

Business India

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Moving with the times

Till the late 70s solid wood dominated the furniture market. The emergence of plywood has transformed the equation. Those with money have always preferred solid wood rather than plywood to make a luxury lifestyle statement, while the mass market went in for plywood. 80-85 per cent of the market still consumes plywood, but the entry of MDF (Medium Density Fibre-board) in India is now changing the rules of the game.

MDF usage is gaining traction as India's population slowly shifts towards readymade furniture due to rising disposable income, rapid urbanisation and replacement demand. The culture of ready-to-move-in offices and retail outlets with low-cost modular furniture and interior decoration, is also gaining popularity. Kolkata-based Greenpanel Industries Limited, a publicly traded company closely watched market trends and took the lead in growing with the industry. Today it has emerged as India's market leader in MDF with a 28 per cent share in the ₹3,000 crore industry. The other significant players are Rushil Decor, Pioneer Panel Products, Centuryply and Action TESA. "We have set the trend for MDF. Our USP is consistent quality backed by modern technology, cost efficient and maintaining a strict delivery schedule," claims Shobhan Mittal, 41, managing director.

MDF is an engineered wood product formed by breaking down hardwood or softwood into wood fibres, often in a defibrator, combining it with wax and a resin binder, and forming panels by applying high temperature and pressure. MDF is versatile and has many unique features which have helped make it a preferred choice compared to the other wood boards like chipboards, layer boards, hard fibre boards, etc. The range of applications of MDF is increasing because of its qualities/characteristics and ease of working.

"Price sensitive Indian consumers ask two basic questions when purchasing any products: is it affordable? Will it last long? And the answer is yes



COURTESY: GREENPANEL

Mittal: game changer

Greenpanel strengthens its hold on the evolving market

for MDF," explains Greenpanel chairman S.P. Mittal, a veteran in the wood panel industry. "MDF is eco-friendly and produced with renewable agroforestry wood. On average it is 35 per cent cheaper than plywood," adds Mittal.

At present 60 per cent of the consumption of MDF is from commercial usage like e-commerce, IT companies, schools, government departments, infrastructure projects. It is now getting popular for residential too. "Greenpanel's quality and diverse product range makes us the customer's first choice," says Shekhar Chandra Sati, president, sales. Sati sees that the country has a huge growth opportunity for MDF.

The domestic capacity is now increasing. Also, import has dropped significantly, from 3.50 lakh cubic metres in 2019 to 80,000 cubic metres per annum at present. This is due to a price rise in the international market and increase in ocean freight cost. In the next five years, the domestic MDF market is projected to grow to ₹10,000 crore from ₹3,000 crore at present, he adds.

Research, branding and services

The company has maintained an impressive growth. "Our growth in MDF is more than the industry. We have achieved a CAGR of close to 20 per cent in the last three years in MDF whereas

the industry witnessed a growth of 14 per cent," says CFO, V Venkatramani.

The ₹1,020 crore Greenpanel Group has a market cap of ₹3,100 crore. MDF business contributes ₹803 crore which is 80 per cent of the company's revenue and the remaining ₹217 crore comes from plywood and allied products. The company reflects a mindset where manufacturing is accompanied by large investments in research, branding and services.

India's MDF industry is worth about ₹30 billion. Out of the total wood panel industry in India, MDF has a miniscule share of seven to eight per cent as compared to 70 per cent in developed countries, which indicates the long growth runway for MDF as a product," Achal Lohade, director, research at JM Financial Securities says. "Acceptance of MDF should improve over the next decade on the back of increasing demand of readymade furniture. Greenpanel is our top pick in the building material coverage."

Greenpanel was the erstwhile MDF division of Greenply Industries. S.P. Mittal and his younger brother Rajesh Mittal were the founders of the Greenply group. In 2018, the two brothers separated the business. Under the terms of the amicable split, Rajesh retained three plywood-manufacturing units under Greenply. The integrated wood panel unit at Pantnagar consisting of MDF and plywood came to SP Mittal; it has demerged into an independent company as Greenpanel Industries and is listed on the stock exchange. MDF is the flagship product of Greenpanel. It also produces ranges of plywood, decorative veneers, wood floors and doors. All the products are marketed and distributed through robust dealer networks across

the country. While SP Mittal is the chairman of the company, his younger son Shobhan is at the helm of company affairs.

