

December 10, 2021

Greenpanel Industries Limited: Ratings upgraded to [ICRA]A and [ICRA]A1; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working capital Facilities	100.00	100.00	[ICRA]A; Rating upgraded from [ICRA]A-; Outlook revised to Positive from Stable
Fund based – Term loan	139.63	140.00	[ICRA]A; Rating upgraded from [ICRA]A-; Outlook revised to Positive from Stable
Non-fund based Facilities	100.00	70.00	[ICRA]A1; Rating upgraded from [ICRA]A2+
Total	339.63	310.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improved domestic demand for Medium Density Fibreboard (MDF) supported by growth in ready-made furniture, increased spend on interior works in residential dwelling units, and import substitution. Consequently, Greenpanel Industries Limited's (GIL) consolidated operating revenue witnessed a 16% YoY increase to Rs. 1020.8 crore in FY2021. Despite the second wave of the pandemic in Q1FY2022, GIL is expected to achieve a revenue of around Rs. 1450-1500 crore in FY2022, when compared to a revenue of Rs. 876.6 crore in FY2020. The operating margins improved to 20.4% in FY2021 (PY:16.3%) and to 24.9% in H1FY2022 backed by an increase in net sales realisation of MDF and plyboard and better absorption of fixed costs. The company's total debt declined to Rs. 389.0 crore as on September 30, 2021 (from Rs. 586.5 crore as on March 31, 2020) and it has prepaid around Rs. 80 crore of debt in October 2021, supported by healthy cash generation. As a result, the leverage and coverage indicators of GIL witnessed significant improvement.

The revision in the outlook to Positive factors in the expected improvement in GIL's financial risk profile. The company's revenue is expected to grow at a healthy rate in the near to medium term. Further, GIL's ROCE is likely to improve to above 20% levels in FY2022 and the debt coverage metrics are likely to improve supported by healthy operating margins and prepayment of term loan.

The ratings also favourably factors in the strong operational profile of GIL, characterised by its dominant position in the domestic MDF industry with an established brand along with a wide distribution network and an extensive experience of the promoters in the wood-based interior infrastructure and decorative segment.

The ratings, however, remain constrained by the likely pressure on the MDF prices due to the increasing competition in the industry given the upcoming planned capex and the threat of imports in the medium term, vulnerability of demand to real estate cycles and exposure to forex risks. Further, any significant debt funded capex adversely impacting the leverage, coverage metrics and liquidity would be a key rating sensitivity.

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 5,40,000 CBM per annum. It enjoys a strong brand image and the products are sold under the brand, Greenpanel. The 3,60,000 CBM MDF plant in Andhra Pradesh, commissioned in July 2018, is the largest in India and is equipped with European machinery. The MDF business remains the mainstay of GIL's revenues and profitability, which accounts for 79% of total revenues and 83% of total PBIT in FY2021. The geographically diversified production base of GIL with manufacturing units in North India (Uttarakhand) and South India (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. The operating profile is further strengthened by GIL's extensive network of 2094 distributors and more than 10,000 retailers that are serviced by 15 branches pan India.

Improvement in financial risk profile in FY2021; expected to continue in FY2022 – GIL witnessed a 16% YoY increase in its consolidated operating revenue to Rs. 1020.8 crore in FY2021 on the back of improved domestic demand for MDF, supported by a growth in ready-made furniture, increased spend on interior works in residential dwelling units, and import substitution. While the capacity utilisation at 40% was adversely impacted due to Covid-19 pandemic in H1 FY2021, it witnessed a significant ramp-up to 97% in H2 FY2021 and continued to remain healthy at 93% in H1 FY2022 despite the impact of the second wave of the pandemic in Q1 FY2022. GIL is expected achieve revenues of around Rs. 1,450-1,500 crore in FY2022, compared to revenues of Rs. 876.6 crore in FY2020.

