Greenpanel Industries Limited

July 31, 2020

Ratings

Sl No.	Facilities/Instrument	Amount(Rs. Cr)	Rating[1]	Rating Action
1	Long term Bank Facilities	177.87	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB+ (Triple B Plus) (Credit watch with negative implications)**
2	Long/Short Term Bank Facilities	70.00	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Revised from CARE BBB+/ CARE A2 (Triple B Plus/A Two) (Credit watch with negative implications)**
	Total Facilities	**247.87 (Rs Two hundred Forty Seven Crore and Eighty Seven Lakh Only)**		

Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from 'credit watch with negative implications' on account of receipt of approval for deferment of instalment payment by the insurance company, Euler Hermis. The ratings were earlier placed on 'credit watch with negative implications' on account of pending approval by the Euler Hermis, for deferment of one installment of term loan (not rated by CARE) due on April 15, 2020 extended by Ladensbank Baden Wartenburg (LBBW). The approval letter has now been received by CARE.

The ratings assigned to the bank facilities of Greenpanel also takes into account experience and track record of promoters, leadership position in the domestic organized MDF industry with satisfactory brand image, extensive distribution network & marketing support, strategic location of the manufacturing units with raw-material linkages, improved operating performance during FY20 (refer to the period April 1 to March 31) with improved capacity utilization and ramping up of production at newly set-up Chittoor plant which led to improved PBILDT and improvement in debt coverage indicators. The rating also takes note of moderate capital structure, mark to market losses on account of foreign currency loan (where repayment is spread over 8.5 years majorly), one time provisions pertaining to availment of area based exemption under Central excise and exposure to subsidiary company.

The ratings are constrained by exposure to foreign exchange fluctuation risk, working capital intensive nature of operations, supply overhang in Indian MDF market leading to intense competition and dominance of unorganized players in the domestic plywood sector. The rating also factors in uncertainty hovering over due to Covid-19 pandemic wherein discretionary spends are being curtailed vis-à-vis significant debt repayment in the near future, post adjustment of moratorium taken for extension of repayment timelines.

Rating Sensitivities

Positive Rating Sensitivities

- Substantial improvement in capacity utilization beyond 75% on a sustained basis.
- Improvement in debt coverage indicators (TD/GCA below 4x) on a sustained basis.

Negative Rating Sensitivities

- Substantial decline in blended average realisation of MDF below Rs.18,000 per CBM
- Any further large scale debt ridden capex leading to deterioration in capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Experience and track record of promoters

Greenpanel was incorporated in December 2017 and remained as an inactive company till the demerger of the MDF division and part of plywood division of Greenply Industries Limited into it. The MDF division was in operation under Greenply since 2010. Accordingly, the business has a satisfactory track record of operation of manufacturing of plywood and MDF (with more than nine years in MDF), being the first major MDF manufacturer in India.

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

The promoters have experience of more than two decades in the interior infrastructure industry. Post demerger, Mr. Shiv Prakash Mittal along with his son is involved with Greenpanel. They are ably supported by senior management team which has extensive experience in the industry.

Leadership position in domestic organized MDF industry with satisfactory brand image
Greenpanel is one of the largest integrated MDF manufacturing companies in the country and commands an established position in the organized MDF market with its quality product and satisfactory brand image. Greenpanel sells its entire product under the brand 'Greenpanel'. Unlike plywood, there are no unorganized players in the MDF sector given high capital requirement for setting up new plant.

Extensive distribution network and marketing support
Distribution network for MDF division catering the market has continued post demerger with the MDF division. Though for plywood division Greenpanel has set up its new distribution network which is supported by its marketing team present across India. Greenpanel has a pan-India marketing network with fifteen branches, 1,400 distributors/stockists and 7,000 retailers across the country. The company is in the process of further enhancing its distribution network.