Reacting to the separation, SP Mittal 72 is of the opinion that separation at the right time is healthy for every business family. A sapling should be taken out of the nursery and planted separately to allow its growth," he explains.

Shobhan holds a bachelor's degree in Business Administration; he gained experience of the engineered wood business while working in Greenply for over ten years. He was instrumental in setting up the company's first MDF unit at Pantnagar, Uttarakhand in 2010 as part of the expansion plan. "It was a huge challenge to convince the board to enter into the MDF business, which was a new product in the country. But we went ahead with the investment and it became a successful venture for the group," Shobhan recalls.

Mangalam Timber was the first mover in MDF in the country in the mid-80s, followed by Nuchem Industry (Nuwood). But they were not successful. The reason, industry experts say, is that the technology was old and the raw material was a major issue. Also it was before the time in the country. When Mittal commenced its MDF production at its modern Pantnagar unit in 2010 and demonstrated its limitless possibilities in usage in the trade, the market started adopting MDF. This was perfect timing. With the emerging growth of the MDF business in the country, post the family split, Greenpanel, as a separate entity, rolled out its expansion strategy. To continue to strengthen its market, the company, in 2018, set up a new MDF manufacturing facility in the

SAJAL ROSE

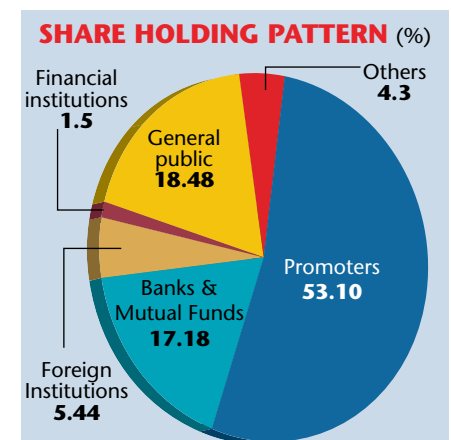
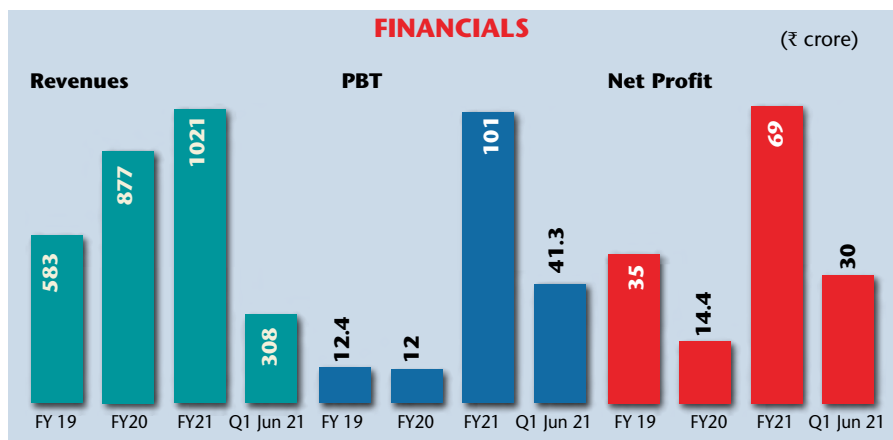


S.P. Mittal: MDF is the future

South.

The new top of the line automated MDF plant at Chittoor in Andhra Pradesh was commissioned in 2018 at a cost of ₹850 crore funded through internal accruals and banks. It has a production capacity of 360,000 CBM of MDF and pre-laminated MDF managed by 300 people, making it the largest MDF plant in Asia, claims the management. This greenfield facility is spread across 216 acres of land of which the plant was built on 70 acres and rest kept as a green belt and for future expansion. The plant is strategically located to ensure faster deliveries as demand for MDF is growing in the South.

