

Greenlam Industries Limited

July 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	244.92 (Reduced from 269.90)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	230.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	474.92 (₹ Four hundred seventy-four crore and ninety-two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Greenlam Industries Limited (Greenlam) takes into account the experience of its promoters in the laminate business along with its long track record and established market position. Greenlam is one of the largest domestic players in the organised laminate business along with growing presence in the export market over the past few years. The ratings also continue to factor in the extensive distribution network and quality certifications from various agencies. Greenlam has been operating its laminate division at over 100% capacity utilisation (CU), and it reported significant growth in its revenue during FY22 (refers to the period April 1 to March 31); albeit with some moderation in its operating profitability (profit before interest, lease rentals, depreciation and taxation [PBILDT]) margins. In order to meet the increased demand, the company has purchased a laminate manufacturing unit in Gujarat in June 2022, which is expected to be operational in the next two to three months, thereby adding to the existing capacity of the company. The capital structure and debt coverage indicators of the company continued to remain satisfactory in FY22.

The ratings are, however, constrained by the large-scale greenfield/expansion projects being undertaken by the company for setting up particle board, laminate and plywood plants at a project cost of ₹950 crore to be funded by debt of ₹670 crore and balance out of equity. Apart from the inherent project implementation risk, the large debt planned to be availed for the project shall lead to moderation in the overall gearing of the company; albeit the gearing is expected to remain below unity going forward on the back of ₹195 crore of equity raise announced through preferential issue in June 2022. This apart, its healthy liquidity built-up is expected to provide adequate cushion during the project implementation phase.

The ratings further continue to remain constrained by the susceptibility of its profitability to volatility in the raw material prices, low CU for its veneer, engineered wood flooring and engineered doors segment, dependence on the cyclical real estate industry, working capital intensive nature of operations and exposure to the foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant growth in its scale of operations through greater product diversification in its revenue mix along with improvement in its PBILDT margin beyond 18% and return on capital employed (ROCE) beyond 20% on a sustained basis.
- Successful implementation and ramp-up of the upcoming projects thereby generating envisaged returns.
- Improvement in its leverage with overall gearing below 0.50x and total debt/PBILDT below 1.25x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any material delay in project implementation leading to time or cost overrun and having adverse impact on its ROCE and overall gearing significantly beyond envisaged levels.
- Deterioration in the PBILDT margin below 10% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoter and long track record in the laminates industry: Greenlam was incorporated in August 2013 and remained as an inactive company till the demerger of the decorative business division (comprising decorative laminates, decorative veneers, and allied products) via a court approved demerger process, transferred to Greenlam in October 2014. The decorative laminate business has a long track record of operation since 1993. The promoter, Mr Shiv Prakash Mittal, is well-known in the interior infrastructure sector with experience of more than three 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 Greenlam, which has extensive experience in the industry.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established brand in domestic organised laminate industry: Greenlam is amongst the top two laminate manufacturers in the organised segment in the country. It is also the largest exporter of laminate from the country for last 12 consecutive years and commands an established position in the organised laminate and veneer segments. Greenlam's brands like 'Greenlam', 'New Mika' and 'Decowood' are leading brands in the laminate and veneer segments, respectively. Furthermore, Greenlam 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 Greenlam's position in the interior infrastructure sector.

Established presence in the export market: Greenlam has an established presence in the quality stringent export market, and the same has increased over the last few years. The export revenues of the company (on a consolidated level) improved and stood at ₹842.10 crore (comprising around 49% of the gross sales) in FY22 vis-à-vis ₹619.72 crore (comprising around 52% of gross sales) in FY21. Since the company is present equally in the domestic and export markets, it has better ability to withstand any downturn in one of its markets.

Extensive distribution network and marketing support: Greenlam has a pan-India marketing network with nine company-owned regional distribution centres, 21 branch offices, five 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 and Europe. Globally, the company has presence in more than 100 countries through its four international distribution centres and 15 international offices.

Healthy CU for laminates division; albeit low CU for other divisions: The CU of Greenlam for the laminate division has improved from 87% in FY21 to 107% in FY22 with improved industry demand scenario and reduced the impact of COVID-19 pandemic. Despite the company facing difficulty in terms of unavailability of containers and delays in vessels along with its Behror plant being under restricted production due to pollution-related issues in NCR region, the company's production of laminates as well as the revenue witnessed a significant growth during FY22.

The CU of the veneer division (26% in FY21 as well as in FY22) and engineered wood flooring (11% in FY22 as against 13% in FY21) continued to remain on the lower side owing to the products being luxury items coupled with high manual labour required for polishing and finishing, which was generally avoided during the pandemic times. Furthermore, Greenlam had commenced operations of its engineered door segment in September 2015. The division is still in the market seeding stage, and CU continues to remain low at 18% in FY22 as against 23% in FY21 owing to the COVID-19 pandemic and resultant effect on proper marketing of the new product, leading to lower demand.

