

Greenlam Industries Limited

December 20, 2021

On December 13, 2021, the Board of Directors of Greenlam South Limited (GSL), a wholly owned subsidiary of Greenlam Industries Limited (Greenlam; rated CARE AA-; Stable/CARE A1+), approved the setting up of a greenfield project for manufacturing particle board and allied products (2,31,000 cubic meter per annum) and enhance the capacity of its ongoing greenfield project for laminate sheets (from 1.5 mn sheets per annum to 3.5 mn sheets per annum), both located at Nellore, Andhra Pradesh. Furthermore, on the same date, the Board of Directors of HG Industries Limited, another subsidiary of Greenlam, approved the setting up of a greenfield project for manufacturing plywood and allied products (18.9 mn square meter per annum) at Tindivanam, Tamil Nadu.

The three projects taken together is expected to entail a capital investment of around Rs.950 crore with the particle board unit costing around Rs.600 crore, laminate sheets unit costing around Rs.225 crore (increased from Rs.175 crore) and plywood unit costing around Rs.125 crore.

While the laminate sheets and plywood projects are envisaged to be completed by Q4FY23 (refers to the period January 1 to March 31), the particle board project is expected to come onstream by Q4FY24.

CARE Ratings Limited has a consolidated analytical approach for the credit rating of Greenlam and thus takes note of the large size capex plan of the company vis-à-vis its present scale of operations.

The company plans to finance these projects at a debt equity ratio of 65:35 and availing of substantial debt for the project is expected to lead to moderation in its capital structure during the project implementation phase. Furthermore, there are inherent project implementation and post implementation risks associated with such a large-size project.

Although Greenlam's overall gearing is expected to moderate, its debt coverage indicators are expected to remain comfortable in the medium-term given its current low debt levels and company's plan to avail the project debt with adequate moratorium period. Apart from having vast experience in the laminates industry, the promoters of Greenlam also have experience of setting up and operating plywood project in their earlier venture which is expected to mitigate the project risk to an extent. Furthermore, the demand for interior infrastructure products from the organised sector has been witnessing significant growth and venturing into these products would lead to diversification in the revenue base of the company apart from growth in its scale. However, CARE Ratings Limited also takes note of other capacity additions coming up in the products that the company is venturing into which may increase the competitive intensity when all these capacities come onstream.

CARE Ratings Limited will continue to monitor further developments with regard to these capex plans of Greenlam and the impact it would have on the credit metrics of the company.

Furthermore, on December 10, 2021 Greenlam had announced that it had received an order from the Commission for Air Quality Management in the National Capital Region (NCR) and adjoining areas to shut down its Behror plant in order to control pollution in the area. However, subsequently on December 16, 2021, the company has received permission from the appropriate authority allowing the company to resume manufacturing activity at the said plant whereby it can now run its plant for five days per week. Earlier the company was running the plant for six days a week and the present guideline of operating for five days a week is not likely to significantly impact its revenue with expected revenue loss of about Rs.25 crore.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position, rating sensitivities, and key financial indicators: [Click here](#)

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