

December 18, 2023

Greenlam South Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Non-fund based	250.0	270.0	[ICRA]AA-(Negative); reaffirmed; Outlook revised to Negative from Stable; rated amount enhanced
Long-term- Cash credit	-	160.0	[ICRA]AA-(Negative); assigned
Short-term – Interchangeable	-	(160.0)	[ICRA]A1+; assigned
Total	250.0	430.0	

*Instrument details are provided in Annexure-I

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Greenlam Industries Limited and its wholly owned subsidiary Greenlam South Limited (GSL) given the strong business, managerial and financial linkages, and they are collectively referred as GRLM.

The revision in outlook to Negative takes into account the higher-than-expected debt-funded capex along with delay in ramp-up of new capacities. Consequently, ICRA expects moderation in the projected debt protection metrics. The capex under GSL towards on-going greenfield particle board project and recently commissioned greenfield laminate project has witnessed a cumulative cost overrun by around 17%, partially funded by debt. Further, the completion date got deferred by 3-6 months. GRLM has successfully commissioned several new units over the last six months albeit with a delay and at a higher cost (by around 13% vis-à-vis the budget). The cost overruns were due to an increase in equipment cost and setting up basic infrastructure with a provision for future expansion. The leverage as reflected by total debt to OBIDTA is estimated to peak at 3.8 times by March 2024 (from 2.7 times as on March 31, 2023) against ICRA's earlier expectation of around 3 times. Any delay in completion or ramp-up post commercialisation of the on-going capex, would remain a key rating monitorable.

The rating reaffirmation factors in the growth in operating income (OI) by 19% in in FY2023. The OI is likely to rise by 16% in FY2024 primarily led by volumetric growth supported by improved product and geographical diversification. GRLM has increased its laminates capacity by around 28% to 24.5 million sheets per annum as on September 30, 2023, from 19.1 million sheet per annum as on September 30, 2022. Further, a new plywood plant with installed capacity of 18.90 million sqm was commissioned at Tamil Nadu (in Jun-2023). The OI is likely to grow by 25% in FY2025, while the operating margins are projected to be 11.8-12.0%. GRLM forayed into West India by acquiring a laminate unit and then executing greenfield projects at two states, thereby extended its geographical presence into five states from two states in FY2021. The ratings also factor in GRLM's established position in the laminates industry, aided by a strong brand and a wide distribution network and adequate debt coverage metrics. The ratings favourably factor in the near full capacity utilisation for eight consecutive quarters ending September 2023, in the laminate division backed by healthy demand from both domestic and export markets. Its credit profile is supported by extensive promoter experience and GRLM's established presence in the domestic and export markets.

The ratings, however, are constrained by GRLM's exposure to the inherent project implementation risks for the ongoing capex as well as post-implementation risk related to ramp-up and stabilisation of the new plant. With high proportion of imports and lumpy capacity addition by other leading woodpanel players in India, GRLM faces off-take risks for its upcoming particle board plant. Nonetheless, growing penetration of merchandised furniture industry (modular kitchen units, wardrobes etc.), rising demand for particle board being a cheaper alternative and the strong distribution network, brand reputation could mitigate the risk to a large extent. GRLM maintains finished goods stock to cater to its 850 designs and 3,000-4,000 stock keeping units (SKUs). It has considerable dependence on imported raw materials with a long lead time resulting in a high inventory holding period of 125 to 140 days. Nonetheless, it gets a credit period of 90-100 days from its suppliers of various raw materials, which aids the cash conversion cycle. GRLM is also exposed to volatility in prices of key raw materials such as paper and chemicals viz., melamine, methanol and phenol which are crude oil/gas derivatives and fluctuations in exchange rates, given a sizeable import of raw materials and export of its products. Nonetheless, the raw material prices have largely stabilised during the recent quarters. The forex risk is partially mitigated by natural hedge from imports along with prudent hedging policy adopted by the management to keep the unhedged foreign exchange exposure at a low level. ICRA however notes that the foreign exchange borrowings in GSL to fund the on-going capex remain unhedged. The ratings are also constrained by the operating losses incurred in the engineering door and flooring segments over the last five years owing to low-capacity utilisation, in which around 20-25% of the capital is employed. Nonetheless, ICRA is given to understand that these divisions are expected to breakeven within the next few quarters supported by scale up in sales. GRLM is also exposed to intense competition from large organised and numerous small unorganised players in the decorative laminates market.

