December 30, 2021

Greenlam Industries Limited: Ratings reaffirmed; [ICRA]AA-(Stable) 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	165.0	[ICRA]AA- (Stable); reaffirmed
Short term – Non fund based working capital facilities	200.0	200.0	[ICRA]A1+; reaffirmed
Long term – Fund based term loans	125.0	125.0	[ICRA]AA- (Stable); reaffirmed
Unallocated	35.0	35.0	[ICRA]AA-(Stable); reaffirmed
Long term – proposed non-convertible debentures	-	150.0	[ICRA]AA-(Stable); assigned
Total	**525.0**	**675.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action favourably factors in Greenlam Industries Limited's (GRLM) established position in the laminates industry, supported by a strong brand and a wide distribution network and comfortable debt coverage metrics despite significant capex plans of Rs. 950 crore during FY2022-FY2024. GRLM has announced greenfield capex of Rs. 600 crore towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q4 FY2024), Rs. 225 crore for laminate plant of 3.5 million sheets capacity (expected CoD: Q4 FY2023) and Rs. 125 crore for plywood business of 18.9 million sqm capacity (expected CoD: Q4 FY2023). The capex is likely to be funded with a debt to equity mix of 65% : 35%. ICRA notes that this debt-funded capex will result in moderation in leverage metrics over the medium term with net debt to OPBIDTA peaking to around 2.5-2.6 times in FY2024 from 0.7 times in FY2021. However, the debt coverage metrics are expected to remain comfortable in the medium term, supported by the phased nature of the capex over three years along with the expected favourable debt terms with long tenure and adequate moratorium. Significant experience of the promoters in the wood panel industry through its erstwhile business under Greenply Industries Limited (GPIL) along with the existing strong distribution network would provide synergies for the upcoming plywood and particle board businesses of the company.

The ratings also favourably factor in the healthy capacity utilisation of the laminate division in H2 FY2021 at 107%, supported by the recovery in demand in the domestic market. Despite minor disruptions in the domestic market due to regional lockdowns due to the second wave of the Covid-19 pandemic, the capacity utilisation stood at 112% in H1 FY2022, supported by export sales. Recovery in real estate activities and an improvement in demand from the furniture industry are likely to support the demand for wood panel products in the medium term.

The ratings, however, are constrained by the exposure of the operating margins to the volatility in the prices of key raw materials such as paper and chemicals. Melamine and phenol are the primary chemical requirements of the company and phenol prices are highly volatile as it is a crude oil derivative. The operating margins of the company declined to 10.6% in H1 FY2022 from 14.6% in FY2021 on the back of rising raw material costs and import freight costs and the company's inability to fully pass on the cost hike in the export markets due to GRLM's time lag in price hikes.

GRLM is also exposed to the inherent project implementation risks for the proposed capex with respect to timely receipt of approvals, time and cost overruns, and post implementation risk related to ramp-up and stabilisation of the new plants. While entry into new related products would lead to higher diversification of its product range and support revenue growth, large capacity additions could exert pressure on the realisations of the product. 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 has 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 at a low level. 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. Further, these divisions are expected to incur operating losses in FY2022 as well. 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 strong brand presence, distribution network and dominant market position in the laminates segment along with an adequate liquidity position.

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 and has an established position in the laminates industry, supported by a strong brand and a wide distribution network with 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 establish its presence in over 100 countries.

Healthy capacity utilisation of laminate division – While the capacity utilisation of the laminates division was adversely impacted in H1 FY2021 due to the pandemic, it bounced back to 107% in H2 FY2021 (full year utilization stood at 87%). This was supported mainly by the recovery in demand in the domestic market. Despite minor disruptions in the domestic market due to regional lockdowns owing to the second wave of the Covid-19 pandemic, the capacity utilisation stood at 112% in H1 FY2022, supported by export sales.

Leverage metrics to moderate till completion of capex, however, coverage metrics remain comfortable over the medium term – The debt-funded capex was higher than ICRA's expectations and will result in moderation in leverage metrics over the medium term with net debt to OPBIDTA peaking to around 2.5-2.6 times in FY2024 from 0.7 times in FY2021. However, the debt coverage metrics are expected to remain comfortable in the medium term, supported by the phased nature of the capex over three years along with the expected favourable debt terms with long tenure and adequate moratorium. Significant experience of the promoters in the wood panel industry through its erstwhile business under GPIL along with the existing strong distribution network would provide synergies for the upcoming plywood and particle board business of the company.