Strategic location of both the manufacturing units with raw material linkage
Adequate availability of raw material is a long-term driver for the plywood and MDF manufacturers. Key raw material required for manufacturing plywood includes: (1) face veneer i.e. outer and back layer of plywood (~12-15% of raw material cost) (2) core timber (~65-70% of raw material cost) and (3) chemicals (~20-25% of raw material cost). For MDF, timber accounts for roughly 65% of total raw-material cost (which is domestically available) and chemicals account for the remaining 35%. Greenpanel's existing plants are strategically located near to the source of raw-material (i.e. Uttrakhand and Andhra Pradesh) and adjacent to the port (i.e. Krishnapatnam) making the plant preferable for the growing exports market.

Improved capacity utilization in FY20
Greenpanel's first financial year of operation was FY19 post demerger. Prior to that, the manufacturing facility was with Greenply. The sales of Plywood segment was impacted on account of setting up of new distribution network and that of MDF segment was impacted on account of supply overhang in the MDF industry, resulting in lower capacity utilisation (CU) in FY19. However, the CU of both Plywood segment and MDF segment of Greenpanel improved significantly to 78% and 60% respectively in FY20 (with a peak of 81% in Plywood in Q3FY20 and 73% in MDF during Q4FY20) as compared to 57% and 47% respectively in FY19 with the expansion of distribution network for both Plywood and MDF segments and ramp up of production at the newly set up plant. Also steps undertaken by the company to expand its sales in Tier 2 and Tier 3 cities of southern India where the new plant has been set up, contributed to better CU in FY20.

Improved financial performance during FY20 after taking into account mark to market losses on account of foreign currency loan and one time provisions pertaining to availment of area based exemption under Central excise
Greenpanel's total operating income increased by 43.83% y-o-y from 597.77 crore in FY19 to Rs.859.79 crore in FY20 on account of improvement in sales volume of both the plywood and MDF division despite decline in MDF sales realisations. The sales realisation was lower owing to higher sales contribution from export sales of 33.19% in FY20 as compared to 21.73% in FY19. Export sales have lower realisation as compared to domestic market owing to higher competition in global markets.
Net sales volume from plywood witnessed a growth of ~50% y-o-y in FY20 and MDF segment witnessed a y-o-y growth of ~60% in FY20.
The PBILDT margin was stable in FY20 vis-à-vis FY19. Furthermore, in FY20 Greenpanel's interest expense of Rs.47.67 crore was significantly higher as compared to Rs.23.91 crore in FY19 owing to foreign exchange notional loss (Mark to Market basis) of Rs.21.78 crores on borrowings for Andhra MDF plant which impacted the PAT significantly. Greenpanel has foreign currency outstanding debt balance (from Landesbank Baden-Wurttenberg) of Rs.316 crore as on March 31, 2020 which is repayable in the span of 8.5 years. The above notional loss does not tantamount to actual cash outflow for FY20 and considering the tenure of the loan the loss for any particular year will not be significant. Also in FY20 the company has made provision for exceptional liability of Rs.10.83 crore towards Supreme Court order dated April 22, 2020 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.27.09 crore in respect of excess refund received from the Excise department for the period from April 1, 2008 to June 30, 2017. However the above amount will be shared to the extent of 40% by Greenpanel based on the composite scheme of arrangement for demerger. Consequently, Greenpanel as a matter of precaution has provided for Rs.10.83 crore even though it will file a review petition against the same (through Greenply). As a result, PAT in FY20 was Rs.16.20 crore as against Rs.44.13 crore in FY19. However, given the notional nature of above provisions, GCA was Rs.108.86 cr in FY20 (Rs.71.07 cr in FY19) without such provisions.

Moderate capital structure with improvement in debt protection metrics

Overall gearing ratio improved from 0.85x as on March 31, 2019 to 0.80x as on March 31, 2020. The interest coverage ratio (including notional forex loss) stood at 2.85x in FY20 as compared to 3.93x in FY19, majorly on account of the foreign exchange notional loss booked under finance cost. Without considering the notional foreign exchange loss, interest coverage ratio stands improved at 5.53x in FY20 as against 4.67 in FY19. Further, with gradual repayment of scheduled debt and improved GCA, total debt to GCA improved from 8.63x in FY19 to 7.29x in FY20 (adjusted TD/GCA without notional losses stands at 5.11x in FY20 against 8.17x in FY19).

