

Press Release

Responsive Industries Limited

February 19, 2020

Rating

Sr. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1	Fund based Working Capital Facility - Long-term/ Short-term FDBP/ FUDBP [Sub-limit - PCFC/ CC/ Direct Bills]	180.00	IVR A-/ Stable Outlook (IVR Single A minus with Stable Outlook)/ IVR A2+ (IVR A Two Plus)
2	Non-Fund based Working Capital Facility - Short-term Inland/ Import LC [Sub-limit - Letter of Guarantee]	60.00	IVR A2+ (IVR A Two Plus)
Total		240.00	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters, significant & healthy improvement in operating profitability, well-diversified product portfolio & strong marketing network, reputed clientele, established market position, improved & comfortable Gearing ratio with zero long term debt & comfortable debt protection metrics. The rating however is constrained by high operating cycle and susceptibility to volatility in forex rates and raw material prices.

Key Rating Sensitivities:

- **Upward Rating Factor** - Improvement in entity's scale of operations & cash flows & favourable sales mix alongwith improvement in overall gearing of the Company.
- **Downward Rating Factor** - Any adverse impact on profitability due to volatility in forex rates and raw material prices or unfavourable sales mix, Any adverse change in the Government regulatory and environmental framework or policy, Significant deterioration in debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters

The promoters have extensive experience in the PVC (Poly Vinyl Chloride) flooring products and shipping ropes industry. It has been almost four decades for the Company being in verified tiles and Indian flooring market, which was dominated by mosaic or conventional materials like carpets. Now they are in the period of evolution. Over the time, they have seen rapid pace of development in flooring industry and the preferences of flooring have migrated from hardwood to ceramic, then to laminate and now from laminate to resilient or vinyl flooring. Luxury Vinyl Tile (LVT) has sparked the industry and is expected to be the next biggest evolution in flooring.

Significant & healthy improvement in operating profitability

During FY19, the Company has been successful in their strategy of transiting into high value-added margin products such as contract and semi-contract vinyl sheets from the low margin printed flooring business. Also, they have launched a new and innovative product 'IMPACT' under LVT category in FY19, giving them the first-mover advantage. Among the flooring products, Luxury Vinyl Tiles (LVT) is gaining prominence across the globe, due to its superior qualities such as click system which requires no adhesive to stick it to the floor, easy and quick installation, low cost, enhanced durability, excellent sound & water resistance and has potential to withstand heavy foot traffic. This transition also reflects a conscious decision by the Group to be more selective in their mix of business in order to improve profitability and cash generation.

Therefore, although, the Company's revenue from operations has declined by ~40% each in last 2 years, the EBITDA margins have improved significantly from 7% in FY17 to 8% in FY18 to 17% currently in FY19. In absolute terms, inspite of fall in revenue from INR 1083 Crore in FY18 to INR 629 Crore in FY19, EBITDA has risen from INR 93 Crore in FY18 to INR 106 Crore in FY19.

Well-diversified Product Portfolio & Strong marketing network

The Company's main products include Vinyl Flooring, Synthetic Leather, Luxury Vinyl Tile (LVT), having 30+ product categories within. It has a wide distribution network and export its products world-wide over more than 70 countries. It caters to 25 end user industries, 100+

distributors pan-India, 300+ international distributors, 50 cities pan-India, 70+ countries worldwide with 30+ product categories.

Reputed Clientele

The Company has renowned clients for different application in different sectors such as healthcare, hospitality, transportation, IT and telecom, retail, education, sports, infrastructure and real estate. The Company's marquee client base include Narayana Health, Wockhardt Hospitals, Seven Hills Hospitals (Healthcare), American School of Bombay, Escola Nacional de Bombeiros (Sintra, Portugal), Qatar University (Sports & Education), Indian Railways, BEST, Volvo, Scania (Transport), Taj Mahal Hotels, JW Marriott, Westin Hotels & Resorts, Pan Pacific Singapore, Chhatrapati Shivaji International Airport etc. (Hospitality), J.P. Morgan, One Plus (Corporates) to name a few.

Out of the total Revenue from operations of INR 629 Crore in FY19, top 10 customers accounted for only 20% of total revenue (and 10% in FY18), indicating a diversified client-base.

Established market position with tremendous growth potential

Among the flooring products, Luxury Vinyl Tiles (LVT) is gaining prominence across the globe, due to its superior qualities. It is one of the largest Indian producer of PVC flooring and synthetic leather cloth and caters to healthcare, hospitality, transportation, retail, sports infrastructure and real estate. The Company is among the top four producers of vinyl flooring globally.