Key rating drivers and their description

Credit strengths

Established presence in the domestic and export markets, supported by strong brand presence and distribution network –

GRLM is one of the leading manufacturers and exporters of decorative laminates. It has an established position in the laminates industry, supported by a strong brand and a wide distribution network with 9 company-owned regional distribution centres, 21 branch offices, 6 warehouses, and over 23,000 distributors, dealers, sub-dealers, and retailers across the country. This apart, it has 8 subsidiary companies involved in exploring market opportunities for laminates in South-east Asia, USA, Europe, and UK. Globally, GRLM has presence in over 100 countries through 4 company-operated international warehouses, 15 international offices. With total installed laminates capacity of 24.5 million sheets per annum, GRLM is one of the largest laminate manufacturing companies in the country and India's largest exporter of laminates for the past 12 years.

Healthy growth in scale of operations with improved operating margins –

GRLM has increased its laminates capacity by around 28% to 24.5 million sheets per annum as on September 30, 2023, from 19.1 million sheet per annum as on September 30, 2022. Further, a new plywood plant with installed capacity of 18.9 million sqm was commissioned at Tamil Nadu (in Jun-2023), improving GRLM's product diversification. On a consolidated basis, it reported 19% year-on-year (YoY) growth in operating revenue to Rs. 2,026 crore in FY2023 from Rs. 1,703 crore in FY2022. It reported an OI of Rs. 1,119 crore in H1 FY2024, supported by healthy demand and increased realisation across product segments. The raw material prices have largely stabilised during the recent quarters, GRLM's operating margins improved to 12.6% in H1FY2024, against 11.5% in FY2023 and 11.0% in FY2022. Going forward, its OI is likely to rise by 16% in FY2024 primarily led by volumetric growth driven by improved product and geographical diversification. However, margins are expected to slightly moderate over the next few quarter during the initial period of the recently commissioned capacities but are likely to be in-line with FY2023 margins. The OI is estimated to grow by 25% in FY2025 with operating margins of 11.8-12.0%.

Healthy demand prospects likely to support medium-term growth –

The capacity utilisation of the laminate division which accounts for 90% of the total revenues, has remained around 100% for eight consecutive quarters ending September 2023¹, backed by healthy demand from both domestic and export markets. The improved demand from the real estate industry is likely to support the demand for wood panel products in the medium term.

Credit challenges**Project implementation risks associated with large capital expenditure plans and moderated debt coverage indicators –**

GRLM is undertaking capex of around Rs. 759 crore (budget increased from Rs. 650 crore) towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q2FY2025) under GSL. The capex under GSL towards on-going greenfield particle board project and recently commissioned greenfield laminate project has witnessed a cumulative cost overrun by around 17%. The capex is being funded with a debt and equity of 62:38. Further, the completion date got deferred by 3-6 months. With high proportion of imports and lumpy capacity addition by other leading woodpanel players in India, GRLM faces off-take risks for its upcoming particle board plant. Nonetheless, growing penetration of merchandised furniture industry (modular kitchen units, wardrobes etc.), rising demand for particle board being a cheaper alternative and the strong distribution network, brand reputation could mitigate the risk to a large extent. As on September 30, 2023, the pending cost of Rs. 291 crore is planned to be funded by undrawn debt (approx. Rs. 200 crore) and internal accruals. The leverage as reflected by total debt to OBIDTA is estimated to peak at 3.8 times by March 2024 (from 2.7 times as on March 31, 2023) as against ICRA's earlier expectation of around 3 times. Correspondingly, net debt to OBIDTA is expected to peak at around 3.4 times by March 31, 2024 (from 1.3 times as on March 31, 2023) against ICRA's earlier expectation of around 2.7 times. Any delay in completion or ramp-up post commercialisation of the on-going capex, would remain a key rating monitorable.

Engineered doors and engineered floor divisions reported operating losses due to low-capacity utilisation –

GRLM's engineered door and floor divisions have been incurring operating losses for the last five years and continued to make operating losses in FY2023 owing to low-capacity utilisation in both the divisions, in which around 20-25% of the capital has been employed. Nonetheless, these divisions are expected to breakeven within the next few quarters supported by scale up in sales.

Vulnerability of earnings to fluctuations in raw material prices and exchange rates; intense competition in decorative laminates business –

GRLM's operating margins are exposed to volatility in prices of key raw materials such as paper and chemicals viz., melamine, methanol and phenol which are crude oil/gas derivatives and fluctuations in exchange rates, given a sizeable import of raw materials and export of its products. Nonetheless, the raw material prices have largely stabilised during recent quarters. The forex risk is partially mitigated by natural hedge from imports along with prudent hedging policy adopted by the management to keep the unhedged foreign exchange exposure at a low level. Going forward, margins are expected to slightly moderate over the next few quarter during the initial period of the recently commissioned capacities but are likely to be in-line with FY2023 margins. ICRA however notes that the foreign exchange borrowings in GSL to fund the on-going capex remain unhedged (loan outstanding of Rs. 147 crore as on September 30, 2023). GRLM faces intense competition from large organised and numerous small unorganised players in the decorative laminates market.