Key Rating Weaknesses

Foreign exchange fluctuation risk

Though Greenpanel is exposed to foreign exchange transactions by way of substantial exports, dependency on import of raw materials and high reliance on foreign currency borrowings, most of the currency fluctuation risks are covered either through natural hedging or through currency hedging undertaken by the company. Exports receivables are hedged by availment of packing credit in dollar terms against the finished goods exported, immediately after the exports. Raw material imports are hedged completely as soon as they are purchased through currency hedging. In FY20, the company exported finished goods worth Rs.136.34 crore and imported raw materials amounting to Rs.33.36 crore.

External commercial borrowings (ECB), of USD 10.45mn (~Rs.79 crore) as on Mar 31, 2020, from Standard chartered bank are also hedged to the extent of currency fluctuations on the principal amount of repayment, and interest rate fluctuation by way of LIBOR hedging. However, currency fluctuation on interest is kept open.

Furthermore, the company has borrowing from Ladensbank Baden Wartenburg (LBBW, a German lender) of EURO 37.86mn (~Rs.316 crore) as on Mar 31, 2020, wherein the loan is linked to 'Euribor' and the same remains unhedged.

The company has an outstanding un-hedged foreign currency borrowing of Rs.322.53 crore as on March 31, 2020 (Rs.407.6 crore as on March 31, 2019). Greenpanel incurred notional forex losses of Rs.21.78 crore in FY20 (Rs.10.46 crore profits in FY19).

Working Capital intensive nature of operations

The operations of the company are working capital intensive in nature on account of moderate inventory period of 80 days as on March 31, 2020 (105 days as on March 31, 2019) owing to large number of product variants & SKUs (50-60 SKUs in MDF segment & 80-100 SKUs in plywood segment). The company provides credit of about 30 days and avail credit from its suppliers of about 50-55 days. The operating cycle of the company stood at 55 days in FY20 (80 days in FY19).

Exposure to subsidiary company

Greenpanel has a fund based exposure of Rs.52.45 crore (Rs.47.10 crore as on March 31, 2019) which is 7.53% of the networth as on March 31, 2020 in its subsidiary company Greenpanel Singapore Pte. Limited. On a consolidated level the networth of Greenpanel stood at Rs.661.21 crore as on March 31, 2020, which is lower than standalone networth of Rs.696.46 crore on account of bought forward losses in the wholly owned subsidiary (Rs.1.84 crore losses in FY20 and Rs.7.82 crore losses in FY19). The subsidiary is currently acting as a commission agent for exports of its products and the management expects the subsidiary to breakeven in the coming years given increasing scale of exports from Andhra Pradesh MDF plant. Exports have to be continued despite lower margins to fulfill export obligations in respect of goods imported under Export Promotion Capital Goods (EPCG) scheme amounting to Rs.336.14 crore as on March 31, 2020. Also owing to set up of new plant and lower domestic demand, export sales are significant to maintain better capacity utilisation for absorption of fixed expenses.

Supply overhang in Indian MDF market leading to intense competition and dominance of unorganized players in the domestic plywood sector

The Indian plywood market (Rs.195 bn in FY19) is dominated by unorganised players, commanding a ~70% share. Although Greenply & Century enjoy strong positions in the organized plywood market, there are number of players operating in both organized and unorganized plywood segment. However, with introduction of E-way bill and GST along with rate reduction from 28% to 18% on plywood and ancillary products, the unorganised sector players have come into the ambit of tax leading to increase in their manufacturing costs. Consequently, the organized players are benefitted in terms of reduced pricing difference between unorganized & organized players.