Significant growth in revenue during FY22; albeit moderation in operating profitability margins: On a consolidated basis, the total operating income (TOI) of Greenlam witnessed a significant growth of 42% y-o-y in FY22. The increase in the revenue was aided by both increase in the sales volume as well as sales realisation of laminates business in FY22. The growth has been witnessed both on the domestic front as well as in the international market. In H2FY22, the sales volume for laminates was impacted due to temporary restrictions imposed on its Behror plant, which led to the company losing revenue of around ₹20-₹25 crore.

The sales realisation of laminates division has increased significantly from ₹705/sheet to ₹817/sheet on account of the price hikes taken by the company due to increase in the input prices and improved product mix during the year.

The revenues of all other products have witnessed growth in FY22 despite decline in the sales volume of the products (except prelam board, the volume for which also witnessed a growth). The growth in the revenue despite decline in the volume is on account of significant increase in realisations as several price hikes were taken by the company in FY22 on account of the continuous increase in input prices.

The PBILDT margin has moderated from 14.48% in FY21 to 11.03% in FY22 on account of increase in the input prices (which could not be passed on completely) along with increase in employee expenses and advertisement expenses. The segmental margins for both laminates as well as veneer segments witnessed a moderation in FY22 majorly on account of increase in the input prices.

With decline in the operating margin, the profit after tax (PAT) margin also witnessed a decline from 6.14% in FY21 to 5.32% in FY22. However, the dip in PAT margin was lower as compared with the PBILDT margin, despite capital costs being at similar levels, due to higher non-operating income in FY22. The company earned gross cash accrual (GCA) of ₹145 crore vis-à-vis debt repayment obligation of Rs.25 crore in FY22.

Satisfactory capital structure and debt coverage indicators: Greenlam had satisfactory capital structure with overall gearing ratio of 0.67x as on March 31, 2022 compared with 0.60x as on March 31, 2021. The slight moderation in overall gearing is on account of increase in total debt of the company. The company has availed debt to fund its ongoing projects. Going forward also, the company shall be availing new term loans in FY23-FY24 to fund its on-going large-sized capex, which shall lead to moderation in the capital structure. The debt coverage indicators continue to remain comfortable with TDGCA of 2.97x as on March 31, 2022 (2.67x as on March 31, 2021) and interest coverage ratio of 13.34x in FY22 (10.26x in FY21).

Quality certifications from various agencies: Greenlam 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, Greenlam is also ISO 9001, ISO 14001 and OHSAS 18001 certified. Furthermore, Greenlam also has SEDEX certification for ethical trade initiatives, which provides an edge to the brand value of the company. In August 2020, Greenlam has received highest exporter award by the Plastic Export Promotion Council.

Liquidity: Strong

The liquidity of Greenlam is strong with unencumbered cash and cash equivalents of ₹176.40 crore along with unutilised fund-based working capital limits of ₹100 crore as on March 31, 2022. The company has debt repayment obligation of ₹26 crore, which is expected to be met out of cash accruals to be generated by the company in FY23. The average fund-based working capital limit utilisation stood at around 77% during the last 12 months ended April 2022. With a gearing of 0.67x as on March 31, 2022, the company has sufficient gearing headroom to raise additional debt for its capex. The company is undertaking capex of ₹950 crore to set up plywood, particle board plants and expand its laminates capacity for which the company shall be raising debt of ₹670 crore. The company has announced raising funds through preferential issue in June 2022 amounting to ₹195 crore, which shall boost liquidity.

Key rating weaknesses

Project implementation risk; albeit envisaged benefits of diversified product profile: The company is setting up three greenfield projects under its two subsidiaries for a particle board unit, plywood and allied products unit and third laminates plant. The foray into these projects by Greenlam is with an aim to become an integrated wood panel player from mainly being a decorative surfacing company currently, and thereby broadbase its product portfolio by leveraging its wide distribution network and an established brand and thus provide one-stop solution in the interior infrastructure industry. The total size of the project is ₹950 crore, which shall be funded by debt of ₹670 crore and balance out of equity/internal accruals. The projects are in the initial stage of implementation with plywood and laminate plants expected to be operational in Q4FY23, while the particle board plant is expected to be operational in Q4FY24. Consequently, the company is susceptible to the inherent cost and time overruns generally associated with such large-sized projects. Also, the capital structure is envisaged to moderate during the project implementation phase. The successful implementation of the project along with envisaged ramping up of the production post implementation shall remain key rating monitorable for generating adequate returns on such large investment. The prospects of the company are also linked to demand from the cyclical real estate industry.

Furthermore, in June 2022, the company acquired a laminate manufacturing facility in Gujarat from Bloom Dekor Limited at a cost of ₹36 crore, having production capacity of 3.4 million laminate sheets p.a. The company plans to incur additional capex of ₹15 crore to increase the capacity from 3.4 million to 5.4 million laminate sheets p.a. The new capacity is expected to be operationalised by Q2FY23 and its acquisition is funded out of the internal accruals generated by the company.

