.9.16 crore till December 31, 2019) and Rs.13.50 crore. Further the average month end utilization of fund based limits was 48.26% for the twelve months ended September'2019. Further, Greenply had cash and bank balance of Rs.26.02 crore as on December 31, 2019 which further strengthens the liquidity position of the company.

About the Company
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 three manufacturing facilities of plywood in Nagaland, West Bengal and Gujarat with a combined installed capacity of 24.90 million sq. mt. The company's major brands in the plywood premium segment are 'Green Club' 'Green Club plus' 'Green Gold platinum', 'Green Gold', 'Green Abolute', 'Green 710' , 'Wood Crest' whereas 'Ecotech', 'Jansathi', 'Bharosa Ply' and are among the plywood mid and low segment. Greenply demerged its Medium Density Fibre business (including one plywood facility in Pantnagar, Uttarakhand) into a separate enity, Greenpanel Industries Limited (Greenpanel) w.ef from April 1, 2018.

Brief Financials (Rs. crore)	FY18 (U/A)	FY19 (A)
Total operating income	893.84	1288.79
PBILDT	75.16	126.90
PAT from continued operation*	35.12	61.29
Interest coverage (times)	11.86	8.57
Overall Gearing	0.75	0.44

A: Audited

**PAT of Rs.135.69 crore was reported during FY18 out of the same Rs.100.57 crore was related to the demerged entity Greenpanel Industries Limited.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

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-Cash Credit	-	-	-	90.00	CARE AA- (Under Credit watch with Negative Implications)
Term Loan-Short Term	-	-	-	20.00	CARE A1+ (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Sept.2023	38.00	CARE AA- (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	230.00	CARE A1+ (Under Credit watch with Negative Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (20-Nov-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (05-Oct-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (15-Jun-18)	1)CARE A1+ (25-Sep-17)	1)CARE A1+ (12-Jan-17) 2)CARE A1+ (12-Sep-16)

2.	Fund-based - LT-Cash Credit	LT	90.00	CARE AA- (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA- (Under Credit watch with Developing Implications) (05-Oct-18) 2)CARE AA- (Under Credit watch with Developing Implications) (15-Jun-18)	1)CARE AA-; Stable (25-Sep-17)	1)CARE AA-; Stable (12-Jan-17) 2)CARE AA- (12-Sep-16)
3.	Term Loan-Short Term	ST	20.00	CARE A1+ (Under Credit watch with Negative Implications)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (05-Oct-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (15-Jun-18)	1)CARE A1+ (25-Sep-17)	1)CARE A1+ (12-Jan-17) 2)CARE A1+ (12-Sep-16)
4.	Term Loan-Long Term	LT	38.00	CARE AA- (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA- (Under Credit watch with Developing Implications) (05-Oct-18) 2)CARE AA- (Under Credit watch with Developing Implications) (15-Jun-18)	1)CARE AA-; Stable (25-Sep-17)	1)CARE AA-; Stable (12-Jan-17) 2)CARE AA- (12-Sep-16)
5.	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1+ (Under Credit watch with Negative Implications)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (05-Oct-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (15-Jun-18)	1)CARE A1+ (25-Sep-17)	1)CARE A1+ (12-Jan-17) 2)CARE A1+ (12-Sep-16)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.