Greenlam Industries Limited

July 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	269.90 (Reduced from 319.37)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short Term Bank Facilities	230.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**499.90 (Rs. Four Hundred Ninety-Nine Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in rating assigned to the bank facilities of Greenlam Industries Limited (GRLM) takes into account the company being one of the largest domestic players in the organized laminate business and its growing presence in export market over the last few years thereby diversifying its market presence and increasing its ability to withstand downturn in one of its markets. Although financial performance moderated in FY21 due to Covid-19 impact in the first quarter of FY21, the performance started improving from Q2FY21 onwards with capacity utilization exceeding 100% in both Q3FY21 and Q4FY21. Healthy cash generation coupled with scheduled debt repayment over the last few years has led to substantial improvement in leverage ratios, debt service coverage indicators and significant build-up in liquidity. The management have articulated to utilize the available liquidity to fund the capex at Naidupeda, Nellore instead of its earlier plan to fund it through a mix of debt and equity.

The ratings also continue to factor in the experience of the promoters & long track record in the laminates industry, extensive distribution network & marketing support and quality certifications from various agencies.

The ratings are, however, constrained by the susceptibility of profitability to raw material price fluctuations, low capacity utilization of the veneer, engineered wood flooring and engineered doors segments impacting profitability, delayed execution of capex at Nellore than earlier expected timeline due Covid-19, working capital intensive nature of operations, exposure to foreign exchange fluctuations to a certain extent, intense competition along with high presence of unorganized sector in the industry and dependence on the prospects of the real estate sector.

Positive rating sensitivity

- Ability to increase its scale of operations with improvement in the operating margin beyond 18% on a sustained basis

Negative rating sensitivity

- Any further large-scale debt-ridden capex leading to deterioration in capital structure
- Deterioration in PAT margin below 5.00% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoter and long track record in the laminates industry

GRLM was incorporated in August 2013 and remained as an inactive company till the demerger of the decorative business division (comprising of decorative laminates and decorative veneers) of Greenply Industries Limited (Greenply) into it. The decorative laminate business was in operation under Greenply since 1993. Accordingly, it has a long track record of operation by virtue of being part of Greenply. The promoter, Mr. Shiv Prakash Mittal, is well-known in the interior infrastructure sector with experience of more than two decades in the industry. Mr. Saurabh Mittal, son of Mr. Shiv Prakash Mittal, is the Managing Director and CEO of the company and looks after the day-to-day affairs of the company. He is ably supported by the senior management team of GRLM which has extensive experience in the industry.

Established brand in domestic organised laminate industry

GRLM is amongst top two laminate producers in the country and largest exporter of laminate from the country for last 10 consecutive years and commands an established position in the organised laminate and veneer segment. GRLM's brands like 'Greenlam' & 'Decowood' are the leading brands in the respective laminate and veneer segment. Furthermore, GRLM also launched Engineered Wood Flooring and Engineered Door segment in India in 2014 and 2015, respectively which are branded under 'Mikasa' and are expected to further strengthen GRLM's position in the interior infrastructure sector.

Established presence in the export market
GRLM has an extensive presence in the quality stringent export market and the same has increased over the last few years. The exports revenues of the company improved and stood at Rs.619.73 crore (comprising around 52% of gross sales) in FY21 vis-à-vis Rs.611.28 crore (comprising around 47% of gross sales) in FY20. Since the company is present equally in domestic and export market, it has better ability to withstand any downturn in one of its market.

Extensive distribution network and marketing support
GRLM has a pan-India marketing network with 9 company owned regional distribution centres, 21 branch offices, 5 warehouses and over 14,000 distributors, dealers, sub-dealers and retailers across the country. This apart, it has subsidiary companies which are engaged in exploring market opportunities for laminates in south-east Asia, USA, Europe, Africa and Russia. Globally, the company has presence in over 65 countries through 8 operational international subsidiaries, 4 company operated distribution centres and 15 international offices. To further strengthen its presence in international markets, three new subsidiaries namely Greenlam Poland LLC, Greenlam Rus LLC (Russia) and Greenlam Indo Pacific (Indonesia) were established during FY21.

Satisfactory capacity utilisation of laminates division
The capacity utilization (CU) of GRLM for the laminate's division has marginally deteriorated to 87% in FY21 from 92% in FY20 (considering 1.6 mn sheet capacity addition in Sep 2019) on account of lockdowns called by states and central governments to combat the spread of COVID-19 pandemic leading to closure of the plants of the company from March 2020 to April 2020. Consequently, in Q1FY21 the CU deteriorated substantially to 51% as against 93% in Q1FY20. However, the CU improved in subsequent quarters, owing to increase demand with the relaxation of lockdowns and opening up of economies, and stood at 83% in Q2FY21, 102% in Q3FY21 and 112% in Q4FY21, thus reducing the impact of the lockdown to a larger extent. The y-o-y production fell 1.2% from 137.37 lkh sheets in FY20 to 135.72 lkh sheets in FY21.

