August 18, 2022

Greenpanel Industries Limited: Ratings upgraded; outlook revised to Stable

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+ (Stable); rating upgraded from [ICRA]A; outlook revised to Stable from Positive
Fund based – Term loan	80.00	80.00	[ICRA]A+ (Stable); rating upgraded from [ICRA]A; outlook revised to Stable from Positive
Non-fund based facilities	100.00	100.00	[ICRA]A1+; rating upgraded from [ICRA]A1
Unallocated limits	60.00	60.00	[ICRA]A+ (Stable); rating upgraded from [ICRA]A; outlook revised to Stable from Positive
Total	**340.00**	**340.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the improvement in Greenpanel Industries Limited's (GIL) financial risk profile as reflected by healthy growth in revenues and operating margins, which along with reduction in debt resulted in strong debt protection metrics in FY2022. The debt protection metrics are expected to remain healthy going forward, despite its debt-funded capex plans during FY2023-FY2025 towards medium density fibreboard (MDF) capacity, which is likely to be funded with a debt to equity mix of 60:40.

GIL's operating income (OI) grew by 59% year-on-year (YoY) to Rs. 1,625 crore in FY2022 on the back of improved domestic demand for MDF, driven by growth in ready-made furniture, increased spend on interior works in residential dwelling units, and import substitution. GIL is expected to witness an increase in revenues by 8-9% in FY2023. The operating margins increased to 26.7% in FY2022 and 28.3% in Q1 FY2023 from 20.3% in FY2021, supported by higher net sales realisation and better absorption of overheads. With reduction in total debt to Rs. 315.6 crore as of March 2022, there has been improvement in leverage and debt coverage metrics. Despite the debt-funded capex plans, the debt protection metrics are expected to remain strong in FY2023 backed by the likely healthy operating margins and limited debt repayment obligations.

The rating favourably factors in GIL's strong operational profile, characterised by its dominant position in the domestic 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 ratings, however, are constrained by GIL's exposure to the inherent project implementation risk for the proposed capex with respect to timely receipt of approvals, risk of time and cost overruns, and post implementation risk related to ramp-up and stabilisation of the new plant. The ratings factor in the likely pressure on MDF prices due to increasing competition in the industry, given the upcoming planned capex and threat of imports in the near term, vulnerability of demand to real estate cycles and exposure to forex risks.

The Stable outlook on the long-term rating reflects ICRA's opinion that GIL's credit profile will be supported by its strong brand presence, distribution network, healthy leverage and strong liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in wood-based interior infrastructure segment – GIL's promoters have more than two decades of experience 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 6,60,000 cubic metre (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. The MDF business remains the mainstay of GIL's revenues and profitability, which accounted for 84% of its total revenues and 83% of the total PBIT in FY2022. Its geographically diversified production base 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. The operating profile is further strengthened by GIL's extensive network of 2,535 distributors and more than 12,500 retailers that are serviced by 17 branches across India.

Improvement in financial risk profile in FY2022; expected to remain healthy in FY2023 – GIL's OI grew by 59% YoY to Rs. 1,625 crore in FY2022 on the back of improved domestic demand for MDF, driven by growth in ready-made furniture, increased spend on interior works in residential dwelling units, and import substitution. GIL is expected to witness an increase in revenues by 8-9% in FY2023. The operating margins improved to 26.7% in FY2022 and to 28.3% in Q1 FY2023 from 20.3% in FY2021, supported by higher profitability from MDF due to increase in net sales realisation and better absorption of overheads. This along with the reduction in total debt by 35% to Rs. 315.6 crore as of March 2022 resulted in an improvement in leverage with net debt/OPBIDTA at 0.3 times (PY:2.3 times) and TOL/TNW at 0.6 times (PY:1.0 times) and debt coverage metrics, interest cover at 25.3 times (PY:5.6 times) and DSCR at 4.1 times (PY:2.1 times). Despite the debt-funded capex plans, the debt protection metrics are expected to remain strong in FY2023, backed by healthy operating margins and limited debt repayment obligations.

Credit challenges

Increasing competition and threat of imports lead to pricing pressure – While the domestic MDF industry is primarily an organised segment, the planned capacity expansions in the industry in the near to medium term is likely to result in an increase in competition and lead to pricing pressure. Despite limited imports of MDF in FY2022 due to higher shipping costs and raw material price hikes, the company faces intense competition from cheaper imports. This may lead to pricing pressure, with pick up in MDF imports in the near to medium term. Also, ICRA notes the industry's exposure to vulnerability of demand to real estate cycles.