The operating margins improved to 20.4% in FY2021 (PY:16.3%) and to 24.9% in H1FY2022 backed by an increase in net sales realisation of MDF and plyboard and better absorption of fixed costs. The company's total debt declined to Rs. 389.0 crore as on September 30, 2021 (from Rs. 586.5 crore as on March 31, 2020) and it has prepaid around Rs. 80 crore of debt in October 2021, supported by healthy cash generation. Further, the gearing of GIL improved to 0.5 times (0.9 times as on March 31, 2020) as on September 30, 2021 and its interest coverage and TD/OPBIDTA improved to 14.7 times (3.0 times) and 1.1 times (3.9 times) respectively as on September 30, 2021. GIL's ROCE is likely to improve to above 20% levels in FY2022 and the debt coverage metrics are likely to improve supported by healthy operating margins and prepayment of term loan.

Credit challenges

Increasing competition and threat of imports lead to pricing pressure– While the domestic MDF industry is largely organised segment, the planned capacity expansions in the industry in the near to medium term is likely to result in an increase in competition. While ICRA notes that there has been a decline in the imports of MDF in FY2021 due to an increase in shipping costs and raw material price increases, the company faces intense competition from cheaper imports which may lead to pricing pressure, with the pick-up in the MDF imports in the near to medium term. Also, ICRA notes the industry's exposure to vulnerability of demand to real estate cycles.

Exposure to forex risks – With the prepayment of Rs. 80 crore in October 2021 towards foreign currency loan, the total outstanding of the foreign currency loan stood at Rs. 185 crore as on October 31, 2021. This exposes GIL to forex risks as a portion of the same remains unhedged. However, this risk is mitigated to an extent by GIL's export earnings.

Liquidity position: Adequate

The company's liquidity is adequate with cash and cash equivalents of Rs. 91.53 crore as on September 30, 2021. The company has a pending repayment obligation of Rs. 4.97 crore in FY2022 and around Rs. 68.3 crore in FY2023 which can be met comfortably by cash flow from operations. The company has generated positive cash flow from operations over the past two years.

Rating sensitivities

Positive factors – ICRA may upgrade GIL’s ratings if there is a significant increase in its revenues and earnings while maintaining the comfortable leverage, debt coverage metrics and adequate liquidity position.

Negative factors – The outlook could be revised to Stable if there is a decline in GIL’s revenues and earnings or any significant debt-funded capex adversely impacting the leverage, debt coverage metrics and liquidity position on a sustained basis. Specific credit metric include Net debt/OPBDITA above 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials, which include subsidiaries as per 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 metres for plywood. The products manufactured by GIL are sold under the brand name, Greenpanel.

Key financial indicators (audited)

GIL	FY2020	FY2021	H1FY2022 [^]
Operating Income (Rs. crore)	876.6	1020.8	730.5
PAT (Rs. crore)	14.5	68.8	96.8
OPBDIT/OI (%)	16.3%	20.4%	24.9%
PAT/OI (%)	1.6%	6.7%	13.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0	0.8
Total Debt/OPBDIT (times)	3.9	2.2	1.1
Interest Coverage (times)	3.0	5.6	14.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; [^]Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Dec 10, 2021	Mar 03, 2021			Feb 22, 2021
1 Cash credit	Long term	100.0	-	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	
2 Term loan	Long term	140.0	81.25	[ICRA]A (Positive)	[ICRA]A- (Stable)	-	-	-	
3 Non-Fund based Limits	Short term	70.0	-	[ICRA]A1	[ICRA]A2+	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – working capital facilities	Simple
Fund based – Term loan	Simple
Non-fund based facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash credit	-	-	-	100.00	[ICRA]A(Positive)
-	Term Loan 1	FY2021	-	FY2025	60.00	[ICRA]A(Positive)
-	Term Loan 2	FY2020	-	FY2025	80.00	[ICRA]A(Positive)
-	Non-fund based facilities	-	-	-	70.00	[ICRA]A1

Source: Company

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

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

Source: Company

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