GREENPANEL®

GPIL/2019-2020
29th November 2019

The Manager
BSE Limited
Department of Corporate Services
Floor 25, P. J. Towers, Dalai Street
Mumbai-400001
Scrip Code: 542857

The Manager
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kuria Complex
Bandra (E),
Mumbai - 400 051
Symbol - GREENPANEL

Dear Sir/Madam,

Sub: Credit Rating

This is to inform you that CARE Ratings Limited (formerly known as Credit Analysis and Research Ltd.) has assigned the credit ratings for Bank facilities of our Company as mentioned below:

Facilities	Amount (Rs. In Crores)	Rating	Remarks
Long Term Bank Facilities	192.53	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long/ Short Term Bank Facilities	70.00	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Assigned
Total	262.53 (Rupees Two Hundred Sixty-Two Crore and Fifty-Three Lakh only)		

The above is for your information and records.

Thanking You
Yours faithfully
FOR GREENPANEL INDUSTRIES LIMITED

SHIV PRAKASH MITTAL
EXECUTIVE CHAIRMAN
DIN: 00237242

Encl: CARE Ratings Press Release

Greenpanel Industries Limited

November 28, 2019

Ratings

Sl No.	Facilities/Instrument	Amount(Rs. Cr)	Rating[1]	Rating Action
1	Long term Bank Facilities	192.53	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Assigned**
2	Long/Short Term Bank Facilities	70.00	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Assigned**
	Total Facilities	**262.53 (Rs Two hundred Sixty Two crore and Fifty Three lakh only)**		

Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Greenpanel Industries Limited (Greenpanel) takes into account satisfactory track record of operations and experience of promoters, leadership position in the domestic organized MDF industry with strong brand image, extensive distribution network & marketing support, strategic location of all the manufacturing units with strong raw-material linkage, moderate capacity utilization in FY19 (refer to the period April 1 to March 31) with improvement in H1FY20 (refers to the period April 1 to September 30), satisfactory financial performance during FY19 and H1FY20 albeit decline in profitability margins and moderate capital structure. The rating also takes into consideration successful commencement of operation of new MDF plant at Chittoor Andhra Pradesh in July 2018.

The ratings is however constrained by the foreign exchange fluctuation risk, working capital intensive nature of operations, exposure to subsidiary, supply overhang in Indian MDF market leading to intense competition and dominance of unorganized sector players in the domestic plywood sector. The rating also factor in significant debt repayment in the near future which is expected to be met through ramping up of scale of operations with the newly commissioned plant and remains crucial.

Rating Sensitivities

Positive Rating Sensitivities

Improvement in capacity utilization of its recently commenced MDF plant at Chittoor, Andhra Pradesh leading to healthy profitability of the company.

Improvement in debt coverage indicators with healthy liquidity profile.

Negative Rating Sensitivities

Substantial decline in average realization of MDF

Inability to improve the performance of its subsidiaries

Deterioration in capital structure due to large debt funded capex in the near future, if any.

Inability to improve the capacity utilization leading pressure on the profitability margins and debt repayment obligation.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with satisfactory track record in operations

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 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.

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 strong 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 strong 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.

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

Pan India presence through a strong distribution network and marketing support
Distribution network for MDF division catering the market has continued post demerger with the MDF divison. 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, 1,100 distributors/stockists and 5,000 retailers across the country.

Strategic location of both the manufacturing units with strong 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 75% of total raw-material cost (which is domestically available) and chemicals account for the remaining 25%. 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.

Moderate capacity utilization in FY19 with improvement in H1FY20
Greenpanel has set up a new MDF plant at Chittoor, Andhra Pradesh with an installed capacity of 3,60,000 cu. mt and commenced commercial production from July 1, 2018. Thus, the aggregate MDF capacity of Greenpnel is 5,40,000 cu. mt. The capacity utilization (CU) of both Plywood segment and MDF segment remained low at 57% and 47% respectively in FY19 due to lower sales volume of MDF division on account of oversupply in the industry and for plywood on account of setting up of new distribution network post demerger. However, CU has improved for both the plywood and MDF in H1FY20 at ~80% and 56% respectively.