Moderation in performance during FY21, albeit improvement from Q3FY21 onwards
On a consolidated basis, GRLM witnessed deterioration of about 8.8% in total operating income from Rs.1,323 crore in FY20 to Rs.1,206 crore in FY21 majorly owing to Covid induced lockdowns and resultant dip in demand in Q1FY21 and Q2FY21. However, the sales picked up from Q3FY21 with the easing of lockdowns across the country and overseas and continued to improve in Q4FY21. Though the domestic revenues witnessed decline of ~18% in FY21 from FY20, the export revenues remained steady and saw a marginal increase of ~1% y-o-y owing to company's focus on enhancing its presence in European & African markets. This led to improved demand in H2FY21.
Although, sales volume from 133 lkh sheet in FY20 to 135 lkh sheets in FY21, the overall sales realisation has reduced owing to higher export sales where laminates of thinner sizes are preferred. The PBILDT margin improved to 14.95% in FY21 vis-à-vis 13.71% in FY20 on account of improved margins brought by cost saving measures implemented by the company, like change in raw material mix, introduction of live streaming of products leading to reduction in travelling and selling costs, etc.
Overall PAT margin of the company declined to 6.11% in FY21 from 6.55% in FY20 majorly owing to one time exceptional expense of Rs.12.40 crores booked during FY21 for settlement of disputed entry tax dues with Rajasthan & Himachal Pradesh Commercial Tax Department.

Improvement in leverage ratios and debt service coverage indicators
Leverage ratios improved y-o-y as on March 31, 2021, wherein debt-equity ratio and overall gearing ratio stood at 0.19x and 0.50x respectively as compared to 0.24x and 0.69x respectively as on March 31, 2020 majorly owing to lower working capital utilisation and profit accumulation. The debt coverage indicators remained healthy with interest coverage of 10.66x (FY20: 8.31x) and total debt to GCA of 2.21x (FY20: 2.52x) during FY21.

Quality certifications from various agencies
GRLM has received the FSC chain of custody certification for specific products. Furthermore, Greenlam laminates are 'Greenguard' certified by Greenguard Environmental Institute and 'Green Label' certified by Singapore Environment Council. Besides, GRLM is also ISO 9001, ISO 14001 and OHSAS 18001 certified. Further, GRLM also has SEDEX certification for ethical trade initiatives, which provides an edge to the brand value of the company and GRLM products have anti-bacterial certifications for last 10 years. Also, the company has recently received anti-virus certification.

Key Rating Weaknesses

Working capital intensive nature of operations
The operations of the company are working capital intensive in nature on account of its high inventory period due to large number of product variants and raw materials stocking because significant proportion of raw materials are imported with a long lead time. The company provides credit of about 50-65 days and avail credit from its suppliers of about 60-75 days. The operating cycle of the company moderated to 120 days in FY21 as against 111 days in FY20. The inventory period

increased in FY21 to 148 days as against 120 days in FY20 mainly on account of intermittent regional lockdowns being called for combating rise of Covid-19, leading to maintenance of stocks by the company to meet the market demand. However, the collection period improved from 45 days in FY20 to 41 days in FY21.

Raw material price fluctuation risk

Raw material cost (including traded goods) formed about 59% (FY20: ~59%) of the total cost of sales for GRLM during FY20. The major raw material for the company is paper and chemicals. Around 69% of the value of raw materials consumed in FY21 were met through imports as against ~61% in FY20 majorly owing to fluctuation in crude oil prices. Melamine and Phenol being the primary chemical requirements, their availability and price has a significant impact on the operating margins of the company. Prices of both the products in international market are highly volatile (Phenol is a crude oil derivative). However, any increase in raw material prices is subsequently passed on to the customers, though with certain time lag. The prices of chemicals have been on an increasing trend in FY21 (owing to increase in prices of crude oil) and the latest hike in prices have been affected during April 2021.

Delays in large size capex at Naidupeta, Nellore albeit to be funded through cash accruals/cash balances

During FY20, the Board of directors of Greenlam South India (GSL) a wholly owned subsidiary of GRLM approved to set up a manufacturing facility at Naidupeta, Nellore in Andhra Pradesh with proposed capacity expansion of 1.5million sheets/board per annum at an estimated project cost of Rs.175 crore. The project is planned to be funded completely out of internal accruals (liquidity in hand as on March 31, 2021 stood at ~Rs.125 crores). As on date, the company has incurred Rs.50-55 crore (mainly on acquisition of land) for the project. The plant is expected to be commissioned by Q3FY23.

