June 14, 2024

Greenply Samet Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based limits - Term loan	110.00	[ICRA]BBB (Stable); assigned
Long-term - Fund-based limits - Proposed term loan	40.00	[ICRA]BBB (Stable); assigned
Long-term - Proposed fund-based limits - Cash credit	30.00	[ICRA]BBB (Stable); assigned
Long-term - Unallocated limits	10.00	[ICRA]BBB (Stable); assigned
Total	**190.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Greenply Samet Private Limited (GSPL) factors in the benefits derived from the strong promoter profile with extensive experience in the wood panel industry and furniture accessories market. GSPL is a 50:50 joint venture (JV) between Greenply Industries Limited (GIL) and Samet A.S and its products will be marketed under the brand Greenply Samet. GIL has a dominant position in the plywood industry, along with a wide distribution network of more than 2,300 dealers across India and enjoys strong brand strength for its products. Samet A.S is one of the leading brands of Turkey in the furniture accessories market. GSPL is of high strategic importance to GIL. ICRA expects GIL to extend financial support, if need arises, given the common brand name and its reputation sensitivity to default. GSPL is undertaking a greenfield capex in Vadodara, Gujarat for manufacturing different variants of hinges, drawer slides, full extension slides, single extensions slides, drawer box system and lift-up systems for a total cost of Rs. 225 crore to be completed in three phases, to be funded in debt to equity ratio of 73:27. The debt is tied up with complete infusion of equity for Phase 1 resulting in low funding risk. The phase 1 commenced part operations in March 2024 and is expected to start full-fledged production in Q2 FY2025. As on May 2024, ~87% of the cost has been incurred.

The rating is, however, constrained by GSPL's exposure to post-implementation risk related to ramp-up and stabilisation of Phase 1 capex (likely to contribute to 70-80% of the overall revenue in the near term) and moderate project implementation risks for Phases 2 and 3. While the company has funding tie-up for Phase 1 and is expected to start full-fledged production for the entire Phase 1 capacity in Q2 FY2025, it is exposed to moderate execution and funding risks, for the remaining phases. The total capex cost is around Rs. 75 crore for Phases 2 and 3, which is to be funded in debt to equity ratio of 1.1 times. With steel being a major raw material, GSPL's operating margins are vulnerable to raw material prices fluctuations. GSPL's ability to pass on the increase in prices to end customers remains a key monitorable. The rating is also constrained by the intense competition in the furniture accessories industry due to presence of organised and reputed brands such as Hettich, Hafele and Godrej as well as unorganised players resulting in pricing pressures.

The Stable outlook on GSPL's rating reflects ICRA's opinion that the company will benefit from the brand strength of GIL and adequately ramp-up the operations post commercialisation of capex resulting in adequate earnings and debt protection metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in wood panel and furniture accessories market – GSPL is a 50:50 JV between GIL and Samet A.S and its products will be marketed under the brand 'Greenply Samet'. GIL has a dominant position in the plywood industry, along with a wide distribution network of more than 2,300 dealers across India and enjoys strong brand strength for its products. Samet A.S is one of the leading brands of Turkey in the furniture accessories market.

Strategic importance to GIL – GSPL is of high strategic importance to GIL. ICRA expects GIL to extend financial support, if need arises, given the common brand name and GIL's reputation sensitivity to default.

Low funding risk for Phase 1 of capex – GSPL is undertaking a greenfield capex in Vadodara, Gujarat, for manufacturing different variants of hinges, drawer slides, full extension slides, single extensions slides, drawer box system and lift-up systems with a total capex cost of Rs. 225 crore to be completed in three phases, to be funded in debt to equity ratio of 73:27. The debt is tied up with complete infusion of equity for Phase 1 resulting in low funding risk. The phase 1 commenced part operations in March 2024 and is expected to start full-fledged production in Q2 FY2025. As on May 2024, ~87% of the cost has been incurred.

Credit challenges

Post-implementation risk related to ramp-up and stabilisation of Phase 1 capex; exposed to moderate execution and funding risks for residual capex – The company is exposed to post-implementation risk related to ramp-up and stabilisation of Phase 1 capex (expected to contribute 70-80% of overall revenue in the near term) and moderate project implementation risks for Phases 2 and 3. It is exposed to moderate execution and funding risks for Phases 2 and 3. The total capex cost is around Rs. 75 crore for Phases 2 and 3, which is to be funded in debt to equity ratio of 1.1 times.

Susceptibility of profitability to volatility in raw materials – Steel is a major raw material and being a commodity, GSPL's operating margins are vulnerable to raw material prices fluctuations. The company's ability to pass on the increase in prices to end customers remains a key monitorable.

Intense competition in the furniture fittings industry – The furniture fittings industry faces intense competition due to presence of organised and reputed brands such as Hettich, Hafele and Godrej as well as unorganised players resulting in pricing pressures.

Liquidity position: Adequate

The liquidity is adequate, backed by complete equity infusion and debt tie-up for Phase 1 of the capex. The capex cost for Phase 1 is Rs. 150 crore funded by Rs. 110.0-crore debt and Rs. 40.0-crore equity. As on March 31, 2024, the company has free cash and cash equivalents of Rs. 3.2 crore. The debt repayment obligations start from FY2027, which can be adequately met through its cash flow from operations. It has capex plans of Rs. 35.0 crore in FY2025 (excluding balance Phase 1 capex of Rs. 20 crore as of May 2024 which is fully tied up) and Rs. 40 crore in FY2026 and FY2027 which is estimated to be funded in debt to equity ratio of 1.1 times.