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 with significant proportion of raw materials being imported with a long lead time. The company has tightened its credit norms which has improved its collection period to around one month while it avails credit from its suppliers of about 60-75 days. The operating cycle of the company improved from 119 days in FY21 to 88 days in FY22. The inventory period has improved from 147 days in FY21 to 116 days in FY22, despite increase in the inventory levels (due to unavailability of containers and delays in vessels) on account of significant increase in the sales. Furthermore, with tightening of its credit norms, collection period improved from 42 days in FY21 to 29 days in FY22.

Raw material price fluctuation risk: The raw material cost (including traded goods) formed about 62% (FY21: around 59%) of the total cost of sales for Greenlam during FY22. The major raw material for the company is paper and chemicals. Around 50% of the value of raw materials consumed in FY22 were met through imports as against around 61% in FY21. Melamine and phenol being the primary chemical requirements, their availability and price has a significant impact on the operating margins of the company. The prices of both the products in the international market are highly volatile (phenol being a crude oil derivative). The prices of chemicals have been on an increasing trend owing to the increase in the prices of crude oil. However, the company tries to pass on the increase in the raw material prices to the customers, to some extent and with certain time lag, taking care to simultaneously cushion its impact on demand.

Exposure to foreign exchange rate fluctuation: Greenlam is a net exporter. The company imported around 50% of inputs in FY22 as against 61% in FY21, while its exports stood at around 49% of TOI in FY22 as against 52% in FY21. However, the overall international revenue stood at 183% of the imports in FY22. 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. Greenlam had net un-hedged foreign currency exposure of ₹7.41 crore (net of exports and imports) outstanding as on March 31, 2022, exposing the company to volatility in exchange rates to a certain extent.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated analytical approach for analysing Greenlam with its subsidiaries which are mainly set up either as overseas marketing outfits and for implementing the various ongoing projects. The list of companies consolidated with Greenlam as on March 31, 2022, is shown in Annexure – 5.

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- Manufacturing companies](#)

[Rating methodology – Consolidation](#)

About the Company

Greenlam 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 Greenlam. The appointed date for such demerger was April 01, 2013. Greenply was incorporated in August 1984 and is engaged in the manufacturing of plywood, decorative veneers and allied products. Its decorative laminates business was operational since 1993.

Greenlam 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 Greenlam under which its decorative laminates are marketed. Greenlam markets its decorative veneers under the brand name of 'Decowood'. Furthermore, the engineered wood flooring segment and engineered doors segment (both marketed under the brand of 'Mikasa') was introduced by Greenlam in 2014 and 2015, respectively. The company has two manufacturing facilities in Behror, Rajasthan and Nalagarh, Himachal Pradesh. Apart from the recent acquisition of a laminate manufacturing plant in Gujarat, it is also undertaking various projects in Andhra Pradesh and Tamil Nadu, which would enable it to diversify its product profile and geographical presence.

Brief Consolidated Financials (₹crore)	FY20 (A)	FY21 (A)	FY22 (Abridged)
TOI	1,322.94	1,199.59	1,703.40
PBILDT	181.40	173.64	187.87
PAT	86.67	73.68	90.58
Overall gearing (times)	0.82	0.60	0.67
Interest coverage (times)	8.31	10.26	13.34

A: Audited; Abridged: brief results published on the stock exchange

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	August 2025	79.92	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	79.92	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Jul-21)	1)CARE A+; Stable (04-Sep-20)	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)
2	Fund-based - LT-Cash Credit	LT	165.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Jul-21)	1)CARE A+; Stable (04-Sep-20)	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)
3	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (05-Jul-21)	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)
4	Fund-based/Non-fund-based-Short Term	ST	30.00	CARE A1+	-	1)CARE A1+ (05-Jul-21)	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)

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

Not Applicable

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

Sr. No.	Name of 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

Annexure-5: List of companies getting consolidated in Greenlam (As on March 31, 2022)

Subsidiaries	Holding of GIL
Greenlam Asia Pacific Pte Ltd., Singapore (GAP)	100%
Greenlam America Inc., Florida (USA)	100%
Greenlam Europe (UK) Ltd., United Kingdom	99.99% (Through GAP)
Greenlam Decolan SA – Switzerland	100% (Through GAP)
Greenlam Asia Pacific (Thailand) Co Ltd, Thailand	97.5% (Through GAP)
Greenlam Holding Co. Ltd, Thailand	99%
PT Greenlam Asia Pacific, Indonesia	99%
Greenlam Indo Pacific – Indonesia	67% (Through GAP)
Greenlam Rus LLC – Russia	99% (Through GAP)
Greenlam Poland LLC	99% (Through GAP)
Greenlam South Limited (GSL) – India (proposed particle board and laminates unit)	100%
HG Industries Limited (HGIL) – India (proposed plywood and allied products)	74.91%*

*Acquired on December 03, 2021 for a consideration of Rs.13.92 crore. Remaining stake is held by public as it is listed company.

Annexure-6: Bank Lender DetailsTo view the lender wise details of bank facilities please [click here](#)

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@careedge.in for any clarifications.

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About us:

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