August 20, 2021

Greenlam Industries Limited: Rating reaffirmed; [ICRA]AA-(Stable)/[ICRA]A1+ assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based working capital facilities	-	165.0	[ICRA]AA- (Stable); assigned
Short term – Non fund based working capital facilities	-	200.0	[ICRA]A1+; assigned
Long term – Fund based term loans	-	125.0	[ICRA]AA- (Stable); assigned
Unallocated	25.0	35.0	[ICRA]AA-(Stable); assigned/reaffirmed
Total	**25.0**	**525.0**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings favourably factor in Greenlam Industries Limited's (GRLM) established position in the laminates industry in both the domestic and exports markets, supported by a strong brand and a wide distribution network. GRLM sells decorative laminates and veneers under the brand names, Greenlam and Decowood, respectively, which are one of the leading brands in their respective segments. The ratings also favourably factor in the healthy capacity utilisation of the laminate division in Q3 FY2021 and Q4 FY2021 at around 102% and 112%, respectively, supported mainly by the recovery in demand in the domestic market, which was adversely impacted in H1 FY2021 due to the Covid-19 pandemic. Despite minor disruptions in the domestic market due to regional lockdowns on account of the second wave of Covid-19, the capacity utilisation stood at 110% in Q1 FY2022, supported by export sales. However, the operating margin declined to 11.4% in Q1 FY2022 due to a change in the product mix in the laminates segment owing to lower sales in the domestic market. GRLM's operating margins were in the range of 13.0-13.6% during FY2017 to FY2020, except in FY2019 when the same stood at 12.5% owing to higher raw material prices. The operating margin improved to 14.4% in FY2021 due to improved operating efficiency, lower marketing and transportation expenses. The sustenance of the operating margins around 14.0% is expected in FY2022 supported by the improvement in domestic sales from Q2 FY2022 and the overall volume growth. The company also has capex plans to the tune of Rs. 175 crore (of which Rs. 46 crore has been incurred for land acquisition) in its subsidiary, Greenlam South Limited, for setting up a new laminate manufacturing facility of 1.5 million sheets per annum in Nellore, Andhra Pradesh. This capex is likely to be fully funded by internal accruals and is expected to be commissioned by H2 FY2023. The rating also favourably factors in the strong financial risk profile of the company, as reflected by Net debt/OPDITA and interest coverage of 0.7 times (previous year: 1.5 times) and 10.2 times (previous year: 8.2 times), respectively in FY2021. With no debt-funded capex plans, the debt coverage metrics are expected to remain strong.

The rating, however, is constrained by the operating losses incurred in the engineering door and flooring segments over the last five years owing to low capacity utilisation. Further, these divisions are expected to incur operating losses in FY2022 as well. The company's operating margins are also exposed to volatility in key raw materials such as papers and chemicals. Melamine and phenol are the primary chemical requirements of GRLM. Phenol prices are highly volatile as it is a crude oil derivative. While the prices of phenol and paper increased significantly during Q3 FY2021-Q4 FY2021, GRLM increased prices to pass on the higher costs in Q4 FY2021 and Q1 FY2022. The ratings are also constrained by the high working capital intensity of GRLM due to its high inventory holding period. The company maintains finished goods stock to cater to its 850 designs and 3,000-4,000 stock keeping units (SKUs) and considerable dependence on imported raw materials with a long lead time.

However, the company gets a credit period of 90-180 days from its suppliers of various raw materials, which aids the funding of its working capital requirements. The company is also exposed to fluctuations in exchange rates, given a sizeable import of raw materials and export of its products. The risk, however, is mitigated by the prudent hedging policy adopted by the management to keep the unhedged foreign exchange exposure (Rs. 2.40 crore as on March 31, 2021, 1.3% of OPBIDTA) at a comfortable level. GRLM is also exposed to intense competition from large organised and numerous small unorganised players in the decorative laminates market.

The Stable outlook on the long-term rating reflects ICRA's opinion that GRLM's credit profile will be supported by its dominant market position in the laminates segment, sustenance of its operating margins and a strong liquidity position.