Rating sensitivities

Positive factors – The rating could be upgraded upon successful commercialisation and ramp-up of capex resulting in healthy earnings and debt protection metrics.

Negative factors – Negative pressure on the rating could arise if there is any material cost or time overruns in project completion resulting in deterioration in debt protection metrics. Also, any weakening of linkages or a material weakening of the credit profile or change in support philosophy of GIL will result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Greenply Industries Limited (GIL). ICRA expects GIL to extend financial and operational support to GSPL, if required, given the strategic importance of GSPL to GIL and protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

GSPL, a 50:50 joint venture between Greenply Industries Limited (GIL) and Samet A.S. was incorporated in October 2023, with the objective to establish a manufacturing facility in Sherpura, Tehsil Savli, Distt. Vadodara for manufacturing different variants of hinges, drawer slides, full extension slides, single extensions slides, drawer box system and lift-up systems. The project is likely to be completed in three phases with Phase 1 expected to start full-fledged production in Q2 FY2025.

Key financial indicators (audited) - Not applicable as this is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 14, 2024	-	-	-
1	Term loan	Long term	110.00	50.0	[ICRA]BBB (Stable)	-	-	-
2	Proposed term loan	Long term	40.00	-	[ICRA]BBB (Stable)	-	-	-
3	Cash credit	Long term	30.00	-	[ICRA]BBB (Stable)	-	-	-
4	Unallocated limits	Long term	10.00	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based limits - Term loan	Simple
Long-term - Fund-based limits - Proposed term loan	Simple
Long-term - Proposed fund-based limits - Cash credit	Simple
Long-term - Unallocated limits	NA

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
NA	**Term loan**	Feb 2024	8.25% p.a.	FY2031	110.00	[ICRA]BBB (Stable)
NA	**Proposed term loan**	NA	NA	NA	40.00	[ICRA]BBB (Stable)
NA	**Cash credit**	NA	NA	NA	30.00	[ICRA]BBB (Stable)
NA	**Unallocated limits**	NA	NA	NA	10.00	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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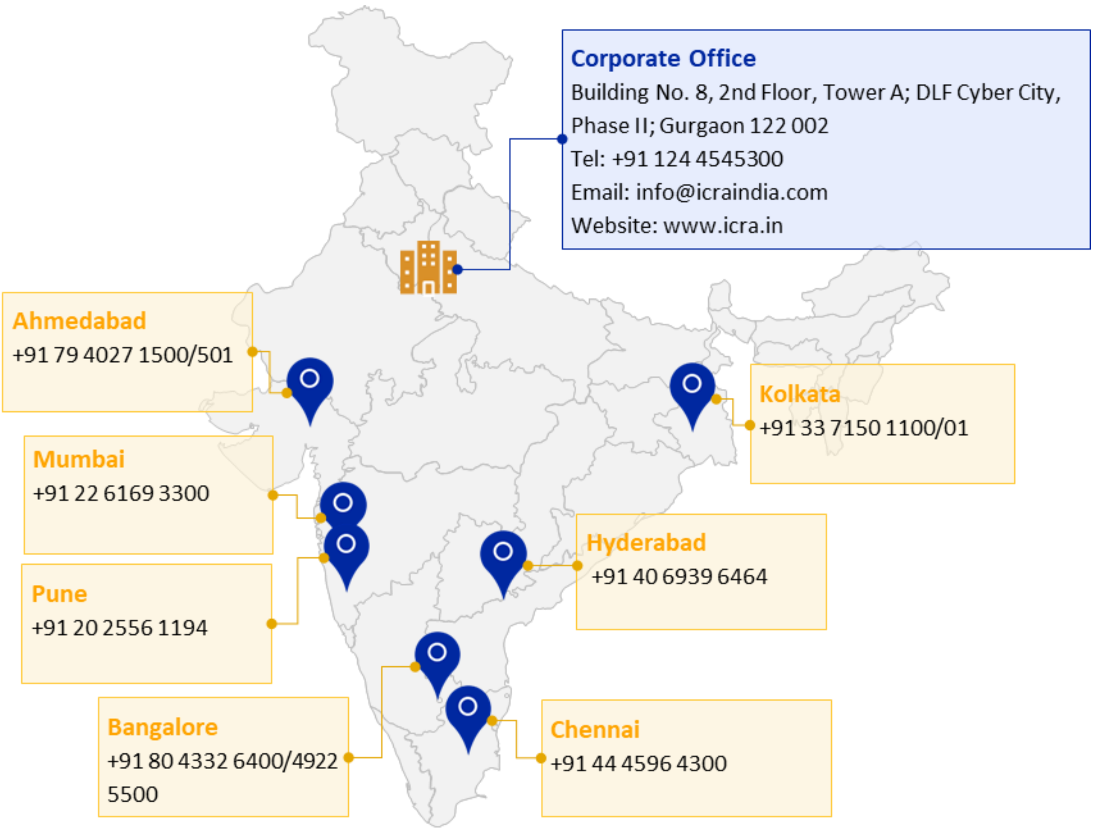

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