Press Release

Rushil Décor Limited

March 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities – Term Loan	154.04	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed and Removed from Credit Watch
Long Term Fund Based Facilities – Cash Credit	85.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed and Removed from Credit Watch
Short Term Non-Fund Based Facilities-Bank Guarantee/Letter of Credit	44.00	IVR A2 (IVR A Two)	Reaffirmed and Removed from Credit Watch
Total	**283.04 (Two Hundred & Eighty Three crore and Four lakh)**		

Details of Facilities are in Annexure I

Detailed Rationale

Infomerics Ratings removes credit watch with developing implication assigned to long-term and short-term bank facilities of Rushil Décor Limited (RDL) on account of improvement in its financial performance in Q3FY21 and commencement of commercial operation in its newly completed MDF plant from March, 2021 onwards.

The ratings assigned to the bank facilities of Rushil Décor Limited (RDL) continues to derive comfort from its experienced promoters and management team with a long and successful track record, demonstrated support from the promoters through infusion of subordinated unsecured loans, its state of the art manufacturing facilities , proximity to raw material sources, diversified product stream with a strong brand name and extensive distribution network in geographically diversified business operations. The ratings also factor in its satisfactory financial risk profile with improvement in its financial performance in Q3FY21 and positive demand outlook of the home furnishing industry. These rating strengths continue to be partially offset by susceptibility of its operating margin to raw material price fluctuation, exposure to foreign exchange fluctuation risk, working capital intensive nature of its operations and exposure to intense competition along with cyclical nature of the wood-panel industry. The outlook remains 'Stable' with expected stable performance of the company in the near term.

Key Rating Sensitivities

Upward rating factor(s) –

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accrual
- Improvement in the capital structure along with improvement in debt service parameter

Downward rating factor(s) –

- Dip in operating income or profitability impacting the debt coverage indicators, deterioration in working capital management and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and management team

The promoters of RDL have vast experience in trading, manufacturing and marketing of plywood, laminates and other wood panel products. Mr Ghanshyam Thakkar, promoter and whole-time director, have more than three decades of experience in this field. He is well supported by his son, Mr. Krupesh Thakkar, Managing Director, having an experience of around two decades in the wood panel industry. Mr. Rushil Thakkar, son of Mr. Krupesh Thakkar has also recently joined the company. The promoters are well supported by a team of experienced professionals, who are at the helm of managing day to day affairs of the company.

Long and successful track record

The company started with manufacturing of decorative laminates in 1993 and gradually diversified its product profile. RDL has established itself as a renowned player in Laminates & allied products. The company forayed into MDF segment in 2012 and within short span of time became one of the largest MDF players in the country. Presently, within the organised sector, RDL remains one of the largest manufacturers of MDF boards and decorative laminates in India.

Demonstrated support from the promoter's

The promoters have supported the business by infusing funds as required in the form of unsecured loans (Rs.60.39 crore outstanding as on March 31, 2020 out of which Rs.53.60 crore is subordinated to the term loans and treated as a part of adjusted net worth) and have demonstrated positive commitments since inception.

State of the art manufacturing facilities with satisfactory capacity utilisation

The manufacturing facilities of RDL are ISO 9001:2000 certified. Moreover, its MDF unit has a Bureau of Indian Standards (BIS) and eco-mark certification and the laminate manufacturing unit has a Green-label certification from Singapore environmental council. Further, the facilities of the company are running with healthy capacity utilisation over the years. Better capacity utilisation resulted in better absorption of fixed overheads and supported the profitability.

Proximity to raw material sources

Key raw materials for manufacturing laminate are base paper, kraft paper, phenol, formaldehyde, melamine, methanol and other allied chemicals which are locally available whereas premium quality papers are imported. For manufacturing MDF, raw materials required are wood, resin and wax which also are easily available in the nearby areas of Chikmagalur. RDL has established relationship with various nearby saw-mills in the vicinity to reduce dependence on overseas suppliers and reduce the transportation cost. The proximity to raw material sources imparts advantage to RDL in terms of cost of raw materials and lower logistics expenditure.

