October 01, 2024

Greenpanel Industries Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Working capital facilities	115.00	128.00	[ICRA]A+ (Stable); reaffirmed
Short-term - Non-fund based facilities	115.00	40.00	[ICRA]A1+; reaffirmed
Long-term Unallocated	10.00	0.00	-
Total	**240.00**	**168.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Greenpanel Industries Limited (GIL) factors in the comfortable leverage and debt coverage metrics estimated for the company in FY2025, despite moderation in its overall profitability and ongoing debt-funded capex. GIL holds market leadership position in the domestic medium density fibreboard (MDF) industry with a market share of around 21%[1] as of March 2024, supported by its established brand, wide distribution network and the extensive experience of its promoters in the wood-based interior infrastructure and decorative segment. GIL's total debt is expected to increase to around Rs. 375-390 crore as of March 2025 (PY: Rs. 296 crore) due to the capex being undertaken by the company. Though GIL is undertaking capex of around Rs. 600 crore towards MDF plant with a capacity of 2,31,000 cubic metres (CBM) per annum (expected commercial operations date [CoD]: Q3 FY2025) funded in debt to equity of around 1:1, the debt protection metrics are likely to remain comfortable with Total Debt/OPBIDTA estimated at below 2.0 times as of March 2025 (PY: 1.2 times) and DSCR of around 3.5 times as of March 2025 (PY: 3.7 times). The ratings also factor in the company's strong liquidity position with unencumbered cash and cash equivalents of Rs. 177.5 crore as on June 30, 2024, and undrawn working capital limits of Rs. 128 crore.

The ratings are, however, constrained by the company's weak operating performance in FY2024 and Q1 FY2025 due to pricing pressures and elevated input costs. GIL's operating income (OI) fell by 12% to Rs. 1,567 crore in FY2024 and by 5.5% YoY in Q1 FY2025 to Rs. 365 crore, on account of decline in sales volumes and realisation, driven by heightened domestic competition with large capacity additions in the industry in recent years and increased dumping of cheaper imports from Southeast Asian countries of Vietnam, Thailand, etc. The company's operating profit margins (OPM) declined significantly to 15.8% in FY2024 from 23.5% in FY2023 due to increase in timber prices and other operating overheads, lower volumes, and decline in sales realisations. The OPM declined further to 9.9% in Q1 FY2025 due to elevated timber prices and decline in sales realisation. Nonetheless, ICRA expects the company's OPM to improve in the subsequent quarters and remain in the range of 13-14% for FY2025, supported by estimated pick-up in sales volumes through strengthening of dealer network, managing input costs by mixing different types of timber and undertaking cost-saving measures. The ratings take note of the large ongoing debt-funded capex and the risks related to ramp-up and stabilisation of the capacity post completion. The company also remains constrained by vulnerability of the demand to real estate cycles, and exposure to volatility in raw material prices and forex exchange rates.

[1] *As per GIL annual report of FY2024.*

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, wide distribution network, expected improvement in operating margins, comfortable leverage and strong liquidity position.

Key rating drivers and their description

Credit strengths

Comfortable leverage and debt coverage metrics – GIL's net debt remained low at Rs. 123.9 crore as of June 2024. Though GIL is undertaking capex of around Rs. 600 crore towards MDF plant with a capacity of 2,31,000 cubic metres (CBM) per annum (expected commercial operations date [CoD]: Q3 FY2025) funded in debt to equity of around 1:1, the debt protection metrics are likely to remain comfortable with Debt/OPBIDTA estimated at below 2.0 times as of March 2025 (PY: 1.2 times) and DSCR of around 3.5 times as of March 2025 (PY: 3.7 times).

Extensive experience of promoters in the wood-based interior infrastructure segment – GIL's promoters have more than two decades of experience in the wood-based interior infrastructure segment. 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. However, the ply and MDF divisions were operative under Greenply Industries Limited since 1990 and 2010, respectively.

Leading player in MDF segment – GIL is the market leader in the domestic MDF industry with a market share of 21% as of March 2024, supported by an established wide distribution network and the extensive experience of its promoters in the wood-based interior infrastructure and decorative segment. It has a production capacity of 6,60,000 CBM per annum and enjoys a strong brand image with products being sold under the brand, Greenpanel. The MDF business remains the mainstay of GIL's revenues and profitability, which accounted for 90% of its total revenues in FY2024. Its geographically diversified production base with manufacturing units in North (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 2,300 distributors and more than 12,000 retailers that are serviced by 19 branches across India.

Credit challenges

Weak operating performance in FY2024 and Q1 FY2025 due to pricing pressures and elevated input costs – GIL's operating income (OI) fell by 12% to Rs. 1,567 crore in FY2024 and by 5.5% YoY in Q1 FY2025 to Rs. 365 crore, on account of decline in sales volumes and realisation, driven by heightened domestic competition with large capacity additions in the industry in recent years and increased dumping of cheaper imports from Southeast Asian countries of Vietnam, Thailand, etc. The company's operating profit margins (OPM) declined significantly to 15.8% in FY2024 from 23.5% in FY2023 due to increase in timber prices and other operating overheads, lower volumes, and decline in sales realisations. The OPM declined further to 9.9% in Q1 FY2025. Nonetheless, ICRA expects the company's OPM to improve in the subsequent quarters and remain in the range of 13-14% for FY2025, supported by estimated pick-up in sales volumes through strengthening of dealer network, managing input costs by mixing different types of timber and undertaking cost-saving measures.

