

Greenlam Industries Limited

December 13, 2018

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long term Bank Facilities	241.55 (enhanced from 237)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	230.00 (reduced from 260)	CARE A1+ (A One Plus)	Reaffirmed
Total	471.55 (Rs. Four Hundred Seventy One Crore and Fifty Five Lakh only)		

Details of 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 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 also factor in the relatively stable operational performance in FY18 (refers to the period April 1 to March 31) and H1FY19 and improvement in capital structure and debt coverage indicators on account of reduction in working capital borrowings.

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.

Satisfactory capacity utilisation of laminates division

Capacity utilisation (CU) of GIL for the laminates division has been satisfactory over the years with 102% CU in FY18 vis-à-vis 105% CU in FY17. However, the CU of laminates decreased marginally in H1FY19 with lower sales volume in the period. The CU of the veneer division increased from 31% FY17 to 38% in FY18 and remained at similar levels (39%) in H1FY19.

Stable operational performance during FY18 and H1FY19

On a consolidated basis, GIL witnessed growth of about 6.40% in total operating income from Rs.1,075.80 crore in FY17 to Rs.1,144.73 crore in FY18 majorly driven by the laminates segment. The revenue from veneers, flooring and door segment also witnessed growth in FY18. The PBILDT margin was marginally lower for laminates in FY18 due to increase in raw material prices. However, the overall PBILDT margin remained stable at 13.01% in FY18 vis-à-vis 12.88% in FY17 on account of higher margin in veneer segment and lower operational losses in engineered doors & flooring segment. The PAT margin

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

of the company improved from 4.61% in FY17 to 5.64% in FY18 with lower interest cost due to decrease in working capital borrowings. GCA earned was Rs.99 crore in FY18 as against Rs.84.26 crore in FY17.

In H1FY19, GIL reported PAT of Rs.33.53 crore on total operating income of Rs.605.63 crore vis-à-vis PAT of Rs.29.39 crore on total operating income of Rs.564.34 crore during H1FY18. Though PBILDT margin decreased marginally, PAT margin remained stable at 5.52% in H1FY18 (5.20% in H1FY18).

Improvement in capital structure and debt coverage indicators

Leverage ratios improved as on March 31, 2018, wherein debt-equity ratio and overall gearing ratio improved and stood at 0.35x and 0.84x respectively as compared to 0.47x and 1.13x respectively as on March 31, 2017. 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 8.25x (FY17: 4.85x) and total debt to GCA of 2.99x (FY17: 3.91x) during FY18.

Extensive distribution network and marketing support

GIL has a pan-India marketing network with 12 company owned regional distribution centres, 22 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 and Europe. Globally, the company has presence in over 100 countries through 2 company operated distribution centres and 13 international offices.

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 remained stable at Rs.437.12 crore (comprising around 39% of gross sales) in FY18 vis-à-vis Rs.443.39 crore (comprising around 41% of gross sales) in FY17.

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 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 operating cycle of the company remained stable at 99 days in FY18. However, the inventory days and collection period of the company has improved over the years. Such improvement in inventory and collection period is not reflected in the operating cycle due to simultaneous decrease in payables period.

Raw material price fluctuation risk

The major raw material for the company is paper and chemicals. Raw material cost (including traded goods) formed about 59% of the total cost of sales for GIL during FY18. Around 62% of the raw materials consumed in FY18 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 FY18 and H1FY19, though the quantum of loss has reduced.

Exposure to exchange rate fluctuation

GIL is a net exporter. The company imported Rs.364.70 crore (62%) of inputs while its exports of finished goods stood at around 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.0.10 crore during FY18.

Liquidity

The liquidity profile of the company is comfortable. The average utilisation of the fund based limits was 55.49% during the last twelve months ending September'18. Further the company has cash and cash equivalents of ~Rs.9 crore as on September 30, 2018.

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

[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)	FY17 (A)	FY18 (A)
Total operating income	1075.80	1144.73
PBILD	138.52	148.93
PAT	49.67	64.62
Interest coverage (times)	1.13	0.84
Overall Gearing	4.85	8.25

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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Annexure-1: Details of 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	-	-	Oct'22	101.55	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	101.55	CARE A+; Stable	-	1)CARE A+; Stable (29-Nov-17) 2)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	140.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Nov-17) 2)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	200.00	CARE A1+	-	1)CARE A1+ (29-Nov-17) 2)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+ (29-Nov-17) 2)CARE A1 (22-May-17)	1)CARE A1 (30-Dec-16)	1)CARE A / CARE A1 (10-Mar-16)

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