Key rating drivers and their description

Credit strengths

Long track record in the laminates industry, established presence in the domestic and export markets, supported by strong distribution network – GRLM has a long track record in the laminates industry – as the laminate division under Greenply Industries Limited since 1993 and as GRLM since August 2013 following the demerger of the decorative laminate business division of GPIL. GRLM sells decorative laminates and veneers under the brand names, Greenlam and Decowood, respectively, which are one of the leading brands in their respective segments. Further, GRLM is one of the leading manufacturers and exporters of decorative laminates and has an established position in both domestic and export markets, supported by a strong brand and a wide distribution network comprising 14 company-owned distribution centres/warehouses, 21 branch offices and over 14,000 distributors, dealers, sub-dealers and retailers across the country. Further, the company has eight foreign subsidiaries, which are primarily involved in marketing and sales of GRLM's laminates, which helped it to establish its presence in over 100 countries.

Track record of healthy capacity utilisation of laminate division; higher exports limited the impact of second wave of pandemic – While the capacity utilisation of the laminates division stood at around 87% in FY2021 (previous year: 88% on increased capacity), lower than the pre-Covid levels of close to 100% (FY2017-FY2019), the same improved to 102% and 112% in Q3 FY2021 and Q4 FY2021, respectively. This was supported mainly by the recovery in demand in the domestic market, which was adversely impacted in H1 FY2021 due to the pandemic. Despite minor disruptions in the domestic market due to regional lockdowns on account of the second wave of Covid-19, the capacity utilisation stood at 110% in Q1 FY2022, supported by export sales. However, the operating margins declined to 11.4% in Q1 FY2022 due to a change in the product mix in the laminates segment owing to lower sales in the domestic market.

Strong financial risk profile as reflected by healthy debt coverage metrics in FY2021; expected to sustain in FY2022 – GRLM's financial risk profile is strong, as reflected by Net Debt/OPBIDTA and an interest coverage of 0.7 times (previous year: 1.5 times) and 10.2 times (previous year: 8.2 times), respectively in FY2021. GRLM's operating margins largely remained in the range of 13.0% to 13.6% during FY2017 to FY2020, except in FY2019 when it stood at 12.5% owing to higher raw material prices. The operating margins improved to 14.4% in FY2021 due to improved operating efficiency, lower marketing and transportation expenses.

Further, the net debt declined by 53% to Rs. 123.3 crore in FY2021 due to scheduled repayments of term debt and lower working capital borrowings. GRLM has capex plans to the tune of Rs. 175 crore (of which Rs. 46 crore has been incurred for land acquisition) in its subsidiary, Greenlam South Limited, for setting up a new laminate manufacturing facility of 1.5 million sheets per annum in Nellore, Andhra Pradesh. This capex is likely to be fully funded by internal accruals and is expected to be commissioned by H2 FY2023. The sustenance of the operating margins YoY is expected in FY2022, supported by the improvement in domestic sales from Q2 FY2022 and overall volume growth. With no debt-funded capex plans, the debt coverage metrics are expected to remain strong.

Credit challenges

Engineered doors and engineered floor divisions reported operating losses due to low capacity utilisation – The company's engineered door and floor divisions have been incurring operating losses for the last five years and continued to make operating losses in FY2021 owing to low capacity utilisation in both the divisions. Further, the divisions are likely to incur operating losses in FY2022.

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 the prices of key raw materials such as paper and chemicals. Melamine and phenol are the primary chemical requirements of the company. Phenol prices are highly volatile as it is a crude oil derivative. While the prices of phenol and paper increased significantly during Q3 FY2021-Q4 FY2021, GRLM increased prices to pass on the higher costs in Q4 FY2021 and Q1 FY2022. The company exported around Rs. 619.7 crore and imported around Rs. 407.9 crore in FY2021, providing natural hedge to an extent. The net forex exposure stood at around 18% of revenues in FY2021, exposing the company's earnings to fluctuations in foreign currency exchange rates. The risk is, however, mitigated by the prudent hedging policy adopted by the management to keep the unhedged foreign exchange exposure (Rs. 2.40 crore as on March 31, 2021, 1.3% of OPBIDTA) at a comfortable level. The decorative laminates industry is very competitive in nature and the company faces intense competition from large organised and numerous small unorganised players in the decorative laminates market.

Working capital intensive nature of operations – GRLM's business is working capital intensive with NWC/OI of 31% and 21% in FY2020 and FY2021 on account of its high inventory holding period due to finished goods stocking to cater to its 850 designs and 3,000-4,000 SKUs and considerable dependence on imported raw materials with a long lead time. The inventory holding period increased to 161 days as on March 31, 2021 from 143 days as on March 31, 2020 owing to regional lockdowns imposed in FY2021, leading to maintenance of stocks. Further, the company receives a credit period of 90-180 days from its suppliers of various raw materials, which aids the funding of its working capital requirements.