¹ Capacity utilisation excluding recently commissioned laminates plant w.e.f. September 2023.

Environmental and social risks

Manufacturing of laminates requires a substantial use of paper and chemicals such as melamine and phenolic resins. The process involves toxic emissions from phenolic resins during the laminating process. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for GRLM. The profitability and cash flows could be under pressure if it is not able to fully pass on the higher compliance costs to the customers. The social risks relate to the safety of employees involved in the manufacturing and transportation of laminates and wood panel products and GRLM has made investments in mechanization to enhance physical safety.

Liquidity position: Adequate

GRLM's liquidity is adequate, it has unencumbered cash and cash equivalents of Rs. 209 crore as on September 30, 2023. Further, it had cash and cash equivalent of Rs. 258 crore as on March 31, 2023, of which Rs. 242 crore were in the form of investments in bonds and mutual funds (of which Rs. 67 crore is in over-night and liquid funds). It has debt repayment obligations of Rs. 30 crore and Rs. 143 crore in FY2024 and FY2025 respectively (including repayment obligations of NCDs of Rs. 69 crore in FY2025), which can be adequately met through cash flow from operations.

Rating sensitivities

Positive factors – The outlook could be revised back to Stable upon demonstration of significant improvement in earnings leading to healthy improvement in leverage and debt protection metrics with successful commercialisation of ongoing capex.

Negative factors – Pressure on GRLM's ratings could arise in case of a decline in revenues and earnings or if there is a deterioration in the working capital cycle on a sustained basis. Any delay in ramp up of the ongoing capex or inability to improve leverage and coverage metrics post commercialisation of the on-going capex could also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings of GRLM, ICRA has considered the consolidated financials of Greenlam Industries Limited. List of entities forming part of GRLM's consolidated financials are enlisted in Annexure-II.

About the company

Greenlam South Limited, incorporated in October 2019, is wholly owned subsidiary of GRLM. It is undertaking capex of around Rs. 760 crore towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q2 FY2025). It had recently commenced operations of its laminate plant of 3.5 million sheets capacity (COD: Sept 29, 2023) in Naidupeta, Andhra Pradesh.

About the parent

Greenlam Industries Limited was incorporated in 2013 and is one of the largest laminate manufacturing companies in the country with an installed capacity of 24.52 million sheets per annum. It markets the laminates products under the flagship brand name of Greenlam Laminates. The company commissioned its Naidupeta (Andhra Pradesh) plant from September 29, 2023 onwards. The company exports its decorative laminates to various countries and is one of the largest exporters of laminates from India. It is also involved in the business segments of decorative veneers, pre-lam particle boards, engineered doors and engineered wood flooring. The company's veneer segment has an installed capacity of 4.2 million sq. mt. and is marketed under the brand, Decowood. Further, the engineering doors and engineered wood flooring are sold under the brand name, Mikasa. It has eight foreign subsidiaries, which are primarily involved in marketing and sales of GRLM's laminates, which helped the company establish its presence in over 100 countries. GRLM has recently commenced operations of its plywood plant at Tindivanam, Tamil Nadu effective June 09, 2023, and expanded its laminate capacity at Naidupeta, Andhra Pradesh in September 2023 (under GSL) and at Prantij, Gujarat in May 2023. Also, it is undertaking capex for particle board facility at Naidupeta, Andhra Pradesh (under GSL), which is scheduled to commence commercial production from Q2FY2025.

Key financial indicators

Consolidated- Greenlam Industries Limited	FY2022	FY2023	H1 FY2024*
Operating income	1703.4	2026.0	1118.9
PAT	90.6	128.0	71.6
OPBDIT/OI	11.0%	11.5%	12.6%
PAT/OI	5.3%	6.3%	6.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.4
Total debt/OPBDIT (times)	2.1	2.7	3.1
Interest coverage (times)	13.3	9.9	8.5

Source: Company results, ICRA Research; Unaudited; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; all ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years		
			Amount outstanding as on September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 18, 2023	Dec 29, 2022		
1 Fund-based/Non-fund Based	Long-term	270.00	204.9	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	-	-
2 Cash credit	Long-term	160.00	-	[ICRA]AA-(Negative)	-	-	-
3 Interchangeable	Short-term	(160.00)	-	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based / Non-fund based	Simple

