

February 22, 2021

Greenpanel Industries Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	10.00	[ICRA]A-(Stable); Assigned
Total	10.00	

*Instrument details are provided in Annexure-1;

Rationale

The assigned rating favourably factors in the strong operational profile of Greenpanel Industries Limited (GIL), characterised by its dominant position in the domestic medium density fibre (MDF) industry with an established brand along with a wide distribution network and extensive experience of the promoters in the wood-based interior infrastructure and decorative segment. The rating also factors in the healthy performance of the company in 9M FY2021, wherein notwithstanding the operating losses in Q1 FY2021 (owing to the Covid-19 led operational disruptions and demand side pressure), the company's OPBDITA increased by ~15% on a YoY basis due to a marked improvement in performance in Q2 FY2021, which continued in Q3 FY2021. The debt coverage indicators of the company also improved substantially in Q2 and Q3 of FY2021. ICRA expects the trend to sustain, going forward. The rating strengths are partially offset by GIL's subdued return indicators (RoCE), primarily due to sub-optimal capacity utilisation of the recently set up MDF plant in Chittoor, Andhra Pradesh. While demand for MDF has witnessed traction in the recent times, the domestic MDF industry continues to be characterised by overcapacity. Besides, sizeable imports of MDF into India resulted in an intense competition for the company. GIL's rating also incorporates its exposure to forex risks, given that around 74% of its consolidated debt (as on March 31, 2020) is denominated in foreign currency of which a significant portion remains unhedged. Currency risks are, however, mitigated by GIL's export earnings as well as an extended loan repayment tenure, up to 2029, which limits the yearly repayment. In addition, the interest payment obligation is also limited given the low interest rate on the foreign currency loan at present.

The Stable outlook on the long-term rating reflects ICRA's opinion that GIL will continue to maintain healthy profitability levels, thus leading to cash accruals remaining comfortable vis-à-vis its debt servicing obligations. The company's low utilisation of its working capital facilities, vis-a-vis its drawing power, also lends a certain degree of financial flexibility.

GIL has sought a moratorium on payments from its lenders as a part of the Covid-19 Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments for March, April and May 2020, were deferred by the company. However, as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not recognised this instance as a default. In addition, GIL had sought deferment of payment on a foreign currency term loan due on April 15, 2020 extended by Ladensbank Baden Wartenburg (LBBW). While the formal approval for deferment was received after the original due date, ICRA has not recognised this instance as a default.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the wood-based interior infrastructure segment – The company benefits from more than two decades of experience of the promoters in the wood-based interior infrastructure segment. While the company was incorporated in December 2017 and remained dormant till the demerger of the MDF division and a part of the plywood division (effective July 1, 2019) of Greenply Industries Limited, the ply division and the MDF division were operative under Greenply Industries Limited since 1990 and 2010, respectively.

Leading player in the MDF segment – GIL is the market leader in the domestic MDF industry with a production capacity of 5,40,00 CBM per annum and a market share of approximately ~33%. The MDF business remains the mainstay of GIL's revenues and profitability. In FY2020, the MDF segment contributed 75% to GIL's segment revenue and 74% to its segment PBIT. The 3,60,000-CBM MDF plant in Chittoor, Andhra Pradesh, which was commissioned in July 2018, is the largest in India and is equipped with European machinery. The geographically diversified production base of GIL with manufacturing units in North (Uttarakhand) and South (Andhra Pradesh) mitigates the risks arising from adverse demand environment in a particular region. Its plants are strategically located near the sources of raw materials. Further, the proximity to ports provides logistical advantages for the plant in Andhra Pradesh as exports contribute a sizeable portion to GIL's sales. The operating profile is further strengthened by GIL's extensive network of 1,400 distributors and 7,000 retailers that are serviced by 15 branches pan India.

Improvement in performance in FY2020 and 9M FY2021 on the back of higher capacity utilisation – GIL witnessed a ~47% YoY increase in its consolidated operating revenue in FY2020 on the back of an improved capacity utilisation of the MDF and ply segments. While capacity utilisation in the plywood segment increased to 78% in FY2020 from 57% in FY2019, that of the MDF segment increased to 60% from 47% during the same period. The operating profit margin also improved by ~340 basis points to 16.3% in FY2020. However, the net profit margins declined to 1.65% in FY2020 from 5.77% in FY2019 owing to the impact of the mark-to-market losses on foreign currency borrowings and one-time provision for exceptional liability of Rs. 10.83 crore, pertaining to previous years when the operations of GIL were a part of Greenply Industries Limited.

