Greenply Industries Limited

September 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	177.50 (Enhanced from 128.00)	CARE AA- (Under Credit watch with Negative Implications) (Double A Minus) (Under Credit watch with Negative Implications)	Continues to be on credit watch
Short Term Bank Facilities	250.00	CARE A1+ (Under Credit watch with Negative Implications) (A One Plus) (Under Credit watch with Negative Implications)	Continues to be on credit watch
Total Facilities	427.50 (Rs. Four Hundred Twenty-Seven Crore and Fifty Lakhs Only)		

Details of instrument/facilities in Annexure-1; for classification of instruments/facilities please refer to Annexure-3

Detailed Rationale and Key Rating Drivers

The Ratings assigned to the bank facilities of Greenply Industries Ltd (GIL) continues to remain on credit watch with negative implications, after taking cognizance of the Board approval to extend corporate guarantee to a foreign loan not exceeding Euro 12.5 million (~Rs.110 crore) provided to the erstwhile MDF division of the company which has been shifted by way of demerger to Greenpanel Industries Limited (Greenpanel). Since extension of the aforesaid guarantee is subject to approval of shareholders, lenders and other regulatory authorities, pending receipt of the same, 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 reaffirmation of rating assigned to GIL takes into account the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic, which is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Sub-optimal utilization of assets is also likely to adversely impact the business returns of the company.

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 and strategic location of all the manufacturing units with strong raw-material linkage. The ratings also factor in the relatively stable operational performance in FY20 (refers to the period April 1 to March 31) with moderation in Q1FY21, comfortable capital structure and strong liquidity profile.

The ratings also takes into account the 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 above 12% on sustained basis
- 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 margins on sustained basis
- Moderation in the financial risk profile marked by deterioration in the overall gearing (including corporate guarantee) beyond 0.85x (on sustained basis) as a result of proposed extension of corporate guarantee and/or due to any large debt funded capital expenditure

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

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.

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 500', Green Club plus 700' 'Green Gold platinum' 'Green Gold', 'Green Absolute' 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 2,100 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.

Satisfactory capacity utilization (CU) in FY20 albeit moderation in Q1FY21

The capacity utilization improved and remained satisfactory at 142% in FY20 vis-à-vis 139% in FY19 on the back of increased outsourcing of Mat plywood (semi-finished plywood) which it used to manufacture earlier, enabling them in increasing the capacity utilization of the existing units. Also the same has enabled the company to increase its revenue without incurring any additional capital expenditure; thus generating higher returns for the business.

However, the CU declined and stood at around 50% in Q1FY21 on account of COVID-19 induced stringent and intermittent complete/partial lockdown during Q1FY21 coupled with disruption in the factory operations in West Bengal due to Amphan cyclone in the month of May-2020.

Satisfactory financial performance in FY20 albeit moderation in Q1FY21

Greenply's total operating income at Rs.1273.81 crore in FY20 remained almost in line with FY19 with stable volumes and average sales realization. PBILDT margin though improved to 10.73% in FY20 vis-à-vis 9.85% in FY19 on account of higher margins from value added products. Also, Greenply had started (early FY19) 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. However, PAT levels declined substantially in FY20 to Rs.32.60 crore from Rs.61.29 crore in FY19, due to recognizing of one time provision of Rs.49.97 crore attributable to the order of Hon. Supreme Court of India dated April 22, 2020 in respect of availing of area based exemption under Central Excise.

In FY20, the company has made provision for exceptional liability of Rs.49.97 crore towards Supreme Court order with respect to availment of area based exemption under Central excise in respect of manufacturing unit of Greenply Industries Limited at Tizit, Nagaland. Greenply may have to refund maximum principal amount of Rs.28.98 crore in respect of excess refund received from the Excise department for the period from April 1, 2008 to June 30, 2017. *Awaiting demand order from the Revenue Department (GoI) the company is exploring legal options against the said order.* In the interim, Greenply as a matter of prudent accounting has provided for the same (i.e. Rs.28.98crore) in the books of account and has also written-off Rs.20.99 crore towards excise incentive receivables account.Taking cognizance of the above, GCA stood at Rs.68.64 crore in FY20 as against Rs.88.60 crore in FY19.

The total operating income of the company moderated to Rs.108.44 crore in Q1FY21 as against Rs.306.48 crore in Q1FY20 mainly due to decline in sales volume (from 13.57 million Sqm in Q1FY20 to 4.73 million Sqm in Q1FY21) attributable to COVID19 induced stringent and intermittent complete/partial lockdown during Q1FY21. Lockdown led to complete closure of operations during early part of quarter coupled with decline in demand from user industries attributable to overall weak macroeconomic environment. Consequently, GIL reported operating loss of Rs.5 crore in Q1FY21 as against operating profit (PBILDT) of Rs.33.70 crore in Q1FY20 and Rs.26.02 crore in Q4FY20. Moderation in profitability is largely on account of under-recovery of fixed overhead attributable to lower sales volume. Accordingly the company has reported cash loss of Rs.9.06 crore in Q1FY21 as against cash profit (GCA) of Rs.20.52 crore in Q1FY20.