Liquidity position: Strong

GRLM's liquidity is strong, with free cash balances and liquid investments of Rs. 78.7 crore as on June 30, 2021 and the cushion of Rs. 83 crore of unutilised limits as on March 31, 2021. GRLM has debt repayment obligation of Rs. 25.0 crore in FY2022, which can be comfortably met through cash flow from operations. Further, GRLM has capex plans of Rs. 175 crore towards setting up of a new plant in Nellore, Andhra Pradesh, out of which Rs. 46 crore has already been incurred towards land purchase. The project would be funded by internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade GRLM's rating if there is a significant improvement in the company's revenues and earnings on a sustained basis. Specific credit metric that could lead to an upgrade of ratings include RoCE over 20% and TOL/TNW less than 1.0 times on a sustained basis.

Negative factors – Pressure on GRLM's ratings could arise in case of a decline in the revenues and earnings or if there is a deterioration in the working capital cycle on a sustained basis. Specific credit metric that could lead to a downgrade of ratings include Net debt/OPBDITA over 1.5 times on a sustained basis.

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 the company. List of entities forming part of GRLM's consolidated financials are enlisted in Annexure-2.

About the Company

Greenlam Industries Limited (GRLM) was incorporated in 2013 and remained as an inactive company till the demerger of the existing decorative laminates division of Greenply Industries Limited in 2014. GRLM is one of the largest laminate manufacturing companies in the country with an installed capacity of 15.62 million sheets per annum and markets the laminates products under the brand name of Greenlam Laminates. The company also exports its decorative laminates to various countries and is one of the largest exporters of laminates from India. Apart from decorative laminates, the company is into 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. Further, GRLM has eight foreign subsidiaries, which are primarily involved in marketing and sales of GRLM's laminates, which helped the company to establish its presence in over 100 countries.

Key financial indicators

Greenlam Industries Limited (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	1320.6	1199.6
PAT (Rs. crore)	86.7	73.7
OPBDIT/OI (%)	13.6%	14.4%
PAT/OI (%)	6.6%	6.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt/OPBDIT (times)	1.6	1.4
Interest Coverage (times)	8.2	10.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on July 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 20, 2021	July 16, 2021	-	-	-
1	Unallocated	Long-term	35.00	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-
2	Fund based working capital facilities	Long term	165.0	NA	[ICRA]AA- (Stable)	-			
3	Non-Fund based working capital facilities	Short term	200.0	NA	[ICRA]A1+	-			
4	Fund based term loan	Long term	125.0	98.6	[ICRA]AA- (Stable)	-			

Complexity level of the rated instrument

Instrument	Complexity Indicator
Unallocated	Not Applicable
Fund based working capital facilities	Simple
Non Fund based working capital facilities	Very Simple
Fund based Term loan	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	165.0	[ICRA]AA-(Stable)
NA	LC/BG	-	-	-	200.0	[ICRA]A1+
NA	Term loan - 1	Feb-2019	5.8%	Dec 2025	50.0	[ICRA]AA-(Stable)
NA	Term loan - 2	Feb-2020	6.5%	Sept 2026	75.0	[ICRA]AA-(Stable)
NA	Unallocated	-	-	-	35.0	[ICRA]AA-(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Greenlam South Limited - India	100%	Full Consolidation
Greenlam Asia Pacific Pte Ltd., Singapore (GAP)	100%	Full Consolidation
Greenlam America Inc. Florida (USA)	100%	Full Consolidation
Greenlam Europe (UK) Ltd., United Kingdom	100%	Full Consolidation
Greenlam Decolan SA, Switzerland	100%	Full Consolidation
Greenlam Asia Pacific (Thailand) Co Ltd, Thailand	97.5%	Full Consolidation
Greenlam Holding Co. Ltd, Thailand	99%	Full Consolidation
Pt. Greenlam Asia Pacific, Indonesia	99%	Full Consolidation
Pt. Greenlam Indo Pacific, Indonesia	67%	Full Consolidation
Greenlam Rus LLC, Russia	100%	Full Consolidation
Greenlam Poland LLC	100%	Full Consolidation

Source: Company; As on Mar 31, 2021

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