Greenlam Industries Limited

October 03, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	259.10 (reduced from 263.25)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	230.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**489.10 (Rs. Four Hundred Eighty Nine Crore and Ten Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Greenlam Industries Limited (GIL) continue to derive strength from the experience of the promoters, established brand in the domestic organised laminate industry with high capacity utilization and quality certifications, significant presence in well-established export market and extensive distribution & marketing network.

The ratings also factor in the relatively stable operational performance in FY19 (refers to the period April 1 to March 31) with slight moderation witnessed in Q1FY20 with subdued real estate scenario as well as improvement in 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 veneer, engineered wood flooring and engineered doors segments, working capital intensive nature of operations, exposure to foreign exchange fluctuations, intense competition and dependence on the prospects of the real estate sector.

GIL's ability to improve its profitability while maintaining capital structure and increase its scale of laminates operation with improvement in performance of the engineered wood flooring and engineered doors segments remain a key rating sensitivity. Further any major debt-funded capital expenditure plan in the medium term is a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoters

GIL 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 of GIL, Mr Saurabh Mittal has rich experience in the industry.

Established brand in domestic organised laminate industry

GIL is one of the largest laminates manufacturing company in the country and commands an established position in the organised laminate and veneer segment. GIL's brands like 'Greenlam' & 'Decowood' are the leading brands in the respective laminate and veneer segment. Furthermore, GIL 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 GIL's position in the interior infrastructure sector.

High capacity utilisation of laminates division albeit low utilization in veneer, engineered wood flooring and engineered doors segment

Capacity utilisation (CU) of GIL for the laminates division has been high over the years with 98% CU in FY19 vis-à-vis 102% CU in FY18. Further, the CU of laminates decreased marginally in Q1FY20 with lower sales volume in the period.

Further, GIL commissioned additional 1.6 million sheet production in September 2019 at the Nalagarh plant to address the increasing demand at a project cost of Rs.25 cr (funded entirely through internal accruals). With this addition, the total installed capacity for laminate will become 15.62 million sheet per annum.

The CU of the veneer division increased from 38% FY18 to 42% in FY19 with moderation in Q1FY20 to 33%. CU of Engineered wood flooring & engineered doors & door sets continued to remain low & hovered at 17% & 11% in FY19 & 18% & 19% in Q1FY20.

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

Stable operational performance during FY19 with slight moderation in Q1FY20

On a consolidated basis, GIL witnessed growth of about 11.88% in total operating income from Rs.1,144.73 crore in FY18 to Rs.1,280.71 crore in FY19 majorly driven by the laminates segment with improved realization. Export revenues improved and stood at Rs.513.94 crore (comprising around 42% of gross sales) in FY19 vis-à-vis Rs.437.12 crore (comprising around 39% of gross sales) in FY18. However, the laminate division registered overall volume de- growth during FY19 to 13.54 mn sheets from 13.78 mn sheets in FY18 due to moderation in domestic demand. Overall PBILDT margin moderated to 12.39% in FY19 vis-à-vis 13.01% in FY18 on account of increase in raw material prices, lower margins in veneer segment and higher operational losses in engineered doors & flooring segment. However, the PAT margin of the company improved to 6.01% in FY19 from 5.64% in FY18 with marginally lower interest cost due to repayment of term loan despite increase in working capital borrowings availed in the last quarter of FY19. Accordingly, GCA increased from Rs.99 crore in FY18 to Rs.114.43 crore in FY19.

In Q1FY20, GIL reported PAT of Rs.8.38 crore on total operating income of Rs.289.54 crore vis-a vis PAT of Rs.15.31 crore on total operating income of Rs.288.12 crore in Q1FY19. The PBILDT margins deteriorated to 10.32% in Q1FY20 on account of upgradation of ERP systems in April 2019 for which billing mainly for exports could not be done for 15 days leading to inventory build-up and lower absorption of fixed overheads. Further the PAT margin declined to 2.89% in Q1FY20 on account of increase in interest expense for the term loan of Rs.30 crore availed in March 2019 and higher working capital utilization to fund inventory build-up during Q1FY20. Furthermore, on account of higher deferred tax expense in Q1FY20 the PAT margin was also impacted.

Improvement in capital structure and debt coverage indicators

Leverage ratios improved as on March 31, 2019, wherein debt-equity ratio and overall gearing ratio improved and stood at 0.26x and 0.71x respectively as compared to 0.35x and 0.84x respectively as on March 31, 2018 on account of higher accretion of profits to reserves despite increase in total debt (mainly working capital borrowing). The debt coverage indicators also improved and remained healthy with interest coverage of 9.27x (FY18: 8.25x) and total debt to GCA of 2.64x (FY18: 2.99x) during FY19. In Q1FY20 interest coverage remained comfortable at 6.65x.

Extensive distribution and marketing network

GIL has a pan-India marketing network with 11 company owned regional distribution centres, 27 branch offices 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, Europe and UK. Globally, the company has presence in over 100 countries through 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 further enhance group presence in Central European markets.