Long-term – Cash credit	Simple
Short-term – Interchangeable	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based/Non-fund based	NA	NA	NA	90.00	[ICRA]AA-(Negative)
-		NA	NA	NA	90.00	
-		NA	NA	NA	90.00	
-	Cash credit	NA	NA	NA	160.00	[ICRA]AA-(Negative)
-	Interchangeable	NA	NA	NA	(160.00)	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Greenlam South Limited	100%	Full Consolidation
Greenlam Asia Pacific Pte. Ltd.	100%	Full Consolidation
Greenlam America Inc.	100%	Full Consolidation
Greenlam Europe (UK) Ltd.	100%	Full Consolidation
Greenlam Decolan SA	100%	Full Consolidation
Greenlam Asia Pacific (Thailand) Co Ltd	97.5%	Full Consolidation
Greenlam Holding Co. Ltd	99%	Full Consolidation
Pt. Greenlam Asia Pacific	99%	Full Consolidation
Pt. Greenlam Indo Pacific	67%	Full Consolidation
Greenlam Rus LLC	100%	Full Consolidation
Greenlam Poland Sp. z.o.o.	100%	Full Consolidation
HG Industries Limited ^	75%	Full Consolidation

^ Acquired on December 03, 2021, and merged with GRLM w.e.f. November 23, 2023

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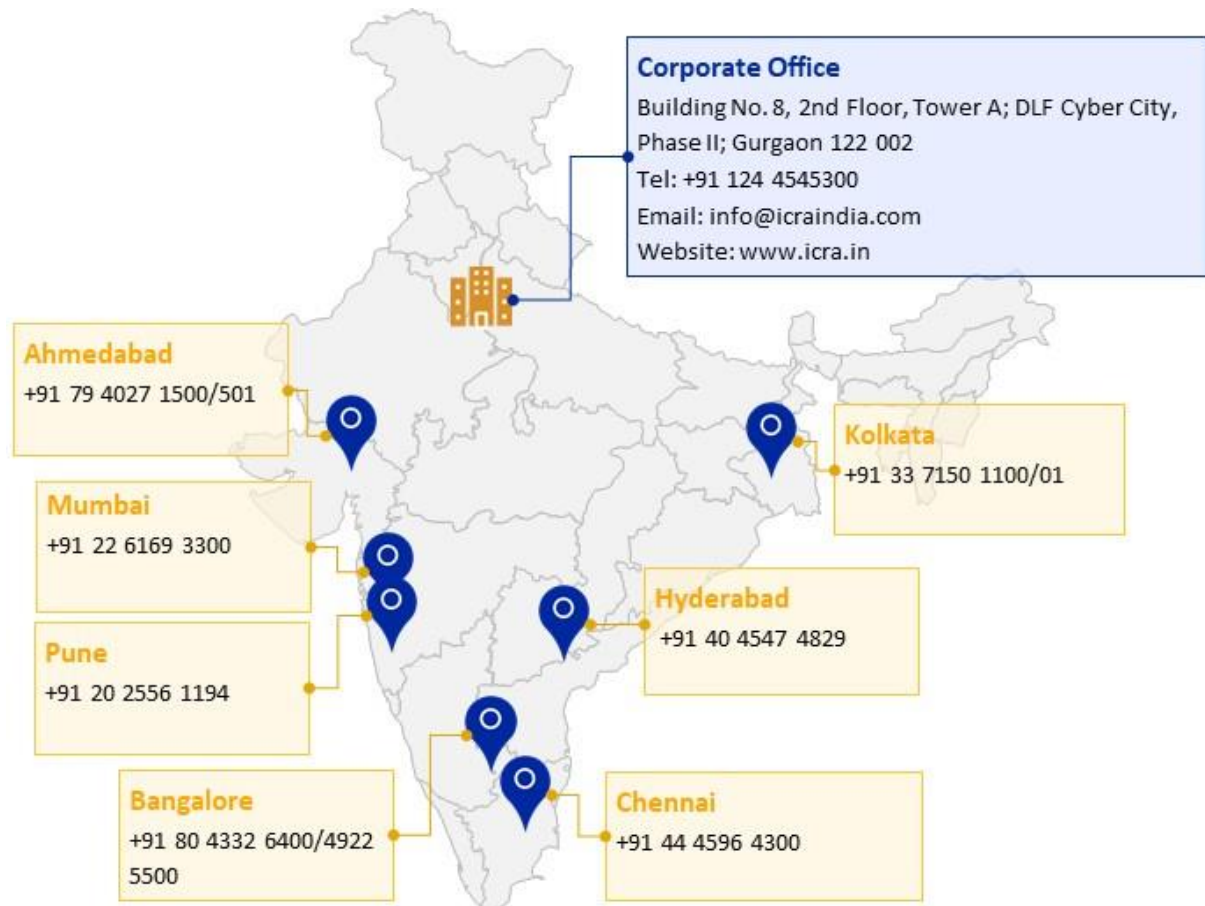
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