Greenlam Industries Limited

April 25, 2024

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	290.60 (Enhanced from 219.93)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	250.00	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Greenlam Industries Limited (Greenlam) continues to draw strength from its promoters' experience in the laminate business and its long track record and established market position. Greenlam continues to be among the largest domestic players in the organised laminate business with growing presence in the exports market in past few years. Ratings also factor the extensive distribution network, quality certifications from agencies and healthy capacity utilisation (CU) of the laminate division.

Ratings take cognisance of the merger of one of its subsidiaries – HG Industries Limited (HGIL) – with Greenlam and the consequent transfer of term loan facilities to the latter. As CARE Ratings Limited (CARE Ratings) has taken a consolidated approach for rating Greenlam's bank facilities, the impact of such merger on Greenlam's financial risk profile is not material.

Ratings note the growth in its total operating income (TOI) and operating profitability during FY23 (FY refers to April 1 to March 31) and 9MFY24, driven by growth in both sales volumes and average sales realisations.

However, ratings are constrained by large-scale greenfield or expansion projects undertaken by the company for setting up particle board, laminate and plywood plants. The plywood unit commenced operations in June 2023 and laminates unit commenced operations in September 2023, while the particle board project is expected to be operational with a delay of two quarters, by Q2FY25. Apart from inherent pre- and post-project implementation risks, the large debt planned to be availed for projects will lead to moderation in overall gearing and debt coverage indicators. However, the gearing is expected to be 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.

Ratings remain constrained by the company's profitability susceptible to volatile 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 operations and exposure to 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 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 envisaged returns.
- Improvement in its leverage with overall gearing below 0.50x and total debt (TD)/PBILDT below 1.25x on a sustained basis.

Negative factors

- Any material delay in project implementation, leading to time or cost overruns 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.

[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 consolidated analytical approach for analysing Greenlam with its subsidiaries mainly set up either as overseas marketing outfits or for implementing ongoing projects. The list of companies consolidated with Greenlam as on March 31, 2023, is placed in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations of Greenlam sustaining its healthy business risk profile, given its established market position in the laminates industry with a strong brand positioning. CARE Ratings also expects the financial risk profile to be comfortable, despite the large size capex under implementation, supported by its business risk profile.

Detailed description of key rating drivers

Key strengths

Promoter experience and long track record in laminates industry

Greenlam was incorporated in August 2013 and remained 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 operational track record since 1993. The promoter, Shiv Prakash Mittal, is well-known in the interior infrastructure sector with industry experience of more than three decades. Saurabh Mittal, son of Shiv Prakash Mittal, is the Managing Director and CEO and manages the company's day-to-day affairs. He is ably supported by the senior management team of Greenlam, which has extensive industry experience.

Established brand in domestic organised laminate industry

Greenlam is among the top two laminate manufacturers in the country's organised segment and commands an established position in the organised laminate and veneer segments. Greenlam's brands – Greenlam, New Mika and Decowood – are leading brands in laminate and veneer segments. Greenlam also launched engineered wood flooring and engineered door segments in India in 2014 and 2015, respectively, and plywood in June 2023, which are branded under 'Mikasa' and are expected to further strengthen Greenlam's position in the interior infrastructure sector.

Established presence in exports market

Greenlam is India's largest exporter of laminate and has an established presence in the quality stringent exports market, with the same increasing in past few years. The company's export revenue (on a consolidated level) improved and stood at ₹942.10 crore (comprising about 46% of gross sales) in FY23 as against ₹842.10 crore (comprising about 49% of gross sales) in FY22. Export revenue stood healthy at ₹753.34 crore in 9MFY24. Since the company is equally present in domestic and export markets, it has better ability to withstand downturns 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 more than 20,000 distributors, dealers, sub-dealers and retailers across the country. This apart, it has subsidiary companies engaged in exploring market opportunities for laminates in South-East Asia, the US and Europe. Globally, Greenlam has presence in more than 100 countries through its four international distribution centres and 15 international offices.

Healthy CU for laminates division, despite low CU for other divisions

CU for the laminate division was healthy at 99% in FY23 and 88% in 9MFY24, despite increasing capacity over the years with a laminate unit acquired in Gujarat and capex of a laminate unit completed under its subsidiary. Greenlam's laminate production and revenue significantly grew in FY23 and 9MFY24.

The CU of the veneer division (29% in FY23 and 32% in 9MFY24) and engineered wood flooring (12% in FY23 and 9MFY24) remained on the lower side owing to luxury products and high manual labour required for polishing and finishing. The CU remain low at 15% for the engineered door segment in FY23 and 9MFY24.