During FY19 GIL inaugurated an experience centre in Kolkata to provide the customers, architects and interior designers with one stop solution and an opportunity to appraise all brands and all products within the brands under one roof.

GIL's extensive distribution network is supported by various marketing and branding exercises across the divisions.

Well established export market

GIL 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.513.94 crore (comprising around 42% of gross sales) in FY19 vis-à-vis Rs.437.12 crore (comprising around 39% of gross sales) in FY18.

Quality certifications from various agencies

GIL 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, GIL is also ISO 9001, ISO 14001 and OHSAS 18001 certified. Further, GIL also has SEDEX certification for ethical trade initiatives.

Stable demand outlook for interior infrastructure products

India's rapidly expanding economy is seeing growing affluence, both in urban and rural areas. Increasing income levels has resulted in middle-class Indians aspiring for more lavish lifestyles. The Indian furniture industry is expected to witness continuous growth on the back of rising per capital income levels, rapid urbanization and rise of consumer class. Going forward, the demand for furniture products is likely to be primarily driven by growth in demand from the hospitality sector, healthcare sector, commercial office space sector and retail space sector. However, intense competition continues in the industry with a large number of players in the unorganised sector.

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 inventory period increased in FY19 to 100 days as against 98 days in FY18 mainly on account of customised order for export market for which stocking of raw material was done in March 2019. However the collection period was almost stable.

Raw material price fluctuation risk
The major raw material for the company is paper and chemicals. Raw material cost (including traded goods) formed about 62% of the total cost of sales for GIL during FY19. Around 66% of the raw materials consumed in FY19 were met through imports. Methanol and Phenol being the primary chemical requirements and the prices of both the products in international market are volatile as they are a crude oil derivative. However, any increase/decrease in raw material prices is subsequently passed on to the customers, though with certain time lag.

Low capacity utilisation of the recently introduced products
The CU of the relatively newer product, viz., engineered wood flooring and engineered doors segment continued to remain on the lower side. These divisions continued to incur loss in FY19 and Q1FY20.

Exposure to exchange rate fluctuation
GIL is a net exporter. The company imported Rs. 455 crore (66%) (Rs.364.70 crore (62%) in FY18) of inputs while its exports of finished goods stood at around Rs. 513.94 crore (42%) in FY19 as against Rs.437.11 crore (39%) during FY18. As a result, the company is partially insulated against foreign exchange fluctuation by way of natural hedging. GIL incurred foreign exchange loss of Rs.1.64 crore during FY19. GIL had unhedged foreign currency payable of Rs.24.98 crore and receivable of Rs.40.46 crore (standalone) outstanding as on March 31, 2019.

Liquidity: Adequate
The liquidity position of the company was comfortable with GCA of Rs.114.43 crore in FY19 vis-à-vis debt repayment obligation of Rs.41.34 crore. In FY20, GCA projected is sufficient to meet debt repayment obligation of Rs.43.24 crore. Further the average utilisation of the fund based limits was 72.97% (sanctioned limit of Rs.175 crore) during the last twelve months ending July'19 indicating additional liquidity in the form of unutilised limits. GIL has cash and cash equivalents of ~Rs.6.50 crore as on June 30, 2019.

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

Subsidiaries	***Holding of GIL***
Greenlam Asia Pacific Pte Ltd., Singapore	100%
Greenlam America Inc., USA	100%
Greenlam Europe (UK) Ltd., UK	100%
Greenlam Asia Pacific (Thailand) Co Ltd	97.5%
Greenlam Holding Co. Ltd	99%
PT Greenlam Asia Pacific	99%

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

About the Company
GIL 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 GIL. 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.
GIL 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 GIL under which its decorative laminates are marketed. GIL markets its decorative veneers under the brand name of 'Decowood'. Furthermore, the Engineered Wood Flooring segment and Engineered Doors segment was introduced by GIL in 2014 and 2015, respectively. The company has two manufacturing facilities in Behror, Rajasthan and Nalagarh, Himachal Pradesh with combined installed laminate capacity of 15.62 million sheets and veneer capacity of 4.20 million square metres.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1144.73	1280.71
PBILDT	148.93	158.69
PAT	64.62	77.11
Overall gearing (times)	0.84	0.71
Interest coverage (times)	8.25	9.36

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	-	-	March 2025	119.10	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	140.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	119.10	CARE A+; Stable	1)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)	1)CARE A+; Stable (30-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	140.00	CARE A+; Stable	1)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)	1)CARE A+; Stable (30-Dec-16)
3.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	1)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (29-Nov-17) 2)CARE A1 (22-May-17)	1)CARE A1 (30-Dec-16)
4.	Fund-based/Non-fund-based-Short Term	ST	30.00	CARE A1+	1)CARE A1+ (02-May-19)	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (29-Nov-17) 2)CARE A1 (22-May-17)	1)CARE A1 (30-Dec-16)

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

Relationship 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**