Satisfactory financial performance during FY19 and H1FY20 albeit dip in profitability margins
Greenpanel's first financial year of operation was FY19 post demerger. Prior to that, the manufacturing facility was with Greenply.
The total operating income declined to Rs.597.77 crore in FY19 vis-à-vis Rs.788.42 crore in FY18. The net sales from plywood segment witnessed substantial de-growth of ~53% y-o-y in FY19 due to lower sales volume (on account of setting up of new distribution network post-demerger) coupled with marginal decline in average realization. Whereas, the MDF segment witnessed de-growth of ~9% with substantial decline in average realisation despite improvement in sales volumes and higher proportion of MDF sales being derived from value added products.
PBILDT margin declined to 15.70% in FY19 vis-à-vis 23.52% in FY18 on account of lower average realisation from both the plywood and MDF segment. PAT margin also declined to 7.35% in FY19 as against 12.96% in FY18 with lower PBILDT coupled with substantial increase in capital charges with commissioning of the Andhra Pradesh MDF plant from July 2018. However in FY19 due to deferred tax asset the PAT is higher than PBT, otherwise the same would have been further impacted.
During H1FY20 Greenpanel reported PAT of Rs.8.21 crore on total operating income of Rs.389.24 crore vis-à-vis Rs.19.33 crore on total operating income of Rs.254.12 crore in H1FY19. PAT reported is higher in H1FY19 on account of higher incidence of deferred tax asset and depreciation pertaining to Andhra Pradesh MDF plant being charged from July 1, 2018 onwards.

Moderate capital structure
The total debt as on March 31, 2019 stood at Rs.580.30 crore with completion of drawdown of term loan during FY19 for MDF unit at AP and increase in working capital borrowings. Consequently, overall gearing ratio remained moderate at 0.85x as on March 31, 2019 with networth base of Rs.679.64 crore as on March 31, 2019. On a consolidated level the networth stood at Rs.644.77 crore as on March 31, 2019 on account of loss in wholly owned subsidiary in Singapore. The management maintains that going forward the subsidiary will act as commission agent for exports of its products and also expects the subsidiary to breakeven given increasing scale of exports from Andhra Pradesh MDF plant.

Key Rating Weaknesses
Foreign exchange fluctuation risk
Greenpanel is exposed to foreign exchange fluctuation risk due to dependency on import of raw materials, export of finished goods and high reliance on foreign currency borrowings. Greenpanel uses derivatives like forward contracts and swaps to hedge exposure to foreign currency risk.

Working Capital intensive nature of operations
The operations of Greenpanel are working capital intensive in nature on account of its high inventory period of 105 days as on March 31, 2019 due to large number of product variants & SKUs (50-60 SKUs in MDF segment & 80-100 SKUs in plywood segment). The operating cycle of the company stood at 80 days in FY19.

Low debt protection metrics
Total debt to GCA was high at 8.63x in FY19 in view of debt pertaining to newly commissioned Andhra Pradesh unit. Consequently, the company is having significant debt repayment obligation in near future. It is expected that the company will ramp up its scale of operation of the newly commissioned MDF plant enabling them to generate enhanced cash accruals which shall support Greenpanel to meet its debt obligation, consequently leading to improvement in debt protection metrics.

Exposure to subsidiary company
Greenpanel has a fund based exposure of Rs.47.10 crore which is 6.93% of the networth as on March 31, 2019 in its subsidiary company.

Intense competition due to unorganized nature of plywood industry and new capacities in MDF segment
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 ~23% market share. In the MDF segment, imports accounts for 35-40% of total domestic market. In the past the domestic market has witnessed substantial capacity addition which has led to price war in the industry.

Liquidity: Adequate
The liquidity position of the company was comfortable with GCA of Rs.67.26 crore in FY19 vis-à-vis debt repayment obligation of Rs.12.19 crore. In FY20 & FY21 Greenpanel has significant debt repayment obligation of Rs.79.50 crore (out of which Rs.59 cr has already been repaid as on Oct 31, 2019) and Rs.72.77 crore respectively. It is expected that the company will ramp up its scale of operation of the newly commissioned MDF plant enabling them to generate enhanced cashflows which shall support to meet its debt obligation. Further the average utilisation of the fund based limits was 64.15% during the last twelve months ending September'19. Greenpanel has cash and cash equivalents of Rs.17 crore as on September 30, 2019. The company also maintained DSRA of Rs.12 crore as on Oct 31, 2019 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
Consolidation and Factoring linkages in rating

About the Company
Greenpanel Industries Limited (GIL) 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-; Stable/CARE A1+) 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 Pantnagar, Uttarakhand and Chittoor, 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)	H1FY20 (U/A)
Total operating income	597.77	389.24
PBILDT	93.87	57.17
PAT	44.13	8.21
Overall gearing (times)	0.85	0.84
Interest coverage (times)	3.93	4.01

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	-	-	-	112.53	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 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.	Fund-based - LT-Proposed fund based limits	LT	80.00	CARE BBB+; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	70.00	CARE BBB+; Stable / CARE A2	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	112.53	CARE BBB+; Stable	-	-	-	-

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.