This state-of-the-art plant imported from Germany is fully automated – from raw material handling to packaging. It





PHOTOS: SAJAL ROSE

Sati: unlimited opportunity

can produce a wide range of thickness from 3.5 mm to 40 mm. The unit has the best equipment for modern day manufacturing like Dieffensor, which is a very advanced system for density analysing; Stenograph, for in-line monitoring of density profiles and Sanding line, equipped with 12 sanding heads and two polishing heads for the machine for a super smooth finish.

Subhas Kumar Agarwal, president operations says: "This is the most modern European plant in the country. We have the longest continuous press in Asia – 56 metres in length. Our in-house laboratory is equipped with modern testing devices for continuous and stringent quality parameters." He also claims that Greenpanel is the only company that has a woodchips-washing facility in the plant. The washing frees the woodchips of any foreign particles. This facility needs a considerable quantity of water for the process – 600 kilolitres of water per day. The company has created large rainwater harvesting tanks to store 1.2 lakh kilolitres of water.

Eco-friendly plant

The company sources renewable agroforestry Eucalyptus timber within 100 km radius of the plant from farmers. It also encourages agroforestry among local farmers by giving them saplings. This generates a source of livelihood for them. Their dedicated plantation team is working to bring in more farmers says

*Venkatramani: market greets us cheerfully*

Agarwal. It is an environment friendly plant with zero water and air discharge.

"The new MDF plant in the South reflects our strategy of being present in large market. This not only brings us closer to the market but also improved our logistics for both domestic and exports," explains Shobhan. The southern market contributes 39 per cent of the company's MDF sale.

Today, Greenpanel has a combined capacity to produce 540,000 cubic metres of MDF annually from its two plants in Pantnagar and in Chittoor. The company offers a wide range of MDF available for different application like Industrial Grade MDF, Exterior Grade MDF, Club Grade (HDWR) CARB PS MDF and pre-laminated MDF.

Industrial grade MDF is a pocket-friendly regular density board used in making cupboards, wardrobes, wall panels, and tabletops for commercial and residential. "It is our highest selling product and contributes 40 per cent our MDF sale," says Sati. Exterior grade can be used for a wide range of exterior applications, as it is water-resistant. It is recommended for retail fixtures, bathroom cabinets, kitchen cabinets and shutters. Club grade HDWR MDF is a high-density water-resistant fibreboard and is a premier panel product. It is durable and

*Agarwal: it is the largest MDF plant in Asia*

well suited for panelling, furniture, construction and wet areas. CARB PS MDF has low formaldehyde standards, is environment friendly and is ideal for school and hospital furniture, workstations, modular furniture, etc. Pre-laminated MDF is moisture-resistant and scratch free. The customer can choose from 43 contemporary designs and colours. It comes in suede and matte finishes. It is good for interior design; partition panelling, false ceilings and also handicraft.

Brinda Associates a Delhi based dealer has been associated with Greenpanel for the past few years. Owner Anil Bansal says: "Greenpanel produces unmatched quality in the segment. It has the ability to introduce new products for all segments of customers. It has strong brand recall in the market. The company's club grade high density water-resistant MDF is in great demand among consumers. The company creates strong bonding with dealers."

"Greenpanel is a market leader in MDF in terms of capacity, which has been growing. Their products are well accepted in the market. The future looks bright for them," says Sanjay Agarwal, managing director, Centuryply, a competitor and the fourth largest producer of MDF in the country.

But Agarwal believes while



acceptance of MDF is on the rise, there will be always a market for plywood in India. He clarifies: "The growth of MDF in European countries is much higher than India. Indians are attached to their home and our traditional culture demands durability. So many still prefer to make furniture using good plywood."