Project implementation risk associated with large capex – GIL announced a capex of Rs. 600 crore towards MDF capacity of 2,31,000 CBM (expected commercial operations date [CoD]: Q1 FY2025), which is likely to be funded with a debt to equity mix of 60:40. The company is exposed to the inherent project implementation risk for the proposed capex with respect to timely receipt of approvals, time and cost overruns, and post implementation risk related to ramp-up and stabilisation of the new plant.

Exposure to forex risks – The total outstanding foreign currency loan stood at Rs. 205.94 crore as on March 31, 2022. This exposes GIL to forex risks as a portion of the same remains unhedged. However, this risk is mitigated to an extent by its export earnings.

Liquidity position: Strong

The company's liquidity is strong with cash and cash equivalents of Rs. 192.1 crore as on June 30, 2022. It has repayment obligation of Rs. 46.8 crore for FY2023, which can be met comfortably by cash flow from operations. Further, GIL plans to set up a new MDF plant at an additional capacity of 2,31,000 CBM per annum, which is to be funded by a mix of internal accruals and debt. Of the total project cost of Rs. 600 crore, the total cash outflow in FY2023 is expected to be around Rs. 100 crore, which is likely to be met from its internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings if there is a sustained increase in its revenues while maintaining healthy profitability and strong debt protection metrics and liquidity position

Negative factors – ICRA could downgrade the ratings if there is significant sustained pressure on GIL's revenues and earnings or higher-than-anticipated debt-funded capex adversely impacts its debt protection metrics and liquidity position on a sustained basis. Specific credit metric include Net debt/OPBIDTA above 1.5 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 II

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. It has two manufacturing facilities located in Pantnagar, Uttarakhand and Chittoor, Andhra Pradesh with a total capacity of 6,60,000 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

GIL consolidated	FY2021	FY2022
Operating income (Rs. crore)	1020.8	1625.0
PAT (Rs. crore)	68.8	240.5
OPBDIT/OI (%)	20.3%	26.7%
PAT/OI (%)	6.7%	14.8%
Total outside liabilities/Tangible net worth (times)	1.0	0.6
Total debt/OPBDIT (times)	2.3	0.7
Interest coverage (times)	5.6	25.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="5">Current Rating (FY2023)</th><th colspan="5">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on March 31, 2022 (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in</th><th colspan="2">Date & Rating in FY2022</th><th colspan="2">Date & Rating in FY2021</th><th>Date & Rating in FY2020</th></tr>
<tr><th>Aug 18, 2022</th><th>July 22, 2022</th><th>Jan 07, 2022</th><th>Dec 10, 2021</th><th>Mar 03, 2021</th><th>Feb 22, 2021</th><th>-</th></tr>
<tr><td>1</td><td>Cash credit</td><td>Long-term</td><td>100.00</td><td>-</td><td>[ICRA]A+ (Stable)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A- (Stable)</td><td>[ICRA]A- (Stable)</td><td>-</td></tr>
<tr><td>2</td><td>Term loan</td><td>Long-term</td><td>80.00</td><td>29.5</td><td>[ICRA]A+ (Stable)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A (Positive)</td><td>[ICRA]A- (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>3</td><td>Non-fund based limits</td><td>Short term</td><td>100.00</td><td>-</td><td>[ICRA]A1+</td><td>[ICRA]A1</td><td>[ICRA]A1</td><td>[ICRA]A1</td><td>[ICRA]A2+</td><td>-</td><td>-</td></tr>
<tr><td>4</td><td>Unallocated limits</td><td>Long term</td><td>60.00</td><td>-</td><td>[ICRA]A+ (Stable)</td><td>[ICRA]A (Positive)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
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&= Under watch with developing implications

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
Unallocated limits	Not Applicable

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan – 1	FY2020	-	FY2025	80	[ICRA]A+ (Stable)
-	Cash credit	-	-	-	100	[ICRA]A+ (Stable)
-	Non-fund based facilities	-	-	-	100	[ICRA]A1+
-	Unallocated limits	-	-	-	60	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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