Diversified product stream with a strong brand name and extensive distribution network

The company offers a wide range of products in various segments like commercial/industrial (double- sided), decorative (single-sided) laminate and offers products across different price points, which enable it to cater to a broader customer base. It markets its products under brand name of ‘VIR LAMINATES’, ‘SIGNOR’ and ‘VIR MDF’ and has a well-established marketing and distribution network in domestic as well as international market. However, MDF is a logistic intensive industry and RDL majorly caters to Southern Indian states like Andhra Pradesh, Tamil Nadu, Karnataka, and Kerala through its manufacturing unit located in Chikmagalur, Karnataka.

Geographically diversified business operations

The export sales contributed about 30-35% of its total revenue over the past three years ending on FY20. RDL has a significant presence in the export market in its laminates segment. During FY20, exports accounted for around 66% of RDL's total laminate sales. Its major export destinations are Bangladesh, China, Middle East countries, US as well as European markets.

Sequential improvement in financial performance in 9MFY21

Post lockdown the operations of the company resumed in a phased manner from May, 2020 onwards considering various government guidelines and the sales have started to pick up from July 2020 onwards leading to a gradual Q-o-Q improvement over the past two quarters. During 9MFY21, RDL has achieved a total operating income of Rs.238.08 crore with EBITDA margin of 10.70% and PAT margin of 3.58%. Infomerics expects further improvement in Q4FY21 in its financial performance.

Completion of the expansion project of manufacture of MDF Boards despite cost overrun

The company had embarked an expansion project in Vishakhapatnam, Andhra Pradesh for manufacturing thin and thick MDF boards with an installed capacity of 2,40,000 CBM per annum in Vishakhapatnam, Andhra Pradesh. The project was initially expected to start commercial operations from April, 2020. However, though the COD got delayed by one year initial Trial run of the project was already conducted and the commercial operations started from March 05, 2021. Total cost incurred for the project was Rs.422.51 (inclusive of GST) crore which includes cost overrun of Rs.44.41 crore which was funded through term loan/ECB/demand loan/ of Rs.230.27 crore, promoter's contribution/unsecured loans of Rs.95.72 crore and the balance through internal accruals. RDL is expecting to benefit from the newly installed MDF plant in the form of additional revenues in the medium to long term.

Positive demand outlook of home furnishing industry

India's rapidly expanding economy is seeing growing affluence, both in urban and rural areas. Increasing income levels has resulted in middle-class Indians aspiring for more lavish lifestyles. The Indian furniture industry is expected to witness continuous growth on the back of rising per capital income levels, rapid urbanization and rise of consumer class. The demand for laminates and MDF is rising backed by increasing shift towards modular furniture. Superior attributes including resistance to moisture, easy installation, greater flexibility and visual appeal has helped in the growth of MDF. Moreover, strict government regulation on the plywood manufacturing to conserve the forest reserves in various countries leading to raw material insecurity is also likely to support the rise of demand for MDF in future. Going forward, the demand for furniture products is likely to be primarily driven by growth in demand from the real estate sector, hospitality sector, healthcare sector, commercial office space sector and retail space sector following the smart city initiative and various government initiatives planned to promote the residential and commercial construction.

Key Rating Weaknesses

Susceptibility of operating margin to raw material price fluctuation

Raw material cost formed about 60-65% of the total cost of sales for RDL during the last three fiscals. Main raw materials for manufacturing laminate i.e. base paper, kraft paper, phenol, formaldehyde, melamine, methanol and other allied chemicals are available locally; however, high-end and premium quality papers are imported. The base paper which lends the design to the laminates is primarily imported from Europe, around 30%-35% of the Kraft paper, which lends the thickness to the laminates, is imported from US, whereas the balance is domestically sourced. However, the other major raw materials, which comprises of phenol and methanol are primarily imported from China and USA. Methanol and Phenol being the primary chemical requirements, their availability and price has a significant impact on the operating margins of the company. Being a crude oil derivative the prices of both the products in international market are highly volatile. On the other hand, major raw materials for manufacturing MDF are wood, resin and wax. The wood panel-based industries are largely dependent on natural forests (generally eucalyptus, silver, oak, poplar etc) for their raw material requirements. Any short supply of wood may lead to rise in price of raw materials.

Intense competition and cyclical nature of wood-panel industry

The decorative laminate industry is highly competitive due to presence of many unorganized players along with large established players. Further, the industry is also exposed to threat from cheap imports from China, Malaysia, Vietnam and Indonesia. In MDF segment the company is mainly operating in South Indian states. South India has significant demand of MDF round ~40 per cent of India's MDF being sold there. However, the market is intensively competitive as larger players in the industry are quite aggressive to take part in the demand.