Growing TOI and profitability in FY23 and 9MFY24

On a consolidated basis, Greenlam's TOI significantly grew by 19% y-o-y in FY23 to ₹2,025.96 crore, aided by both, increasing sales volume and sales realisation of the laminates business. Sales realisation of laminates significantly increased from ₹904 per sheet to ₹1,047 per sheet on the back of price hikes undertaken due to increasing input prices and improved product mix during the year. The sales value of all products, except engineered door and door sets, increased during the year. PBILDT margin improved to 11.49% in FY23 from 11.03% in FY22.

TOI grew by 13% y-o-y in 9MFY24 to ₹1,682.26 crore and PBILDT margin improved and stood at 12.55%, largely driven by improving product realisations on the back of change in product mix towards premium products and reducing cost of chemicals.

Satisfactory capital structure, although some moderation in 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 debt availed for funding its ongoing projects on the back of accretion of profits to reserves and increasing equity capital due to the qualified institutional placement (QIP) issue in FY23. Debt coverage indicators, although moderated, remained comfortable with TD/gross cash accruals (GCA) of 3.50x as on March 31, 2023 (2.97x as on March 31, 2022), and interest coverage ratio (ICR) of 9.92x in FY23 (13.34x in FY22). However, going forward, overall gearing ratio and debt coverage indicators are expected to moderate with majority debt to be availed for funding its ongoing large-sized capex in FY24. That said, the peak overall gearing is expected to be close to unity.

Quality certifications from agencies

Greenlam has received the FSC chain of custody certification for specific products. Greenlam laminates are also 'Greenguard' certified by the Greenguard Environmental Institute and 'Green Label' certified by the Singapore Environment Council. This apart, Greenlam is also ISO 9001, ISO 14001 and OHSAS 18001-certified. The company has 'GreenPro' certification and Green Rating for Integrated Habitat Assessment (GRIHA) certification, apart from Supplier Ethical Data Exchange (SEDEX) certification for ethical trade initiatives, providing an edge to its brand value.

Liquidity: Strong

Greenlam's liquidity is strong with unencumbered cash and cash equivalents of ₹178.39 crore and unutilised fund-based working capital limits of ₹175 crore as on March 31, 2024. The average fund-based working capital limit utilisation stood at about 80% in last 12 months ended March 31, 2024. The company has debt repayment obligations of about ₹145 crore in FY25 and is expected to generate sufficient cash accruals for meeting the same in FY25. With a gearing of 0.70x as on March 31, 2023, Greenlam has sufficient gearing headroom for raising additional debt for its capex. The company has already tied up the entire debt for its ongoing particle board capex.

Key weaknesses

Project implementation risk, despite envisaged benefits of diversified product profile

The company took up three greenfield projects under its two subsidiaries for a particle board unit, plywood and allied products unit and fourth laminates plant. Greenlam's foray into these projects aims at making it an integrated wood panel player from it mainly being a decorative surfacing company currently, and thus, broad base its product portfolio by leveraging its wide distribution network and established brand and providing a one-stop solution in the interior infrastructure industry.

The total size of all projects was earlier expected to be ₹950 crore, to be funded by ₹690 crore debt and the balance from equity or internal accruals. However, owing to certain time overruns and changes of scope in facilities, the total project cost stands increased to ₹1,210 crore, to be funded by ₹760 crore debt and the balance from equity or internal accruals.

The plywood project commenced operations in June 2023 and the laminate capacity has also commenced operations in September 2023. The particle board unit is expected to be commissioned by September 2024 as against the earlier projected timeline of March 2024 owing to cyclone or flood at the project site and delays in supplying certain equipments from Europe.

The capital structure is also expected to moderate during the project implementation phase. Successfully implementing the project and ramping up production post-implementation will be key rating monitorable for generating adequate returns on such large investments. The company's prospects are also linked to demand from the cyclical real estate industry.

Raw material price fluctuation risk

Raw material cost (including traded goods) formed about 54% (FY23: about 62%) of the total cost of sales for Greenlam in 9MFY24. Major raw materials for the company are paper and chemicals. About 47% of the value of raw materials consumed in FY23 were met through imports as against about 50% in FY22 and 61% in FY21. As melamine and phenol are primary chemical requirements, their availability and price has a significant impact on the company's operating margins. Prices of both 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 customers to an extent and with a time lag, simultaneously cushioning its impact on demand.

