HG Industries Limited

July 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE AA-; Stable	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of HG Industries Limited (HGIL) primarily factors in its strong parentage as a 74.91% subsidiary of Greenlam Industries Limited (Greenlam; rated CARE AA-; Stable/CARE A1+), along with the strong managerial, operational, and financial support that it derives from its parent. Greenlam has also provided its corporate guarantee (CG) for the debt availed by HGIL. Furthermore, HGIL is in the process of getting merged with Greenlam. CARE Ratings Limited (CARE Ratings) already has a consolidated analytical approach for the credit risk assessment of Greenlam.

The rating further derives comfort from the experience of the promoters of Greenlam along with the long track record and established market position of Greenlam in the laminates industry. Greenlam continues to be one of the largest domestic players in the organised laminate business along with its growing presence in the export market over the past few years. The rating also factors in the extensive distribution network, the quality certifications from various agencies, and the healthy capacity utilisation (CU) of the laminate division. The rating takes note of the growth in the total operating income (TOI) and operating profitability of Greenlam during FY23 (refers to the period from April 1 to March 31), driven by growth in both, sales volume and realisations. The capital structure and debt coverage indicators of Greenlam continue to remain comfortable.

The rating is, however, constrained by the large-scale greenfield or expansion projects undertaken by Greenlam for setting up particle board, laminate, and plywood plants. While the plywood unit under HGIL commenced operations in June 2023, 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 is expected to 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 issues in June 2022. This apart, its healthy liquidity built-up is expected to provide adequate cushion during the project implementation phase.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in the consolidated scale of operations of Greenlam through greater product diversification in its revenue mix along with improvement in its profit before interest, lease rentals, depreciation and taxation (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 the envisaged returns.
- Improvement in the consolidated leverage of Greenlam with an overall gearing below 0.50x and total debt (TD)/PBILDT below 1.25x on a sustained basis.

Negative factors

- Any material delay in the implementation of projects, leading to time or cost overruns and having an adverse impact on the ROCE and overall gearing of Greenlam significantly beyond the envisaged levels.
- Deterioration in the PBILDT margin of Greenlam below 10% on a sustained basis.
- Cancellation of the merger of HGIL with Greenlam, impacting the credit metrics in any manner.

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

Analytical approach:

CARE Ratings has adopted a standalone analytical approach for HGIL along with factoring in its strong managerial, operational, and financial linkages with its parent, Greenlam. The rating also factors in the support extended by Greenlam in the form of a CG for the entire debt of HGIL, which is also in the process of getting merged with Greenlam.
For assessing the credit risk profile of Greenlam, CARE Ratings has taken a consolidated view of Greenlam and its subsidiaries, as they operate in a similar line of business and have operational and managerial linkages. The list of entities considered in the consolidation of Greenply is shown in **Annexure-6.**

Outlook: Stable

The 'Stable' outlook reflects the expectation of continued managerial and financial support being available to HGIL from Greenlam. Furthermore, Greenlam is expected to sustain its healthy business risk profile, given its established market position in the laminates industry and strong brand positioning. The financial risk profile of Greenlam is also expected to remain comfortable, despite the large size capex under implementation, supported by its business risk profile.

Detailed description of the key rating drivers

Key strengths

Strong parentage of Greenlam and financial support: HGIL derives significant benefit by virtue of being a subsidiary of Greenlam, which has a long track record of operation in the wood panel industry. The finance and marketing function of HGIL is being handled by Greenlam. Also, HGIL is in the process of being merged with Greenlam. Approval from stock exchange, unsecured creditors and shareholders have been received. The merger is expected to be completed in FY24.
An amount of ₹130 crore was spent on the project taken up in HGIL up to May 31, 2023, financed out of a term loan of ₹90 crore (out of sanctioned ₹100 crore) and the remaining through fund infusion by Greenlam in the form of unsecured loans. Greenlam has also provided its CG for the debt availed by HGIL.
Greenlam was incorporated in August 2013 and remained as an inactive company until 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 wood panel sector with an 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 its day-to-day affairs. He is ably supported by the senior management team of Greenlam, which has extensive experience in the industry.

Established brand of Greenlam in the domestic organised laminate industry: Greenlam is among 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. Furthermore, Greenlam also launched its 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 wood panel 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 past 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, the US, and Europe. Globally, the company has a presence in more than 100 countries through its four international distribution centres and 15 international offices.