While MDF is the core business for Greenpanel, it also produces plywood, wood flooring, doors and veneers at Pantnagar as a wood panel manufacturer. Greenpanel has a limited plywood production of about 40,000 cubic metres annually at Pantnagar. It uses new age machinery along with strict adherence to quality. Moisture resistant MR Grade, Marine Grade, Club Grade are known brands in the organised plywood market.

Greenpanel wood floors are made for Indian conditions. They are dust and scratchproof. Wooden floors are made produced using technology like perma-click interlocking system that leaves no gaps on the floor. It can be uninstalled and reused.

Greenpanel doors have a high dimensional stability even in varying humidity. The core is made of Quodra Pro Technology and thick glue. Greenpanel doors can be customised. The company protected its product mix from being cannibalised MDF.

There are almost 4,000 dealers of the company across all products for marketing and distribution. The number of dealers for MDF alone is above 3,000 and has been growing. "Last year we added 600 dealers for MDF. We prefer to have a separate dealer network for MDF so we are not confined to the same set," explains Sati. Currently in MDF, 45 per cent goes to OEM and balance 55 per cent is sold in retail.

The company has no plans for further investment in its plywood business in the current financial year. Plywood is labour-intensive and the growth in plywood has shrunk. The lockdown, in a way, has helped the MDF industry. The projects that were stalled are being revived with reducing cost and time. Fabrication is faster with MDF than plywood and the average cost is much lower. Also, the sudden emergence of the 'Work from Home' phenomenon due to the pandemic has propelled the demand of MDF. "All our wood panel products meet high quality standards. But, right now our focus is on



Greenpanel plant in Andhra Pradesh is the company's pride

MDF," says Mittal.

The company has taken several initiatives during the pandemic. It renegotiated raw material prices, enhanced asset utilisation and also extended its footprint to small cities with the help of small dealers.

Last year, Greenpanel exported 15 per cent of its total MDF production. "Exports are going up in the current financial year. So far, we are the only company exporting from the country," says Shobhan. It exports to the Middle East and South East Asia from its new Andhra Pradesh plant. The Krishnapatnam and Chennai ports are close to the plant. Shobhan is now exploring the possibility of exporting to Europe and Africa.

The company's success in MDF led Greenpanel to expand its existing capacity in both its MDF units. It is adding another 1.20-lakh cbm annually to take the total company's MDF capacity to 6.60-lakh cbm at a cost of ₹25 crore. The new equipment for the expansion will be on stream by November this year.

Greenpanel has kept the balance sheet healthy. The promoters hold 53.10 per cent of the company, while 17.18 per cent is with banks and mutual funds, foreign institutions hold 5.4 per cent, FI 1.5 per cent; public holding is 18.48 per cent and the rest is with others.

Greenpanel has reported a gross revenue of ₹1,020.75 crore in March 2021 as against ₹876.57 crore in March 2020. The net profit rose to ₹68.80 crore in March 2021 from ₹14.46 crore in March

2020. The net profit jumped significantly due to a tax rebate related to the new unit at Andhra Pradesh. In the first quarter result ended in June 2021, the net profit is down to ₹29.74 crore as against ₹56 crore in the last quarter ended March 2021 due to the impact of Covid. The present debt equity ratio is 0.5, down from 0.8 in March 2019. Venkatramani says the stock market is looking at them positively. "There is a significant movement in our stock price. Prior to the pandemic in February 2020, our stock price was ₹50 – it has moved up to ₹255 at present."

Greenpanel is continuing to focus on working capital efficiency and take a leadership initiative. "There is no fun in earning profits if they cannot be converted into cash flow servicing debt as well as expansion," Venkatramani says. "Today our net working capital is around 32 days. We are targeting to bring it down to 25 days." In the industry it is typically 45 days.

Mittal says it is important for the industry to work hard to grow the raw material, adding that the industry is negotiating with the government for vacant land to be allotted to it to grow plantations for MDF production. He is hopeful regarding a positive outcome.

"Indian consumers have developed an appetite for style and aesthetics and we are continuously working to keep up with their aspirations," Shobhan concludes.

SAJAL BOSE

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