Exposure to foreign exchange rate fluctuations

Greenlam is a net exporter. The company imported about 49% of inputs in FY23 and 47% of inputs in 9MFY24, while its exports stood at about 42% of the TOI in FY23 and 45% of the TOI in 9MFY24. Thus, it is partially insulated against foreign exchange fluctuations through natural hedging. For managing foreign exchange risks, Greenlam hedges the net outstanding of foreign currency exposures on a fortnightly basis through derivatives like forward contracts.

Working capital-intensive operations

The company's operations are working capital-intensive on the back of its high inventory period due to numerous product variants and raw materials stocking with a significant proportion of raw materials imported with a long lead time. Greenlam has tightened its credit norms, improving its collection period to about 24 days, while it avails credit from its suppliers of about 50-55 days. The company's operating cycle improved from 88 days in FY22 to 74 days in FY23. The inventory period improved from 116 days in FY22 to 102 days in FY23. With tightening of its credit norms, collection period improved from 29 days in FY22 to 24 days in FY23.

Environment, social, and governance (ESG) risk

Greenlam is exposed to tightening environmental compliance and emission norms as it uses raw materials such as paper and chemicals. Its operations were marginally impacted in FY22 due to temporary restrictions imposed on its Behror plant for checking pollution in the region. The company has quality certifications for its products, mitigating the risk to an extent. Greenlam spent ₹2.03 crore for corporate social responsibility (CSR) initiatives in FY23. Of eight directors on the company's board, four are independent directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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 an inactive company until the demerger of the decorative business comprising decorative laminates, decorative veneers and allied products into Greenlam. The decorative laminates business was operational since 1993.

Greenlam is among the largest laminate manufacturing companies in the country and commands an established position in the organised laminate and veneer segments. 'Greenlam Laminates' is the flagship brand of Greenlam, under which its decorative laminates are marketed. The company markets its decorative veneers under brand 'Decowood'. The engineered wood flooring segment and engineered doors segment (both marketed under brand 'Mikasa') was introduced in 2014 and

2015, respectively. The company has recently ventured into the plywood segment, also marketed under 'Mikasa' brand. It has five manufacturing facilities (including manufacturing units of subsidiaries) in Rajasthan, Himachal Pradesh, Gujarat, Tamil Nadu and Andhra Pradesh. It is also undertaking a particle board project in Andhra Pradesh, which will enable it to further diversify its product profile and geographical presence.

Brief Financials – Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,703.40	2,025.96	1,682.26
PBILDT	187.87	233.19	211.12
PAT	90.58	128.04	97.22
Overall gearing (times)	0.67	0.70	NA
Interest coverage (times)	13.34	9.93	6.83

A: Audited; UA: Unaudited; NA: Not available. Note: These 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: Annexure-2

Covenants of rated facilities: Annexure-3

Complexity level of facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	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		-	-	June 2029	125.60	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 last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT-Term loan	LT	125.60	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jul-23)	1)CARE AA-; Stable (07-Jul-22)	1)CARE AA-; Stable (05-Jul-21)
2	Fund-based - LT-Cash credit	LT	165.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jul-23)	1)CARE AA-; Stable (07-Jul-22)	1)CARE AA-; Stable (05-Jul-21)
3	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (07-Jul-23)	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (05-Jul-21)
4	Fund-based/Non-fund-based-Short term	ST	50.00	CARE A1+	-	1)CARE A1+ (07-Jul-23)	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (05-Jul-21)

LT: Long term; ST: Short term; LT/ST: Long term/short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of 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 entities consolidated

Sr No	Name of Entity	Extent of Consolidation	Rationale for Consolidation
1	Greenlam Asia Pacific Pte Ltd., Singapore (GAP)	Full	Subsidiary
2	Greenlam America Inc., Florida (USA)	Full	Subsidiary
3	Greenlam South Limited (GSL)-India	Full	Subsidiary
4	Greenlam Europe (UK) Ltd., United Kingdom	Full	Step down subsidiary
5	Greenlam Decolan SA – Switzerland	Full	Step down subsidiary
6	Greenlam Asia Pacific (Thailand) Co Ltd, Thailand	Full	Step down subsidiary
7	Greenlam Holding Co. Ltd, Thailand	Full	Step down subsidiary

8	PT Greenlam Asia Pacific, Indonesia	Full	Step down subsidiary
9	Greenlam Indo Pacific – Indonesia	Full	Step down subsidiary
10	Greenlam Rus LLC – Russia	Full	Step down subsidiary
11	Greenlam Poland LLC	Full	Step down subsidiary

Note on complexity levels of 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.

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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.

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