As per a study, globally, LVT market contributes 53.0% of total vinyl flooring market by sales volume. In 2018, LVT represented second most popular type of vinyl flooring. India, however, observed only a meager 11.2% market-share of LVT in 2018, and that reflects the humongous growth opportunity in this segment. In India also, LVT products are gaining popularity among several segments viz a viz. sports organizations, retail stores, restaurants, hospitals, schools, airports, pharma to name a few.

Improved & comfortable Gearing ratio with zero long term debt & comfortable debt protection metrics

The Company has entirely repaid its outstanding ECB in FY19, subsequent to which the overall gearing ratio has improved from 0.36x in FY18 to 0.17x in FY19; and has become

long-term debt free. The Total outside liabilities to Tangible Net Worth of the Company has improved from 0.58x as at FY18 to 0.25x as at FY19. The interest coverage ratio stands strong at 6.07x in FY18, improved to 9.62x in FY19. Total debt to GCA (in years) was 2.63x as at FY18, improved to 1.19x as at FY19. Also, the average utilisation remained moderate at 74% during the 12 months ended November 30, 2019.

Key Rating Weaknesses

High Operating cycle

The Average Operating Cycle of the Company stood high at 114 days as at FY18 & 132 days as at FY19, due to high collection period & inventory days.

Susceptible to volatility in forex rates and raw material prices

The cost of raw material prices used in manufacturing vinyl flooring components like limestone, glass fibre and vinyl have high elasticity in terms of demand and supply factors. Such factors if increased or decreased, may affect the profit margin of the Company.

However, the Company establishes clear terms with suppliers regarding raw material prices, determines which commodities need a dedicated strategy and accordingly implement a risk-mitigation plan. It also tracks price changes and maintains raw material savings targets related to market prices.

The Company is exposed to currency risk as its clients are spread across all over the world, which might have favourable or adverse effect on the Company.

The Company has a natural hedge against its imports and exports as it deals in foreign currencies by importing and exporting of goods. Also, the company is no longer susceptible to currency and raw material shocks because of venturing into higher margin products.

The unhedged foreign currency exposure outstanding as at March 31, 2019 is INR 0.29 Crore (payable).

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Adequate

The Company has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained at 74% during the 12 months ended November 30, 2019. Overall the liquidity position of the company is expected to be Adequate.

About the company

Responsive Industries Limited (RIL) was incorporated on 13th July, 1982. It is Public Limited Company - listed on NSE & BSE and domiciled in Mumbai. Responsive Industries Limited (RIL) is a leading manufacturer of PVC Products with three product verticals - Vinyl Flooring, Synthetic Leather & Luxury Vinyl Tile (LVT). It is the largest Indian producer of PVC flooring and synthetic leather cloth and caters to healthcare, hospitality, transportation, retail, sports infrastructure and real estate sectors. It is amongst top 4 producers of vinyl flooring globally. The Corporate office is situated at Colaba in Mumbai. It has a state of the art factory and infrastructure set-up at Boisar in Palghar district in Thane, spread across 65-acre of land, having 15 manufacturing lines. It also has presence in shipping ropes business through its subsidiary Axiom Cordages Ltd.

Financials (Standalone)

	INR in Crore	
For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	1083.04	628.83
EBITDA	93.13	106.39
PAT	13.08	28.42
Total Debt	222.85	108.84
Tangible Net Worth	614.74	639.84
EBIDTA Margin (%)	8.60	16.92
PAT Margin (%)	1.19	4.42
Overall Gearing ratio (x)	0.36	0.17

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund based Working Capital Facility - Long-term/ Short-term	FDBP/ FUDBP [Sub-limit - PCFC/ CC/ Direct Bills]	180.00	IVR A-/ Stable Outlook/ IVR A2+	--	--	--
Non-Fund based Working Capital Facility - Short-term	Inland/ Import LC [Sub-limit - Letter of Guarantee]	60.00	IVR A2+	--	--	--
	Total	240.00				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund based Working Capital Facility - Long-term/ Short-term FDBP/ FUDBP [Sub-limit - PCFC/ CC/ Direct Bills]	--	--	--	180.00	IVR A-/ Stable Outlook/ IVR A2+
2	Non-Fund based Working Capital Facility - Short-term Inland/ Import LC [Sub-limit - Letter of Guarantee]	--	--	--	60.00	IVR A2+
Total					240.00	