Exposure to exchange rate fluctuation

GRLM is a net exporter. The company imported ~Rs. 408 crore (69%) of inputs in FY21 as against Rs.418 crores (61%) in FY20, while its exports revenues stood at around Rs. 619.73 crore in FY21 as against Rs.611.28 crore during FY20. As a result, the company is partially insulated against foreign exchange fluctuation by way of natural hedging. With respect to managing the foreign exchange risks, the Company hedges the net outstanding of foreign currency exposures on fortnightly basis through derivatives like forward contracts. GRLM had net un-hedged foreign currency exposure of Rs.2.40 crore (net of exports and imports) outstanding as on March 31, 2021 exposing the company to volatility in exchange rates to a certain extent. GRLM incurred foreign exchange loss of Rs.1.46 crore during FY21 as against profit of Rs.2.36 crore in FY20.

Impact of Covid-19

During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments from March 22, 2020. Consequently, the manufacturing and sales operations of GRLM were impacted due to such lockdown till April 2020 and resultant dip in demand during H1FY21. Further, the second wave of the pandemic hit in April 2021 and lockdowns has been called in almost all states of the country. As per the management, though, the domestic demand for the product has been impacted during April and May 2021, the export sales have been better owing to rising demand in International markets, where Covid lockdowns were not severe, has covered for the lost sales in domestic market to a major extent. Further, sales in domestic markets have started to pick up from June 2021 onwards.

Liquidity: Strong

The liquidity position of the company was strong with unencumbered and cash and liquid balance of Rs.125 crore as on March 31, 2021. Further the company had unutilised fund based limit of Rs.65 crore. Debt repayment obligation for FY22 stands at Rs.25 crore which can be met out of cash accruals. The company earned a GCA of Rs.127.62 crore in FY21 vis-à-vis debt repayment obligation of Rs.35.50 crore. GRLM has not availed any moratorium as well as emergency line of credit from banks.

Analytical approach: CARE has taken a consolidated approach for analysis of GRLM with its subsidiaries which are mainly set up as overseas marketing outfits. List of companies being consolidated is as under:

Subsidiaries	***Controlling interest of GRLM***
Greenlam South Limited – India	100%
Greenlam Asia Pacific Pte Ltd., Singapore – (GAP)	100%
Greenlam America Inc., Florida (USA)	100%
Greenlam Europe (UK) Ltd., United Kingdom	100%
Greenlam Decolan SA – Switzerland	100%
Greenlam Asia Pacific (Thailand) Co Ltd, Thailand	97.5%
Greenlam Holding Co. Ltd, Thailand	99%
PT Greenlam Asia Pacific, Indonesia	99%
Greenlam Indo Pacific – Indonesia	67%
Greenlam Rus LLC – Russia	100%
Greenlam Poland LLC	100%

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch']
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Notching by factoring linkages in Ratings]
[Rating Methodology- Manufacturing companies]

About the Company
GRLM was incorporated in August 2013 and remained as an inactive company till the demerger of decorative business comprising decorative laminates, decorative veneers, and allied products of Greenply into GRLM. The appointed date for such demerger was April 1, 2013. Greenply was incorporated in August 1984 and is engaged in the manufacturing of plywood, decorative veneers, MDF and allied products. Its decorative laminates business was operational since 1993.
GRLM is one of the largest laminate manufacturing companies in the country and commands an established position in the organised laminate and veneer segment. 'Greenlam Laminates' is the flagship brand of GRLM under which its decorative laminates are marketed. GRLM markets its decorative veneers under the brand name of 'Decowood'. Furthermore, the Engineered Wood Flooring segment and Engineered Doors segment was introduced by GRLM in 2014 and 2015, respectively. The company has two manufacturing facilities in Behror, Rajasthan and Nalagarh, Himachal Pradesh.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1322.94	1,206.30
PBILDT	181.40	180.35
PAT	86.67	73.68
Overall gearing (times)	0.69	0.50
Interest coverage (times)	8.31	10.66

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments /facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

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-Term Loan	-	-	Sep 2025	104.90	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	165.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	200.00	CARE A1+
Fund-based/Non-fund-based-Short Term	-	-	-	30.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	104.90	CARE AA-; Stable	-	1)CARE A+; Stable (04-Sep-20)	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)	1)CARE A+; Stable (13-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	165.00	CARE AA-; Stable	-	1)CARE A+; Stable (04-Sep-20)	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)	1)CARE A+; Stable (13-Dec-18)
3.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)
4.	Fund-based/Non-fund-based-Short Term	ST	30.00	CARE A1+	-	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based/Non-fund-based-Short Term	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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