December 29, 2022

Greenlam South Limited: [ICRA]AA- (Stable); Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based/Non-Fund Based	250.00	[ICRA]AA- (Stable); Assigned
Total	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

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

The rating reaffirmation favourably factors in GRLM's established position in the laminates industry, supported by a strong brand and a wide distribution network and comfortable debt coverage metrics. The ratings favourably factor in the healthy capacity utilisation in the laminate division backed by healthy demand in both the domestic and export markets. The improved demand from the real estate and the furniture industry is likely to support the demand for wood panel products in the medium term.

GRLM is undertaking greenfield capex of around Rs. 650 crore towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q1 FY2025), ~Rs. 250 crore for laminate plant of 3.5 million sheets capacity (expected CoD: Q1 FY2024) and Rs. 140 crore for plywood business of 18.9 million sqm capacity (expected CoD: Q1 FY2024). The capex is being funded with a debt to equity mix of 66%:34%. 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 2.5-2.7 times in FY2024 from 0.5 times as of September 2022. However, the debt coverage metrics are expected to remain comfortable supported by the phased nature of the capex along with the 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 as well as healthy domestic and export demand 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 over 100% for eight consecutive quarters ending September 2022 in the laminate division majorly driven demand in the domestic as well as export markets. The improved demand from the real estate and the furniture industry is likely to support the demand for wood panel products in the medium term.

The ratings, however, are constrained by GRLM's exposure to the inherent project implementation risks for the ongoing capex with respect to time and cost overruns as well as post-implementation risk related to ramp-up and stabilisation of the new plants. Notwithstanding these risks, entry into new related products would lead to higher diversification of its product range and support revenue growth for the company. 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 cash conversion cycle. GRLM's operating margins are exposed to the volatility in the prices of key raw materials such as paper and chemicals viz., melamine, methanol and phenol which are crude oil/gas derivatives. The operating margins remained lower at 10.5% in H1 FY2023, as against 11.0% in FY2022 and 14.6% in FY2021, on the back of elevated raw material costs and the company's inability to fully pass on the cost hikes in the markets. ICRA notes that majority of the cost hikes were taken in FY2022. While the prices of most of the raw materials have softened and freight costs have also reduced, these still continue to remain above pre-COVID levels.

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 natural hedge from imports and 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. Nonetheless, ICRA is given to understand that these divisions are expected to breakeven within next one to two years 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.

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 healthy debt coverage metrics.

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. In June 2022, the company acquired a laminate manufacturing unit in Prantij, Gujarat, which became partly operational (3.4 mn sheets out of 5.4 mn sheets) from August 2022 onwards. GRLM is one of the largest laminate manufacturing companies in the country and its laminates capacity will increase to over 20 mn sheets post full commissioning of Prantij plant.

Comfortable coverage metrics– GRLM's financial risk profile is strong, as reflected by Net debt/OPBIDTA and an interest coverage of 0.5 times (previous year: 1.0 times) and 9.5 times (previous year: 12.6 times) respectively in H1 FY2023 on account of improved realisation compared to H1 FY2022. Further, the company's capital structure is healthy, as reflected by a lower gearing of 0.4 times as on September 30, 2022 (previous year: 0.4 times). Despite increase in debt, the gearing remained stable supported by equity raise of Rs. 195 crore in July 2022 via preferential route. The company is undertaking a predominantly debt-funded (debt to equity mix of 66%:34%) capex which is expected to result in moderation in leverage metrics over the medium term with net debt to OPBIDTA peaking to around 2.5-2.7 times in FY2024 from 0.5 times as of September 2022. However, the debt coverage metrics are expected to remain comfortable in the medium term supported by the phased nature of the capex along with the favourable debt terms with long tenure and adequate moratorium.

Healthy capacity utilisation of laminate division; healthy demand prospects likely to support medium-term growth–The capacity utilisation of the laminate division which accounts for 90% of total revenues, has remained over 100% for eight consecutive quarters ending September 2022 driven by healthy demand in the domestic as well as export markets The company reported YoY growth of 25% in its operating income of Rs. 988.6 crore in H1FY2023 from Rs. 790.3 crore in H1FY2022, supported by healthy demand and increased realization across product segments. The improved demand from the real estate and the furniture 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 – GRLM is undertaking greenfield capex of around Rs. 650 crore towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q1 FY2025), ~Rs. 250 crore for laminate plant of 3.5 million sheets capacity (expected CoD: Q1 FY2024) and Rs. 140 crore for plywood business of 18.9 million sqm capacity (expected CoD: Q1 FY2024). The capex is being funded with a debt to equity mix of 66%:34%. GRLM is exposed to the inherent project implementation risks for the ongoing capex with respect to time and cost overruns as well as post-implementation risk related to ramp-up and stabilisation of the new plants. Notwithstanding these risks, entry into new related products would lead to higher diversification of its product range and support revenue growth for the company.

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 FY2022 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 next one to two years 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 the volatility in the prices of key raw materials such as paper and chemicals viz., melamine, methanol and phenol which are crude oil derivatives. The company's operating margins have remained lower at 10.5% in H1 FY2023, as against 11.0% in FY2022 and 14.6% in FY2021, on the back of elevated raw material costs and its inability to fully pass on the cost hike in a timely manner. The company remains exposed to foreign currency fluctuation risk given its sizeable export sales (Rs 850 crore in FY2022), though the risk is partly mitigated by natural hedge from imports (Rs 417 crore in FY2022) and 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.

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, the company has investments of Rs. 250.7 crore in the form investments in bonds and mutual funds (of which Rs. 84 crore is in over-night and liquid funds) as of September 30, 2022. GRLM has debt repayment obligation of Rs. 12.5 crore and Rs. 38 crore in H2FY2023 and FY2024 respectively, which can be comfortably met through cash flow from operations. The overall capex of Rs. 1,042 crore will be funded by debt to equity mix of 66%:34% for which funding has been tied-up.

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 ramp up in sale from the upcoming capacities. 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 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 South Limited, incorporated in October 2019, is wholly owned subsidiary of GRLM. GRLM is undertaking greenfield capex of around Rs. 650 crore towards particle board of 2,31,000 CBM capacity (expected commercial operations date [CoD]: Q1 FY2025) and ~Rs. 250 crore for laminate plant of 3.5 million sheets capacity (expected CoD: Q1 FY2024) under GSL in Naidupeta, Andhra Pradesh.

About the parent

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 19.12 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 (audited)

Consolidated- Greenlam Industries Limited	FY2021	FY2022	H1 FY2023
Operating income	1199.6	1703.4	988.6
PAT	73.7	90.6	53.8
OPBDIT/OI	14.60%	11.0%	10.5%
PAT/OI	6.10%	5.3%	5.4%
Total outside liabilities/Tangible net worth (times)	1	1.1	0.8
Total debt/OPBDIT (times)	1.4	1.8	1.6
Interest coverage (times)	10.3	13.3	9.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of November 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 29, 2022	-	-	-
1	**Fund Based/Non-Fund Based**	Long term	250.00	--	**[ICRA]AA- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/Non-Fund Based	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	70.00	[ICRA]AA- (Stable)
-		NA	NA	NA	90.00	
-		NA	NA	NA	90.00	

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 Industries Limited	Parent	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

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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.

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

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