Following the Covid-19 led operational disruptions and demand side pressure that led to operating losses in Q1 FY2021, the company has reported a sequential improvement in capacity utilisation and recovery in sales in Q2 FY2021 and Q3 FY2021. While ply volumes (accounts for ~25% of GIL's revenues) reduced ~17% on a YoY basis in 9M FY2021, the MDF volumes (accounts for ~75% of GIL's revenues) registered a growth of ~7% on a YoY basis in 9M FY2021 owing to an increased demand for readymade furniture, leading to a marginal decrease in its consolidated revenues in 9M FY2021 on a YoY basis. ICRA also notes that the company's operating margins improved to 16.8% in 9M FY2021 vis-à-vis 14.5% in 9M FY2020 on the back of cost optimisation, robust volume growth and consequent operating leverage. Improved operating performance and scheduled debt repayments made in the current fiscal resulted in the consolidated Total Debt/OPBITA decreasing to 3.3 times in 9M FY2021 (annualised) from 3.9 times in FY2020.

Credit challenges

Supply overhang of MDF in the domestic market and threat of imports lead to pricing pressure and sub-optimal capacity utilisation thus impacting RoCE – The domestic MDF industry continues to be characterised by overcapacity, given the significant capacity addition that has happened between 2014 and 2018. In addition, the industry faces the threat of imports, notwithstanding some duty protection in the form of basic customs duty and anti-dumping duty from South East Asian countries including China. Consequently, the industry suffers from pricing pressure as well as sub-optimal capacity utilisation that led to a subdued RoCE of 4.9% in FY2020 for the company. In the current fiscal, increased demand for MDF, lower imports into India and consequent high asset sweating resulted in the company reporting a sequential improvement in its RoCE, which stood at ~18% in Q3 FY2021 (annualised). While the full year FY2021 RoCE will be impacted by the subdued performance in Q1 FY2021 due to the Covid-related disruptions, ICRA expects a material improvement in the same vis-à-vis the previous fiscals, helped by higher capacity utilisation.

Exposure to forex risks – Around 74% of GIL's consolidated debt (as on March 31, 2020) was denominated in foreign currency. This exposes GIL to forex risks, more so because a significant portion of the same remains unhedged. A sharp depreciation of the INR against the euro and the US dollar towards the end of FY2020 and subsequently again towards the end of 9M FY2021 resulted in the company reporting forex losses to the extent of ~Rs.25 crore and ~Rs.19 crore respectively, however, most of such losses were mark to market in nature. Currency risks are, however, mitigated by GIL's export earnings as well as an extended tenure (up to 2029) of the loan, which limits yearly repayment and thus cash flow impact on account of any adverse forex movement.

Liquidity position: Adequate

The company has generated positive fund flow from operations in FY2020, supported by healthy cash accruals from the business. Its average fund-based working capital utilisation has remained comfortable over the twelve months ended December 2020 and stood at ~42%. The company had fund-based undrawn working capital limits of ~Rs.66 crore vis-à-vis its drawing power as of end-December, 2020. While GIL has consolidated repayment obligations of about ~Rs.55 crore in FY2021, the company's cash flows are expected to remain comfortable relative to its debt service obligations.

Rating sensitivities

Positive factors – ICRA may upgrade GIL's rating if its consolidated RoCE remains above 15% on a sustained basis.

Negative factors – ICRA may downgrade GIL's rating if there is weaker-than-expected financial performance due to adverse demand scenario, leading to a consolidated Total Debt/OPBDITA of above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL. As on March 31, 2020, the company had one wholly-owned subsidiary that is enlisted in Annexure-2.

About the company

Greenpanel Industries Limited (GIL) was incorporated in December 2017 and remained dormant till the demerger of the MDF segment and a part of the plywood segment of Greenply Industries Limited into GIL. The de-merger was effective from July 1, 2019. The company manufactures wood-based panel products, which include plywood, MDF boards and allied products. GIL has two manufacturing facilities located in Pantnagar, Uttarakhand and Chittoor, Andhra Pradesh with a total capacity of 5,40,000 cubic metre (CBM) for MDF and 10.5 million square meters for plywood. The products manufactured by GIL are sold under the brand name, Greenpanel.