Healthy demand prospects likely to support medium-term growth, driven by increased penetration levels – Despite the impact of the second wave of the pandemic, the company's performance in terms of revenue and operating profits improved by 75.8% and 74.0% YoY, respectively in H1 FY2022, supported by pent-up demand and export sales. The recovery in real estate activities and an improvement in demand from the furniture industry are likely to support demand for wood panel products in the medium term.

Credit challenges

Project implementation risks associated with large capital expenditure plans – GRLM has announced capex to the tune of Rs. 600 crore towards greenfield particle board of 2,31,000 CBM capacity (expected CoD: Q4FY2024), Rs. 225 crore for greenfield laminate plant of 3.5 million sheets capacity (expected CoD: Q4FY2023) and Rs. 125 crore for plywood business of 18.9 million sqm capacity (expected CoD: Q4FY2023), which are likely to be funded with a debt to equity mix of 65%:35%. GIL is exposed to the inherent project implementation risks for the proposed capex with respect to timely receipt of approvals, time and cost overruns, and post implementation risk related to ramp-up and stabilisation of new plants. While the entry into new related products would lead to higher diversification of its product range and support revenue growth for the company, large capacity additions could exert pressure on the realisations of the product.

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, in which around 20-25% of the capital has been employed. 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. The operating margins of the company declined to 10.6% in H1FY2022 from 14.6% in FY2021 on the back of rising raw material costs and import freight costs and the inability of the company to fully pass on the costs in the export markets due to GRLM's time lag in price hikes.

The company exported around Rs. 619.7 crore and imported around Rs. 407.9 crore in FY2021, providing a 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 at a low level. 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 23% and 22% in FY2021 and H1 FY2022, respectively 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 a considerable dependence on imported raw materials with a long lead time. The inventory holding period stood at 150 days as on September 30, 2021 (and 160 days as on March 31, 2021). Further, the company receives a credit period of 90-180 days from its suppliers of various raw materials, which aids in the funding of its working capital requirements.

Liquidity position: Adequate

GRLM's liquidity is adequate, with free cash balances and liquid investments of Rs. 103.6 crore and a cushion of Rs. 50 crore of unutilised limits as on as on September 30, 2021. GRLM has debt repayment obligation of Rs. 25.0 crore each year in FY2022 and FY2023, which can be comfortably met through cash flow from operations. GRLM has capex plans to the tune of Rs. 600 crore towards greenfield particle board, Rs. 225 crore for greenfield laminate plant and Rs. 125 crore for plywood business during FY2022-FY2024. The projects would be funded by debt to equity of 65%:35%.

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 through product diversification with successful implementation and ramp-up of the proposed capex. 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. Any significant delay in implementation and ramp-up post commercialisation of the proposed 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 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 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. Further, GRLM 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.

Key financial indicators

Greenlam Industries Limited (Consolidated)	FY2020	FY2021	H1FY2022^
Operating Income (Rs. crore)	1320.6	1199.6	790.3
PAT (Rs. crore)	86.7	73.7	38.0
OPBDIT/OI (%)	13.6%	14.6%	10.6%
PAT/OI (%)	6.6%	6.1%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0	1.1
Total Debt/OPBDIT (times)	1.6	1.4	1.6
Interest Coverage (times)	8.2	10.3	12.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Un-audited

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 Nov 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 30, 2021	Aug 20, 2021	July 16, 2021	-	-	-
1	Unallocated	Long-term	35.00	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-
2	Fund based working capital facilities	Long term	165.0	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)				
3	Non-Fund based working capital facilities	Short term	200.0	NA	[ICRA]A1+	[ICRA]A1+				
4	Fund based term loan	Long term	125.0	88.7	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)				
5	Proposed Non-Convertible Debenture	Long term	150.0	-	[ICRA]AA- (Stable)	[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
Proposed NCD	Not Applicable

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/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HSBC Bank	Cash Credit	-	-	-	40.0	[ICRA]AA-(Stable)
IDBI Bank					10.0	
Standard Chartered Bank					40.0	
ICICI Bank					15.0	
CITI Bank					10.0	
HDFC Bank					50.0	
IDBI Bank	LC/BG	-	-	-	35.0	[ICRA]A1+
Standard Chartered Bank					25.0	
ICICI Bank					57.5	
CITI Bank					50.0	
HDFC Bank					32.5	
HSBC Bank	Term loan - 1	Feb-2019	5.8%	Dec 2025	50.0	[ICRA]AA-(Stable)
HDFC Bank	Term loan - 2	Feb-2020	6.5%	Sept 2026	75.0	[ICRA]AA-(Stable)
NA	Unallocated	-	-	-	35.0	[ICRA]AA-(Stable)
NA	Proposed NCD	-	-	-	150.0	[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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
Mathew.eranat@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Vishal R
+91 80 4922 5500
vishal.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches