Greenlam Industries Limited

September 04, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	319.37	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	230.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**549.37 (Rs. Five Hundred Forty Nine Crore and Thirty Seven Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The reaffirmation of rating assigned to Greenlam Industries Limited (GRLM) takes into account the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic, which is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Sub-optimal utilisation of assets is also likely to adversely impact the business returns of the company.

The ratings assigned also continue to derive strength from the experience of the promoters & long track record in the laminates industry, established brand in domestic organised laminate industry with established presence in the export market, extensive distribution network & marketing support, quality certifications from various agencies and satisfactory capacity utilisation of laminates division.

The ratings also factor in the relatively stable operational performance in FY20 (refers to the period April 1 to March 31) with moderation in Q1FY21, moderate capital structure and debt coverage indicators.

The ratings are, however, constrained by the susceptibility of profitability to raw material price fluctuations, low capacity utilisation of the veneer, engineered wood flooring and engineered doors segments impacting profitability, slower execution of debt funded capex at Nellore than earlier expected timeline due to demand uncertainty arising from Covid-19, working capital intensive nature of operations, exposure to foreign exchange fluctuations, intense competition and dependence on the prospects of the real estate sector.

Positive rating sensitivity

Improvement in PBILDT margin beyond 15% on sustained basis

Improvement in debt coverage indicator (TD/GCA below 2) on sustained basis

Negative rating sensitivity

Any further large scale debt ridden capex leading to deterioration in capital structure

Deterioration in PAT margin below 4.25% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoter and long track record in the laminates industry

GRLM was incorporated in August 2013 and remained as an inactive company till the demerger of the decorative business division (comprising of decorative laminates and decorative veneers) of Greenply Industries Limited (Greenply) into it. The decorative laminate business was in operation under Greenply since 1993. Accordingly, it has a long track record of operation by virtue of being part of Greenply. The promoter, Mr. Shiv Prakash Mittal, is well-known in the interior infrastructure sector with experience of more than two 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 GRLM which has extensive experience in the industry.

Established brand in domestic organised laminate industry

GRLM is amongst top three laminate producers of the world and largest exporter of laminate from the country for last 10 consecutive years and commands an established position in the organised laminate and veneer segment. GRLM's brands like 'Greenlam' & 'Decowood' are the leading brands in the respective laminate and veneer segment. Furthermore, GRLM 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 GRLM's position in the interior infrastructure sector.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established presence in the export market
GRLM has an extensive presence in the quality stringent export market and the same has increased over the last few years. The exports of the company improved and stood at Rs.567.78 crore (comprising around 45% of gross sales) in FY20 vis-à-vis Rs.513.98 crore (comprising around 42% of gross sales) in FY19.

Extensive distribution network and marketing support
GRLM has a pan-India marketing network with 9 company owned regional distribution centres, 21 branch offices, 5 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 over 100 countries through 5 operational international subsidiaries, 3 company operated distribution centres and 14 international offices. To further strengthen its market presence Decolan SA, a distribution and marketing company in Switzerland (acquired through a subsidiary Greenlam Asia Pacific Pte Ltd., Singapore) was acquired to meet the increase in Central European demand for strengthening exports.

Satisfactory capacity utilisation of laminates division
Although the capacity utilisation (CU) of GRLM for the laminates division has been satisfactory over the years it has deteriorated in FY20 to 92% CU vis-à-vis 98% CU in FY19 on account of Covid-19 induced shutdown. The plants were shut down from March 22, 2020 in Behror and March 24, 2020 in Nellore till it resumed operations from April 20, 2020 and April 25, 2020 respectively. Consequently, in Q1FY21 the CU deteriorated substantially to 51% as against 93% in Q1FY20.

Stable operational performance during FY20 with moderation in Q1FY21
On a consolidated basis, GRLM witnessed growth of about 3.3% in total operating income from Rs.1,280.71 crore in FY19 to Rs.1,322.94 crore in FY20 majorly driven by the laminates segment with improved realization. However, the laminate division registered volume de growth during FY20 to 13.23 mn sheets from 13.54 mn sheets in FY19 due to Covid-19 shutdown in second half of March 2020. The overall PBILDT margin improved to 13.71% in FY20 vis-à-vis 12.39% in FY19 on account of improved margins in laminates and lessor operational losses of Rs.10.27 crore (Rs.11.60 crore in FY19) in engineered doors & flooring segment. PAT margin of the company improved to 6.55% in FY20 from 6.01% in FY19 with lower incidence of tax despite increase in interest cost. Accordingly, GCA increased from Rs.114.43 crore in FY19 to Rs.133.73 crore in FY20.
In Q1FY21, GRLM reported loss of Rs.7.70 crore on total operating income of Rs.160.36 crore vis-a-vis PAT of Rs.8.38 crore on total operating income of Rs.289.54 crore in Q1FY20. The PBILDT margins deteriorated to 4.91% in Q1FY21 on account of operations being impacted due to COVID-19 and lower spread of fixed overheads. The impact of the same is temporary and which the company expects to recoup in the upcoming quarters. Consequently PAT margin was negative with lower PBILDT and higher capital charge during Q1FY20.

Moderate capital structure and debt coverage indicators
Leverage ratios remained moderate as on March 31, 2020, wherein debt-equity ratio and overall gearing ratio stood at 0.24x and 0.69x respectively as compared to 0.26x and 0.79x respectively as on March 31, 2019 despite increase in total debt. The debt coverage indicators remained healthy with interest coverage of 8.25x (FY19: 9.36x) and total debt to GCA of 2.52x (FY19: 2.64x) during FY20. In Q1FY21 interest coverage deteriorated to 1.58x on account of shut down of operations due to COVID-19.

Quality certifications from various agencies
GRLM 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, GRLM is also ISO 9001, ISO 14001 and OHSAS 18001 certified. Further, GRLM also has SEDEX certification for ethical trade initiatives and GRLM products have anti-bacterial certifications for last 10 years. Also, the company has recently received anti-virus certification.

Key Rating Weaknesses

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 because significant proportion of raw materials are imported with a long lead time. The company provides credit of about 50-65 days and avail credit from its suppliers of about 60-75 days. The operating cycle of the company moderated to 111 days in FY20 as against 99 days in FY19. The inventory period increased in FY20 to 120 days as against 100 days in FY19 mainly on account of nationwide lockdown imposed in the country for COVID-19 leading to pile up of finished goods inventory during the last fortnight in March 2020. However the collection period improved from 51 days in FY19 to 45 days in FY20.

Raw material price fluctuation risk

Raw material cost (including traded goods) formed about 62% (FY19: ~62%) of the total cost of sales for GRLM during FY20. The major raw material for the company is paper and chemicals. Around 61% of the raw materials consumed in FY20 were met through imports as against ~66% in FY19. Methanol and Phenol being the primary chemical requirements, their availability and price has a significant impact on the operating margins of the company. Prices of both the products in international market are highly volatile (as they are a crude oil derivative). However, any increase in raw material prices is subsequently passed on to the customers, though with certain time lag. Further, the prices of chemicals procured have witnessed decreasing trend (due to decrease in crude prices) during FY20.

Large size capex at Naidupeta, Nellore

During FY20 Board of directors of Greenlam South India (GSL) a wholly owned subsidiary of GRLM has approved to set up a manufacturing facility at Naidupeta, Nellore in Andhra Pradesh for manufacturing of laminates and allied products at an estimated project cost of Rs.175 crore to be funded through mix of debt and equity. The plant was earlier proposed to be operationalised within 24 months from March 2022 with proposed capacity expansion of 1.5million sheets/board per annum. As on date, the company has incurred ~Rs.45-50 crore (mainly on acquisition of land) for the project. However the same is expected to be delayed by 2-3 quarters on account of COVID-19 as stated by the management

Exposure to exchange rate fluctuation

GRLM is a net exporter. The company imported ~Rs. 417.00 crore (61%) (~Rs.456.00 crore (66%) in FY19) of inputs while its exports of finished goods stood at around Rs. 567.78 crore (44.88%) in FY20 as against Rs.513.98 crore (42%) during FY19. 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 thereby mitigating the foreign exchange risk. As a policy, the company uses derivatives like forward contracts to hedge exposure to foreign currency risk. On a standalone level, GRLM had un-hedged foreign currency exposure of approximately Rs.84.0 crore (mainly export receivables, majority of which is naturally hedged) outstanding as on March 31, 2020 as against around Rs.65.0 crore as on March 31, 2019 exposing the company to volatility in exchange rates to a certain extent. GRLM earned foreign exchange gain of Rs.2.36 crore during FY20 as against loss of Rs.1.64 crore in FY19.

Liquidity: Adequate

The liquidity position of the company was comfortable with GCA of Rs.133.73 crore in FY20 vis-à-vis debt repayment obligation of Rs.43.75 crore. Further the company had unutilised fund based limit of Rs.71 crore (out of sanctioned limit of Rs.200 crore) and cash and bank balance of ~Rs.8.00 crore as on July 31, 2020 against the debt repayment of Rs.37.50 crore in FY21 (Rs.10.63 crore already repaid till July 31, 2020.) which provides sufficient liquidity to the company. GRLM has not availed any moratorium as well as emergency line of credit from banks.

Analytical approach: CARE has taken a consolidated approach for analysis of GRLM with its subsidiaries which are mainly set up as overseas marketing outfits. List of companies being consolidated is as under:

Subsidiaries	***Holding of GRLM***
Greenlam Asia Pacific Pte Ltd., Singapore	100.0%
Greenlam America Inc., USA	100.0%
Greenlam Europe (UK) Ltd., UK	100.0%
Greenlam Asia Pacific (Thailand) Co Ltd	97.5%
Greenlam Holding Co. Ltd	99.0%
PT Greenlam Asia Pacific	99.0%
Greenlam Decolan SA	100.0%
Greenlam South Limited	100.0%

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning Outlook and credit watch to Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Rating Methodology- Factoring Linkages in Ratings

About the Company

GRLM 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 GRLM. The appointed date for

such demerger was April 1, 2013. Greenply was incorporated in August 1984 and is engaged in the manufacturing of plywood, decorative veneers, MDF and allied products. Its decorative laminates business was operational since 1993.
GRLM 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 GRLM under which its decorative laminates are marketed. GRLM markets its decorative veneers under the brand name of 'Decowood'. Furthermore, the Engineered Wood Flooring segment and Engineered Doors segment was introduced by GRLM in 2014 and 2015, respectively. The company has two manufacturing facilities in Behror, Rajasthan and Nalagarh, Himachal Pradesh.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1280.71	1322.94
PBILDT	158.69	181.40
PAT	77.11	86.67
Overall gearing (times)	0.71	0.69
Interest coverage (times)	9.36	8.31

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	154.37	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	165.00	CARE A+; 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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	154.37	CARE A+; Stable	-	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)	1)CARE A+; Stable (13-Dec-18)	1)CARE A+; Stable (29-Nov-17) 2)CARE A+; Stable (22-May-17)
2.	Fund-based - LT-Cash Credit	LT	165.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Oct-19) 2)CARE A+; Stable (02-May-19)	1)CARE A+; Stable (13-Dec-18)	1)CARE A+; Stable (29-Nov-17) 2)CARE A+; Stable (22-May-17)
3.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (29-Nov-17) 2)CARE A1 (22-May-17)
4.	Fund-based/Non-fund-based-Short Term	ST	30.00	CARE A1+	-	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (29-Nov-17) 2)CARE A1 (22-May-17)

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

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Punit Singhania
Tel: 033-4018 1620
Mobile : 98743 41122
Email: punit.singhania@careratings.com

Business Development Contact
Name: Lalit Sikaria
Contact no. :9830386869
Email ID :lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com