Comfortable capital structure and debt protection matrix

Greenply's capital structure continued to remain at comfortable level with net worth base of Rs.350.24 crore and total debt of Rs.154.54 crore as on March 31, 2020. Accordingly overall gearing ratio continued to remain comfortable at 0.44 times as on March 31, 2020 (P.Y: 0.44 times). The interest coverage ratio remained comfortable and stood at 8.11x in FY20 owing to stable PBILDT levels. Total debt/GCA however moderated, although remained comfortable, to 2.25x in FY20 from 1.62x in FY19. Adjusted overall gearing (including corporate guarantee/SBLC extended to group entities) stood at 0.83x as on March 31, 2020 (P.Y.: 0.83x).

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 (51 days as on March 31, 2020) 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 remained almost in line with FY19 and stood at 62 days in FY20.

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 Companies and contingent liabilities

GIL has an exposure of Rs.63.39 crore which is ~18% of the net worth as on March 31, 2020 in its group companies. Further GIL has also provided corporate guarantee/SBLC for loan availed by the group companies to the extent of ~136.0 crore as on March 31, 2020 (P.Y.: Rs.125.15 crore).

Going forward, the exposure will further increase by Euro 12.5 million (~Rs.110 crore) owing to extension of corporate guarantee (subject to approval of shareholders and other regulatory authorities) 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 approvals are in place.

Impact of COVID19

The Company's manufacturing operations were impacted for a certain period as a consequence of complete lockdown imposed by Central and State Government authorities in India considering public health and safety due to COVID -19 pandemic thereby restricting normal business activities. In-spite of partial withdrawal of lockdown, the on-going restrictions by the appropriate Government authorities to contain the pandemic continue to impact normal production and cause supply chain disruption, etc. Further, in view of pandemic relating to COVID-19, the Company has considered internal and external information available up to the date and has performed analysis based on current estimates in assessing the recoverability of its assets. On the basis of its present assessment and current indicators of future economic conditions, the Company expects to recover the carrying amounts of its assets and does not anticipate any material impact on the standalone financial results. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Company will continue to monitor any material changes to future economic conditions and the consequent impact on its business, if any.

Liquidity: Strong

Liquidity is marked by healthy accruals (Rs.68.64 crore in FY20) as against repayment obligations of Rs.13.19 crore in FY20. Further, the company has cash and cash equivalents of around Rs.25.0 crore (including Fixed Deposits of Rs.17.50 crore) and unutilized working capital limits of Rs.90.0crore (approx.) as on Jul.31, 2020 on the back of strong debtors' realization during Q1FY21.

Going forward, gross cash accruals are expected to moderate in FY21; however will remain sufficient to meet the scheduled debt repayment obligations of Rs.22.92 crore in FY21. Moderation is mainly on account of Covid19 induced slowdown in the demand from the user industries coupled with overall weak macroeconomic environment. Nevertheless, the liquidity position is likely to remain comfortable as the company has decided to infuse additional liquidity in the system by way of enhancement in the working capital limits (awaiting sanction) to the tune of Rs.20 crore in addition to

availment of term loan limits of Rs.40 crore (out of which Rs.18 crore is attributable to covid19 and balance towards reimbursement of past capex and future capex).
The company had availed deferment for interest payment on Cash Credit limits for the month of April-2020 and May-2020; however, it didn't apply for any further deferment/ moratorium under RBI's Covid-19 regulatory package.

Analytical approach: Standalone

Applicable Criteria
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Outlook and Credit Watch to Credit Ratings]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology- Manufacturing Companies]
[Complexity Level of Rated Instruments]
[Factoring Linkages in Ratings]

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 500' 'Green Club plus 700' 'Green Gold platinum', 'Green Gold', 'Green Absolute', '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. e. f from April 1, 2018.

Brief Financials (Rs. crore)	FY19 (Audited)	FY20 (Audited)
Total operating income	1288.79	1273.81
PBILDT	126.90	136.66
PAT	61.29	32.60
Interest coverage (times)	8.57	8.11
Overall Gearing	0.44	0.44

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	-	-	-	110.00	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	-	-	June-2025	67.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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)
2.	Fund-based - LT-Cash Credit	LT	110.00	CARE AA- (Under Credit watch with Negative Implications)	-	1)CARE AA- (Under Credit watch with Negative Implications) (19-Feb-20) 2)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)
3.	Term Loan-Short Term	ST	20.00	CARE A1+ (Under Credit watch with Negative Implications)	-	1)CARE A1+ (Under Credit watch with Negative Implications) (19-Feb-20) 2)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)
4.	Term Loan-Long Term	LT	67.50	CARE AA- (Under Credit watch with Negative Implications)	-	1)CARE AA- (Under Credit watch with Negative Implications) (19-Feb-20) 2)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)
5.	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1+ (Under Credit watch with	-	1)CARE A1+ (Under Credit watch with	1)CARE A1+ (Under Credit watch with	1)CARE A1+ (25-Sep-

				Negative Implications)		Negative Implications) (19-Feb-20) 2)CARE A1+ (20-Nov-19)	Developing Implications) (05-Oct-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (15-Jun-18)	17)

Annexure-3: Complexity

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	Simple
4.	Term Loan-Short Term	Simple

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.

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