

Greenlam Industries Limited

May 22, 2017

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|---------------|
| Long-term Bank Facilities | 246.20 (enhanced from 220.15) | CARE A+; Stable (Single A Plus; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 230 (reduced from 255) | CARE A1 (A One) | Reaffirmed |
| Short-term Bank Facilities | 30 | CARE A1 (A One) | Reaffirmed |
| Total | 506.20 (Rupees Five Hundred Six crore and Twenty 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, long & satisfactory track record in the laminates industry, established position in the domestic organised laminate industry with significant presence in the export market, extensive distribution network & marketing support, quality certifications, satisfactory capacity utilisation, increasing scale of operation, and comfortable debt coverage indicators.

The ratings are, however, constrained by the susceptibility to raw material price fluctuations, working capital intensive nature of operations, exposure to foreign exchange fluctuations, substantial support extended to group companies, intense competition, and dependence on the prospects of the real estate sector.

Its ability to sustain its profitability while maintaining capital structure, performance of the group companies, and any major debt-funded capital expenditure would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and significant experience of promoter

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, Mr Shiv Prakash Mittal, has experience of more than two decades in the industry. Mr Saurabh Mittal, son of Mr Shiv Prakash Mittal, is the Managing Director & CEO of the company and looks after the day-to-day affairs of the company.

Established position 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.

Satisfactory capacity utilisation

Capacity utilisation (CU) of GIL for the laminates division has been satisfactory over the years. Further GIL announced another capacity expansion of 2 mn sheets which is likely to commence production by Q2FY18. However, inspite of significant improvement in the CU of decorative veneer business on the back of launch of new variants, the same continues to be on the lower side. Furthermore, GIL also commenced operations of the Engineered Wood Flooring and Engineered Door segment in September 2014 & 2015 respectively. The CU of both the products were on the lower side as these products are in market seeding stage.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Increase in total operating income with improvement in profitability margins during FY16

GIL witnessed growth of about 11% in the total operating income from Rs.844.60 crore in FY15 to Rs.936.70 crore in FY16. Furthermore, lower input costs along with higher sales level has led to decline in raw material cost as a percentage of sales in FY16. This, along with higher efficiencies across the segments led to improvement in the profitability margins of the company.

On a consolidated basis also, the performance improved in FY16 with PAT of Rs.37.71 crore achieved on a total operating income of Rs.1,032.57 crore as against PAT of Rs.19.33 crore on an operating income of Rs.927.54 crore in FY15.

As per the unaudited results for 9MFY17, total operating income increased marginally and grew by 2%. PBILDT and PAT margins remained comfortable.

Comfortable debt coverage indicators

The capital structure remained moderate as on March 31, 2016, wherein debt-equity ratio and overall gearing ratio improved and stood at 0.64x and 1.21x, respectively, as compared with 0.77x and 1.41x, respectively, as on March 31, 2015. The improvement in leverage ratios was primarily on the back of accretion of profits to networth and stable debt levels.

On a consolidated basis also there was improvement in capital structure and debt coverage indicators.

Cost-efficient sourcing and locational advantage

GIL has strategic advantage vis-à-vis its competitors as both its units are located adjacent to the ports or market or source of major raw materials. This enables it to save cost on transportation, as both raw materials & finished goods are bulk products. Moreover, the Nalagarh plant located in Himachal Pradesh is entitled to fiscal benefits in the form of exemption from excise duty for the 10 year period till June, 2019.

Extensive distribution network and marketing support

GIL has a pan-India marketing network with nine company owned regional distribution centres, 32 branch offices and over 12,000 distributors, dealers, sub-dealers and retailers across 21 states. This apart, it has subsidiary companies which are engaged in exploring market opportunities for laminates in south-east Asia, USA and Europe.

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

Increasing presence in the 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 increased in FY16 by 5.23% (comprising around 35% of gross sales) as compared to FY15.

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.

Key Rating Weaknesses

Support extended to group companies

GIL has two subsidiaries and four step-down subsidiaries which mainly markets its products overseas. It had fund-based exposure of Rs.44.5 crore (17% of networth) in the subsidiaries as on March 31, 2016. Furthermore, GIL has provided corporate guarantee/counter guarantee for bank facilities aggregating Rs.149.38 crore for its various subsidiaries.

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 products and variants thereof. However, the operating cycle of the company improved to 68 days in FY16 vis-à-vis 78 days in FY15.

Exposure to exchange rate fluctuation

GIL incurred foreign exchange loss of Rs.1.07 crore during FY16 and had net unhedged foreign currency exposure of Rs.7.42 crore outstanding as on March 31, 2016.

GIL had also availed ECBs to part fund its capex programme in FY14. Interest payments of such ECBs have been fully hedged by entering into interest rate swaps. However, principal repayments of the same remain unhedged, exposing the company to foreign exchange fluctuation risk. ECB outstanding was Rs.26.14 crore as on March 31, 2016.

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 FY16. Around 60% of the raw materials consumed in FY16 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.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

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.

On a standalone basis, the company earned PAT of Rs.40.34 crore on total operating income of Rs.936.70 crore during FY16. In 9MFY17, GIL earned a PAT of Rs.25.67 crore on total operating income of Rs.702.04 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

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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 | - | - | October, 2022 | 136.20 | CARE A+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 110.00 | CARE A+; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 230.00 | 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Term Loan | LT | 136.20 | CARE A+; Stable | - | 1) CARE A+; Stable (30-Dec-16) | 1) CARE A (10-Mar-16) 2) CARE A (29-Apr-15) | - |
| 2. | Term Loan-Long Term | LT | - | - | - | - | 1) Withdrawn (10-Mar-16) 2) CARE A (29-Apr-15) | - |
| 3. | Fund-based - LT-Cash Credit | LT | 110.00 | CARE A+; Stable | - | 1) CARE A+; Stable (30-Dec-16) | 1) CARE A (10-Mar-16) 2) CARE A (29-Apr-15) | - |
| 4. | Non-fund-based - ST-BG/LC | ST | 230.00 | CARE A1 | - | 1) CARE A1 (30-Dec-16) | 1) CARE A1 (10-Mar-16) 2) CARE A1 (29-Apr-15) | - |
| 5. | Commercial Paper-Commercial Paper (Carved out) | ST | - | - | - | - | 1) Withdrawn (11-Mar-16) 2) CARE A1 (29-Apr-15) | - |
| 6. | Fund-based/Non-fund-based-Short Term | ST | 30.00 | CARE A1 | - | 1) CARE A1 (30-Dec-16) | 1) CARE A / CARE A1 (10-Mar-16) | - |

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