

## Greenlam Industries Limited

July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	219.93 (reduced from 244.92)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	250.00 (enhanced from 230.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Greenlam Industries Limited (Greenlam) continue to draw strength from the experience of its promoters in the laminate business along with its long track record and established market position. Greenlam continues to be 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 factor in the extensive distribution network, quality certifications from various agencies and healthy capacity utilisation (CU) of the laminate division.

The ratings take note of the growth in its total operating income (TOI) and operating profitability during FY23 (refers to the period April 1 to March 31) driven by growth in both sales volume and realisations. The capital structure and debt coverage indicators of the company continue to remain comfortable.

The ratings are, however, constrained by the large-scale greenfield/expansion projects undertaken by the company for setting up particle board, laminate and plywood plants. The plywood unit commenced operations in June 2023 and the remaining projects are expected to be completed by Q4FY24. Apart from the inherent pre and post project implementation risks, the large debt planned to be availed for the projects shall lead to moderation in the overall gearing of the company. Nevertheless, the gearing is expected to remain near unity going forward on the back of ₹195 crore of equity raised 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: Factors likely to lead to rating actions

#### Positive factors

- 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 capex 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

- 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.

### Analytical approach:

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 or for implementing the various ongoing projects. The list of companies consolidated with Greenlam as on March 31, 2023 is placed as **Annexure 6**.

### Outlook: Stable

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

The 'stable' outlook reflects that Greenlam is expected to sustain its healthy business risk profile given its established market position in the laminates industry with a strong brand positioning. The financial risk profile is also expected to remain comfortable despite the large size capex under implementation by the company, supported by its business risk profile.

## Detailed description of the key rating drivers:

### Key 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 operations since 1993. The promoter, Shiv Prakash Mittal, is well-known in the interior infrastructure sector with experience of more than three decades in the industry. Saurabh Mittal, son of 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.

**Established brand in domestic organised laminate industry:** Greenlam is amongst the top two laminate manufacturers in the organised segment in the country 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 is the largest exporter of laminate from the country and 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 ₹942.10 crore (comprising around 46% of the gross sales) in FY23 vis-à-vis ₹842.10 crore (comprising around 49% of gross sales) in FY22. 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, 22 branch offices, and over 20,000 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 remained healthy at 99% in FY23 despite increase in capacity during the year with the acquisition of a laminate unit in Gujarat. The company's production of laminates as well as the revenue witnessed significant growth during FY23. The CU of the veneer division (29% in FY23 and 26% in FY22) and engineered wood flooring (12% in FY23 as against 11% in FY22) continued to remain on the lower side owing to the products being luxury items coupled with high manual labour required for polishing and finishing. Furthermore, the CU continued to remain low at 15% for the engineered door segment in FY23 as against 18% in FY22.

**Growth in TOI and profitability in FY23:** On a consolidated basis, the TOI of Greenlam witnessed a significant growth of 19% y-o-y in FY23. The increase in the revenue was aided by both increase in the sales volume as well as sales realisation of laminates business. The sales realisation of laminates increased significantly from ₹904/sheet to ₹1047/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 sales value of all the products except engineered door and door sets increased during the year. PBILDT margin improved to 11.49% in FY23 from 11.03% in FY22.

**Comfortable capital structure and debt coverage indicators:** Greenlam had satisfactory capital structure with overall gearing ratio of 0.70x as on March 31, 2023, compared with 0.67x as on March 31, 2022, despite debt availed to fund its ongoing projects. This is on account of accretion of profits to reserves and increase in equity capital due to the QIP issue in FY23. Going forward also, the company shall be availing new term loans in FY24-FY25 to fund its on-going large-sized capex, which shall lead to moderation in the capital structure. Nevertheless, the peak overall gearing is expected to remain close to unity.

The debt coverage indicators continue to remain comfortable with TD/GCA of 3.50x as on March 31, 2023 (2.97x as on March 31, 2022) and interest coverage ratio of 9.92x in FY23 (13.34x in FY22).