Key financial indicators (audited)

GIL Consolidated	FY2019	FY2020	9M FY2021^
Operating Income (Rs. crore)	599.1	876.6	631.9
PAT (Rs. crore)	34.6	14.5	12.4
OPBDIT/OI (%)	12.9%	16.3%	16.8%
PAT/OI (%)	5.8%	1.6%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2	--
Total Debt/OPBDIT (times)	7.6	3.9	--
Interest Coverage (times)	3.1	3.0	2.6

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 22, 2021				
1	Cash Credit	Long Term	10.00	--	[ICRA]A-(Stable)	--	--	--	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	--	NA	--	10.00	[ICRA]A-(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Greenpanel Singapore Pte. Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

Jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Deepayan Ghosh

+91 33 7150 1220

deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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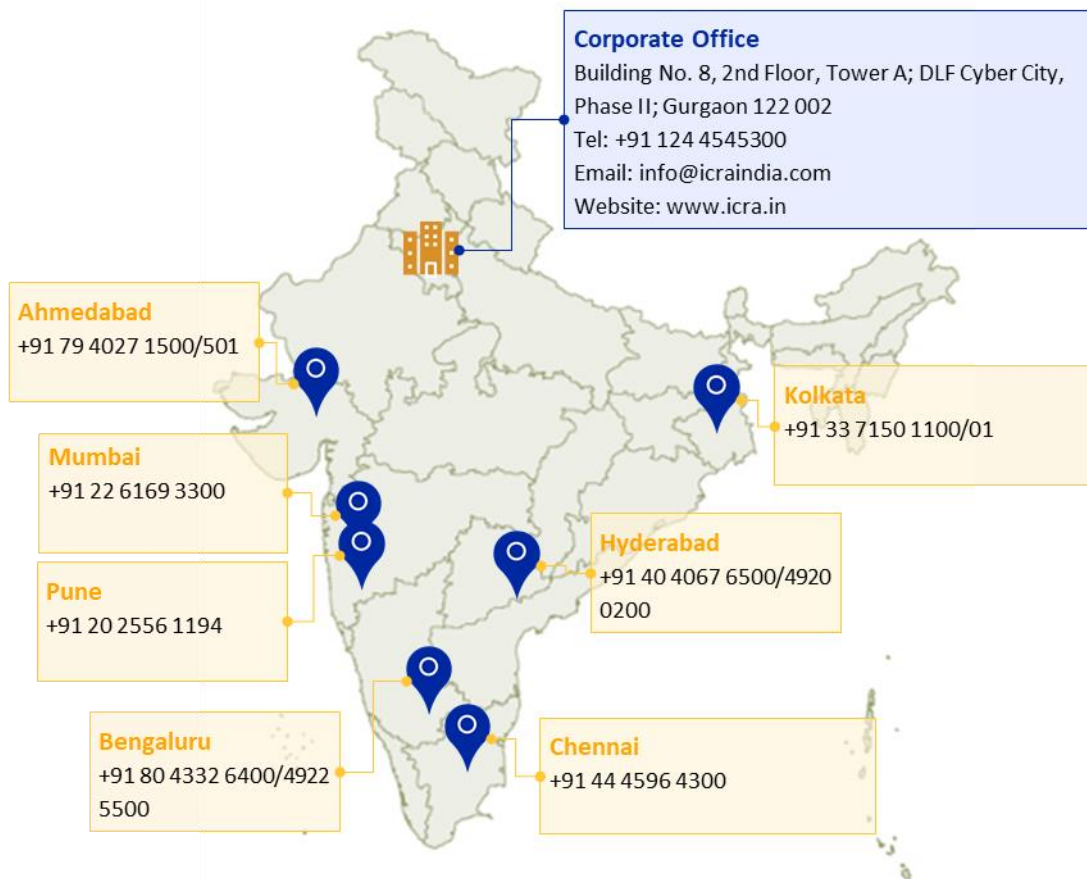


Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



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