Greenlam Industries Limited

November 29, 2017

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	237 (reduced from 246.20)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	260	**CARE A1+ (A One Plus)**	**Revised from CARE A1 (A One)**
Total	**497 (Rs. Four hundred and ninety seven crore only)**		

Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the short term ratings assigned to the bank facilities of Greenlam Industries Limited (GIL) takes into account the improvement in the liquidity profile of the company with improvement in operating cycle on account of initiatives undertaken for inventory and receivables management. The ratings also factor in the stable operating profitability in FY17 (refers to the period April 1 to March 31), improvement in the performance of the overseas subsidiaries and improvement in capital structure on account of reduction in working capital borrowings. The ratings continue to derive strength from the experience of the promoters, long 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 and satisfactory capacity utilisation of laminates division.

The ratings are, however, constrained by the susceptibility of profitability to raw material price fluctuations, low capacity utilisation of the engineered wood flooring and engineered doors segments impacting profitability, 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, improvement in performance of the engineered wood flooring and engineered doors segments and any major debt-funded capital expenditure plan in the medium term are 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 of GIL, Mr Saurabh Mittal has rich experience in the industry.

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.

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

Satisfactory capacity utilisation of laminates division

Capacity utilisation (CU) of GIL for the laminates division has been satisfactory over the years with 105% CU in FY17. GIL increased its installed capacity of decorative laminates to 14.02 mn sheets per annum with additional 2 million sheets per annum commencing operation in June 2017. In spite of increase in installed capacity, GIL's CU of laminates remained healthy in H1FY18. However, the CU of the veneer division decreased in FY17 due to impact of demonetization in Q3FY17.

Stable operational performance during FY17 and H1FY18

GIL witnessed growth of about 4.5% in the total operating income in FY17. PBILDT margin remained stable at 12.97% in FY17 vis-à-vis 12.65% in FY16 with stable raw material prices. However, with lower interest cost due to decrease in working capital borrowings and creation of deferred tax asset, the PAT margin of the company improved to 4.63% in FY17 from 3.66% in FY16. GCA, however, remained flat in FY17.

In H1FY18, GIL reported PAT of Rs.29.29 crore on total operating income of Rs.553.34 crore vis-à-vis PAT of Rs.22.33 crore on total operating income of Rs.541.11 crore during H1FY17. Though PBILDT margin improved marginally, PAT margin improved to 5.31% in H1FY18 (4.13% in H1FY17) due to lower interest cost with reduced working capital borrowings.

Improvement in capital structure

Leverage ratios improvedas on March 31, 2017, wherein debt-equity ratio and overall gearing ratio improved and stood at 0.49x and 0.97x respectively as compared to 0.72x and 1.79x respectively as on March 31, 2016. The improvement in leverage ratios was primarily on the back of reduction in total debt with lower working capital borrowings and accretion of profits to networth. The debt coverage indicators also improved and remained healthy with interest coverage of 4.67x (FY16: 3.68x) and total debt to GCA of 3.22x (FY16: 5.06x) during FY17.

Improvement in liquidity profile

The liquidity profile of the company has witnessed improvement with improvement in operating cycle in FY17. Inventory period improved due to maintaining lower raw material inventory. Apart from this the company took various steps at subsidiary level which included appointing a foreign distributor in UK as stockist for export market instead of company maintaining inventory in its books. The improvement in collection period was due to better collections and tightening of credit terms.

With improvement in working capital cycle, the average utilisation of its fund based limits also reduced to 62% during the last twelve months ending September'17 vis-à-vis average utilisation of 88% during the last twelve months ending October'16.

Improvement in performance of overseas subsidiaries during FY17

GIL undertook various initiatives during FY17 for saving costs in its foreign subsidiaries and reducing working capital requirements. Consequently the performance of overseas subsidiaries improved and GIL reported higher consolidated net profit of Rs.49.81 crore (FY16: Rs.37.71 crore) than standalone net profit of Rs. 42.95 crore (FY16: Rs.40.34 crore) in FY17.

Cost-efficient sourcing and locational advantage

GIL has strategic advantage as both its units are centrally located in India which enables the company to cater to different geographies. Moreover, the Nalagarh plant located in Himachal Pradesh is entitled to fiscal benefits.

Extensive distribution network and marketing support

GIL has a pan-India marketing network with 11 company owned regional distribution centres, 32 branch offices and over 14,000 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; along with 3 international distribution centers and 13 international offices.

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 FY17 by 5.75% (comprising around 41% of gross sales) as compared to FY16.

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.

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 housing, hospitality, healthcare, commercial office space and retail space sectors.

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.

However, the operating cycle of the company improved to 89 days in FY17 vis-à-vis 99 days in FY16 due to better inventory management and collections.

Raw material price fluctuation risk

The major raw material for the company is paper and chemicals. Raw material cost (including traded goods) formed about 56% of the total cost of sales for GIL during FY17. Around 62% of the raw materials consumed in FY17 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. The CU of the engineered door segment improved during FY17, but continued to be on the low with the segment being in market seeding stage. These divisions continued to incur loss in FY17 and H1FY18.

Exposure to exchange rate fluctuation

GIL is exposed to exchange rate fluctuation risk as it imports a significant proportion of its raw material requirements. Further, it also has borrowings in foreign currency. However, significant amount of export income mitigates the risk to an extent. GIL incurred foreign exchange loss of Rs.3.41 crore during FY17 and had net unhedged foreign currency exposure of Rs.136.96 crore outstanding as on March 31, 2017.

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

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
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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1029.74	1075.93
PBILDT	130.26	139.53
PAT	37.71	49.81
Overall gearing (times)	1.79	0.97
Interest coverage (times)	3.68	4.67

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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About CARE Ratings:

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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	127.00	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	127.00	CARE A+; Stable	1)CARE A+; Stable (22-May-17)	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 (22-May-17)	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 (22-May-17)	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 (22-May-17)	1)CARE A1 (30-Dec-16)	1)CARE A / CARE A1 (10-Mar-16)	-

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