**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 has 'GreenPro' certification and GRIHA certification apart from SEDEX certification for ethical trade initiatives, which provides an edge to the brand value of the company.

### **Liquidity: Strong**

The liquidity of Greenlam is strong with unencumbered cash and cash equivalents of ₹257.87 crore along with unutilised fund-based working capital limits of ₹80 crore as on April 30, 2023. The company has debt repayment obligation of ₹33.66 crore, which is expected to be met out of cash accruals to be generated by the company in FY24. The average fund-based working capital limit utilisation stood at around 60% during the last 12 months ended April 2023. With a gearing of 0.70x as on March 31, 2023, the company has sufficient gearing headroom to raise additional debt for its capex. Almost the entire debt for the capex has already been tied up by the company.

### **Key weaknesses**

**Project implementation risk; albeit envisaged benefits of diversified product profile:** The company has been implementing three greenfield projects under its two subsidiaries for a particle board unit, plywood and allied products unit and fourth 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 broad-base 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 all the projects was earlier envisaged to be ₹950 crore, funded by debt of ₹690 crore and balance out of equity/internal accruals. The plywood project has commenced operation in June 2023, with a delay of about a quarter and the laminate capacity is also delayed and expected to commission by Q2FY24. The particle board unit is expected to commission on schedule by end of Q4FY24. The company expects cost overrun in the projects due to the time overrun and some change of scope in the facilities being set up.

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.

**Raw material price fluctuation risk:** The raw material cost (including traded goods) formed about 60% (FY22: around 62%) of the total cost of sales for Greenlam during FY23. The major raw material for the company is paper and chemicals. Around 49% of the value of raw materials consumed in FY23 were met through imports as against around 50% in FY22 & 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). 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 49% of inputs in FY23, while its exports stood at around 42% of TOI in FY23. 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.

**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 24 days while it avails credit from its suppliers of about 50-55 days. The operating cycle of the company improved from 88 days in FY22 to 74 days in FY23. The inventory period has improved from 116 days in FY22 to 102 days in FY23. Furthermore, with tightening of its credit norms, collection period improved from 29 days in FY22 to 24 days in FY23.

### **Environment, social, and governance (ESG) risks**

Greenlam is exposed to tightening environmental compliance and emission norms since it uses raw materials like paper and chemicals. Its operations were marginally impacted in FY22 due to temporary restrictions imposed on its Behror plant to

check pollution in the region. The company has various quality certifications for its products which mitigates the risk to an extent.

It spent ₹1.96 crore for various corporate social responsibility (CSR) initiatives during FY22. Out of the eight directors on the board of the company, four are independent directors.

### Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

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 into Greenlam. The 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. It acquired a laminate manufacturing plant in Gujarat in FY23 and 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)	FY22 (A)	FY23 (Abridged)
Total operating income	1703.40	2025.96
PBILDT	187.87	232.88
PAT	90.58	128.04
Overall gearing (times)	0.67	0.70
Interest coverage (times)	13.34	9.92

A: Audited Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	165.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	August 2025	54.93	CARE AA-; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	50.00	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	200.00	CARE A1+

### Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	54.93	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jul-22)	1)CARE AA-; Stable (05-Jul-21)	1)CARE A+; Stable (04-Sep-20)
2	Fund-based - LT-Cash Credit	LT	165.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jul-22)	1)CARE AA-; Stable (05-Jul-21)	1)CARE A+; Stable (04-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (05-Jul-21)	1)CARE A1+ (04-Sep-20)
4	Fund-based/Non-fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (05-Jul-21)	1)CARE A1+ (04-Sep-20)

\*Long term/Short term.

### Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

### Annexure-4: Complexity level of the various instruments rated

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

### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

### Annexure-6: List of companies being consolidated with Greenlam (as on March 31, 2023)

<b>Subsidiaries</b>	<b>Holding of GIL</b>
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 (plywood and allied products)	74.91%*

\*Acquired on December 03, 2021. Remaining stake is held by public as it is listed company. It is in the process of getting merged with Greenlam.

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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