Healthy CU for the laminates division, albeit low CU for other divisions: The CU of Greenlam for the laminate division remained healthy at 99% in FY23, despite an 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 of Greenlam 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, an increase in the sales volume as well as the sales realisation of the laminates business. The sales realisation of laminates increased significantly from ₹904 per sheet to ₹1,047 per sheet on account of the price hikes taken by the company due to an increase in 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. The PBILDT margin improved to 11.49% in FY23 from 11.03% in FY22.

Comfortable capital structure and debt coverage indicators: Greenlam had a satisfactory capital structure with an overall gearing ratio of 0.70x as on March 31, 2023, compared with 0.67x as on March 31, 2022, despite the debt availed to fund its ongoing projects. This is on account of the accretion of profits to reserves and the increase in equity capital due to the preferential issue in FY23. Going forward too, the company will be drawing term loans in FY24-FY25 to fund its ongoing large-sized capex, which will lead to a 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 a TD/gross cash accruals (GCA) of 3.50x as on March 31, 2023 (2.97x as on March 31, 2022), and an interest coverage ratio of 9.92x in FY23 (13.34x in FY22).

Quality certifications from various agencies: Greenlam has received the Forest Stewardship Council (FSC) chain of custody certification for specific products. Furthermore, Greenlam laminates are 'Greenguard' certified by the Greenguard Environmental Institute and 'Green Label' certified by the Singapore Environment Council. Besides, Greenlam is also ISO 9001, ISO 14001 and OHSAS 18001 certified. Furthermore, Greenlam has a 'GreenPro' cerftification and a GRIHA certification apart from a 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 consolidated debt repayment obligations 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 30, 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.
HGIL has a debt repayment obligation of ₹8.70 crore in FY24, which is expected to be funded out of both, internal accruals and fund support from Greenlam. For the remaining project cost, apart from the undrawn portion of the term loan, the company is expected to receive fund support from Greenlam.

Key weaknesses

Project implementation risk, albeit envisaged benefits of diversified product profile: Greenlam 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 a one-stop solution in the wood panel industry.
The total size of all the projects was earlier envisaged to be ₹950 crore, funded by a debt of ₹690 crore and the balance out of equity or internal accruals. The plywood project under HGIL has commenced operations in June 2023, with a delay of about a quarter and the laminate capacity is also delayed and expected to be commissioned by Q2FY24. The particle board unit is expected to be commissioned on schedule by the end of Q4FY24. The company expects a cost overrun in the projects due to the time overrun and some changes 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 the envisaged ramping up of the production post implementation will remain a key rating monitorable for generating adequate returns on such large investments. The prospects of the company are also linked to the 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 materials for the company are paper and chemicals. Around 49% of the value of the raw materials consumed in FY23 were met through imports as against around 50% in FY22 and 61% in FY21. Melamine and phenol being the primary chemical requirements, their availability and price have 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 raw material prices to the customers to some extent and with a 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 the 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 a fortnightly basis through derivatives like forward contracts.

Working capital-intensive nature of operations: The operations of Greenlam are working capital-intensive in nature on account of its high inventory period due to a large number of product variants and raw materials stocking with a 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, the collection period improved from 29 days in FY22 to 24 days in FY23.

Applicable criteria

Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Policy on default recognition
Policy on Withdrawal of Ratings
Rating Outlook and Credit Watch

About the company and industry

Industry classification

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

HGIL was incorporated in December 1987 and did not have any major operations post FY03. Greenlam acquired 74.91% stake in the company in December 2021 for setting up a greenfield plywood and allied products plant at Tindivanam, Tamil Nadu, with an installed capacity of 18.9 million sq m. The project was commissioned in June 2023.

Brief financials of HGIL

Not applicable, as it started operations in June 2023.

About Greenlam

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') were 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 will enable it to diversify its product profile and geographical presence.

Brief Consolidated Financials – Greenlam (₹ 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 the last three years: Please refer Annexure-2

Covenants of the 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	100.00	CARE AA-; Stable

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	100.00	CARE AA-; Stable				

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-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated with Greenlam

Following entities have been considered for consolidation of Greenlam:

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 (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 for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Padmanabh Bhagavath Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3407 E-mail: ps.bhagawath@careedge.in
Relationship Contact Lalit Sikaria Director **CARE Ratings Limited** Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Mamta Muklania Associate Director **CARE Ratings Limited** Phone: +91-33-4018 1651 E-mail: mamta.khemka@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in