In contrast, the MDF market (Rs.20 bn in FY19) has lower number of players and mainly dominated by organized players. Greenpanel is the largest player in the MDF segment, accounting for ~29% market share. In the MDF segment, imports accounts for ~25% of total domestic market. In the past the domestic market has witnessed substantial capacity addition which has led to price war in the industry. However, prices are stabilized currently and the management does not expect price correction of MDF in near future, owing to higher capacity availability.

Impact of Covid-19 pandemic

During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments. Consequently the manufacturing and sales operations were shut down at Uttarakhand and Andhra Pradesh. The operations have been commenced in a phased manner since May 27, 2020 after conforming to the guidelines of the regulatory authorities. The same has impacted company's operations during March to May 2020. However, as per the management, the company's capital and financial resources remains intact. The company incurred loss during the lockdown period owning to fixed expenses and lower capacity utilisations. However, exact impact on profitability is yet to be determined. The company has availed moratorium facility, in both phases (except from Axis bank where the moratorium was taken only in first phase) falling due during the period to maintain proper liquidity position. After easing out of lockdown the company has not faced any major supply chain problem and with easing restriction the demand for the product is gradually recovering.

Liquidity: Adequate

The liquidity position of Greenpanel is adequate with FY20 debt repayment obligations already been paid. In Q1FY21, the company had a repayment obligation (after availing moratorium) of Rs.5.33 crore which also has been paid. The company had a repayment obligation of Rs.16 crore to Ladensbank Baden Wartenburg (not rated by CARE) on April 15, 2020, for which deferment has been taken by the company. Further the company has also received moratorium for Rs.5.57 crore from Axis bank and HDFC bank during the period. Hence, in FY21 the debt repayment obligation stands reduced to Rs.51.88 crore from Rs.79.50 crore (out of which Rs.5.33 crore is already repaid, Rs.9.33 crore to be repaid in Q2FY21 and Rs.37.22 crore in H2FY21) which would be met entirely from projected cash accruals. Greenpanel has Rs.50.25 crore of unutilised fund based limits and bank balance as on June 30, 2020 (the average utilisation of the fund based limits was 64.67% during the last twelve months ending June'20) which provides additional liquidity to meet the debt repayment obligations in FY21. The company also maintained DSRA of Rs.12 crore (for three quarter principal payment obligation of HDFC bank) as on Mar 31, 2020 which further acts as liquidity support.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

About the Company

Greenpanel was incorporated in December, 2017 and remained as an inactive company till the demerger of the MDF segment and part of plywood segment of Greenply Industries Limited (Greenply) into Greenpanel. Greenply (rated CARE AA-/CARE A1+; Credit Watch with negative implications) was incorporated in August, 1984 and is engaged in manufacturing of plywood, decorative veneers and allied products. Greenpanel is a wood based interior infrastructure company, primarily engaged in manufacture of wood- based panel products which includes plywood, MDF boards and allied products.

Greenpanel has two manufacturing facilities of MDF one each in Uttarakhand and Andhra Pradesh with combined installed capacity of 540000 CBM. The company also has a manufacturing facility of plywood with installed capacity of 10.5 million square meters at Pantnagar, Uttarakhand. The products manufactured by Greenpanel are sold across the country under the brand name of "Greenpanel".

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	597.77	859.80
PBILDT	93.87	135.63
PAT	44.13	16.20
Overall gearing (times)	0.85	0.80
Interest coverage (times)	3.93	2.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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-Proposed fund based limits	-	-	-	80.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	70.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	March 2025	97.87	CARE BBB+; Stable

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.	Fund-based - LT-Proposed fund based limits	LT	80.00	CARE BBB+; Stable	1)CARE BBB+ (Under Credit watch with Negative Implications) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	70.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+ / CARE A2 (Under Credit watch with Negative Implications) (28-Apr-20)	1)CARE BBB+; Stable / CARE A2 (28-Nov-19)	-	-
3.	Fund-based - LT-Term Loan	LT	97.87	CARE BBB+; Stable	1)CARE BBB+ (Under Credit watch with Negative Implications) (28-Apr-20)	1)CARE BBB+; Stable (28-Nov-19)	-	-

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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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