Large ongoing debt-funded capex – GIL is undertaking capex of around Rs. 600 crore towards MDF of 2,31,000 CBM per annum capacity, with estimated COD in Q3 FY2025. As of March 2024, around Rs. 250 crore of the cost was yet to be incurred, exposing the company to residual execution risk. The company also remained exposed to post-implementation risk related to ramp-up and stabilisation of the new capacity.

Exposure to volatility in raw material prices and foreign exchange rates – The company remains exposed to fluctuations in prices of key raw materials (timber), which have shown significant volatility and increased sharply over the last 12-15 months, impacting its operating profit margins in FY2024 and Q1 FY2025. The company also faces forex risk for its outstanding foreign currency loan of Rs. 301 crore as of June 30, 2024, though it is mitigated to an extent by its export earnings.

Environmental and Social Risks

Environmental considerations: Manufacturing of wooden panel products requires a substantial use of timber and wooden logs, primarily procured from timber plantations, while there is some dependence on forest wood, which is imported. GIL also emits formaldehyde during manufacturing and consumes fuel with dependence on fossil fuels. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for GIL. The profitability and cash flows could be under pressure, if it is not able to fully pass on the higher compliance costs to the customers.

Social considerations: The social risks relate to the safety of employees involved in the manufacturing and transportation of wood panel products and GIL has made investments in mechanisation to enhance physical safety.

Liquidity position: Strong

The company's liquidity is strong, with free cash and liquid investments of Rs. 177.5 crore as of June 30, 2024. It has repayment obligation of around Rs. 31 crore for FY2025, which can be met comfortably by its cash flow from operations. As of June 30, 2024, it had available unutilised sanctioned working capital limits of Rs. 128.0 crore and undrawn term loan of Rs. 58.8 crore, which support its liquidity. GIL is setting up a new MDF plant at an additional capacity of 2,31,000 CBM per annum with a budgeted cost of Rs. 600 crore, of which Rs. 290 crore (sanctioned in Q2 FY2024) will be debt funded and the remaining will be funded by its internal accruals. It is likely to maintain free cash and liquid investments of over Rs. 100 crore, on a sustained basis, despite the commitments for the ongoing capex.

Rating sensitivities

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

Negative Factor – ICRA could downgrade the ratings, if there is a significant sustained pressure on GIL's revenues and earnings or increase in indebtedness which impacts its debt protection metrics and liquidity position on a sustained basis. Specific credit metric include OPBITDA margin below 11% 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 standalone financials.

** The rating approach has been changed from Consolidated to standalone as the only subsidiary of the company i.e. Greenpanel Singapore Pte Limited has ceased its operations from October 2022 and was winded up in December 2023*

About the company

Greenpanel Industries Limited (GIL) was incorporated in December 2017 and remained dormant till the demerger of MDF segment and part of plywood segment of Greenply Industries Limited into GIL. The demerger was effective from July 1, 2019.

The company manufactures wood-based panel products, which includes MDF boards, plywood 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 of MDF and 10.5 million square metres of plywood. The products manufactured by GIL are sold across the country under the brand name of Greenpanel. The company is setting up a new MDF plant at its existing manufacturing unit in Chittoor, Andhra Pradesh, with an additional installed capacity of 2,31,000 CBM per annum, which is expected to commence operations from Q3 FY2025.

Key financial indicators (audited)

	FY2023	FY2024	Q1FY2025
Operating income	1,782.9	1,567.3	365.0
PAT	256.5	142.7	15.7
OPBDIT/OI	23.5%	15.8%	9.9%
PAT/OI	14.4%	9.1%	4.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.5	1.2	-
Interest coverage (times)	22.0	20.1	153.5

Source: Company, ICRA Research; Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years									
				FY2024		FY2023				FY2022			
	Type	Amount Rated (Rs Crore)	October 01, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Working capital facilities	**Long term**	**128.00**	**[ICRA]A+ (Stable)**	Sep 12, 2023	[ICRA]A+ (Stable)	Aug 18, 2022	[ICRA]A+ (Stable)	Jul 22, 2022	[ICRA]A (Positive)	Jan 07, 2022	[ICRA]A (Positive)	Dec 10, 2021	[ICRA]A (Positive)
Fund-based – Term loan	**Long-term**	-	-	Sep 12, 2023	-	Aug 18, 2022	[ICRA]A+ (Stable)	Jul 22, 2022	[ICRA]A (Positive)	Jan 07, 2022	[ICRA]A (Positive)	Dec 10, 2021	[ICRA]A (Positive)
Non-fund-based facilities	**Short-term**	**40.00**	**[ICRA]A1+**	Sep 12, 2023	[ICRA]A1+	Aug 18, 2022	[ICRA]A1+	Jul 22, 2022	[ICRA]A1	Jan 07, 2022	[ICRA]A1	Dec 10, 2021	[ICRA]A1
Unallocated – Long-term	**Long term**	-	-	Sep 12, 2023	[ICRA]A+ (Stable)	Aug 18, 2022	[ICRA]A+ (Stable)	Jul 22, 2022	[ICRA]A (Positive)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Working capital facilities	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 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Working capital facilities	NA	NA	NA	128.00	[ICRA]A+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	40.00	[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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