Exposure to foreign exchange fluctuation risk

RDL has sizable import along with foreign currency borrowings (in the form of External Commercial borrowings). The company enjoys a natural hedging due to its large amount of export revenue. Further, it also has defined forex hedging policy to minimize the foreign exchange fluctuation risk. As a policy, the company hedges its net exposer through plainvanila forward contract. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement (during FY19 and FY20, RDL earned profit on forex fluctuation of Rs.5.05 crore and Rs.1.26 crore respectively).

Moderate capital structure with moderate debt protection parameters

The long-term debt equity ratio and the overall gearing ratio moderated from 0.57x and 0.79x respectively as on March 31, 2019 to 1.11x and 1.34x as on March 31, 2020 (considering the subordinated unsecured loan amounting to Rs.53.60 crore as quasi equity). The moderation in the capital structure was mainly due to elevated debt levels due to its ongoing capex initiatives for commissioning MDF manufacturing plant. As a result, Total debt to GCA also deteriorated from 8.32x in FY19 to 14.43x in FY20. However, interest coverage ratio remained healthy and improved marginally from 3.31x in FY19 to 3.80x in FY20. Despite rise in its debt level, RDL has maintained its total indebtedness at a satisfactory level as indicated by its TOL/ANW at 1.91x as on March 31, 2020 (1.32x as on March 31, 2019) backed by funds infused by the promoters in the form of subordinated unsecured loans. Moreover, comfort can be derived from the fact that the repayment obligation for term loans taken for the commissioning of new MDF plant is going to start from June, 2022 backed by the moratorium period of about 15 months.

Working capital intensive nature of operations

High working capital intensity marked by elongated operating cycle is inherent in the laminates and wood panel industry. The manufacturers need to maintain sufficient stock of various types of papers, chemicals, wood in raw material inventory. RDL generally maintain inventory of about 3-4 months to keep adequate stock imported raw materials such as decorative paper and chemicals which have a lead time ranging from two to six months from the date of placement of order. On the other hand, the company need to maintain sufficient finished stock inventory of its wide product array to respond market demands in a time bound manner. RDL generally allow a credit period of around 60 days. However, the company enjoys a credit period of about 90-100 days from its suppliers. Consequently, operating cycle hovered around 60-90 days during the last three fiscals. However, despite its large working capital requirements, the average utilisation of fund-based working capital limits remained moderate at ~85% in the past 12 months ended July, 2020 indicating moderate liquidity buffer.

Analytical Approach & Applicable Criteria

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity - Adequate

The liquidity of the company had historically been adequate with consistent positive cash flow from operations over FY18-FY20 and current ratio at 1.11x as on March 31,2020. Further, RDL has sufficient cushion in accruals vis-à-vis its scheduled repayment obligations which stand at Rs.19.33 crore in FY22. Moreover, RDL's average utilisation of bank lines stood moderate at about 75% during the last 12 months ending January 2021 providing some liquidity buffer.

About the Company

Incorporated in 1993, RDL was promoted by the Ahmedabad (Gujarat) based Thakkar family under the guidance of Mr. Ghanshyam Thakkar. The company is engaged in manufacturing of wide variety of Decorative and Industrial Laminated Sheets, Medium Density Boards (MDF) and wood-polyvinyl chloride (WPVC) Board in various varieties. RDL is listed on NSE and BSE and is one of the leading players in MDF manufacturing segment. The company has an installed capacity of 34.9 lakh sheets per annum for laminates at its manufacturing facilities located in Gujarat (Gandhinagar), 90000 cubic metres (CBM) per annum for MDF board and 12,480 CBM capacity WPVC manufacturing plant at Karnataka (Chikmaglur), respectively. RDL sells its products under its own brand name 'VIR LAMINATES' and 'VIR BOARDS' in the domestic and export markets. RDL is currently managed by Mr. Ghanshyam Thakkar (whole -time director) along with his son Mr Krupesh Thakkar, (Managing Director) well supported by a team of experienced professionals.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	344.33	336.39
Total Income	352.23	339.13
EBITDA	37.24	37.71

For the year ended* / As On	31-03-2019	31-03-2020
PAT	14.33	23.05
Total Debt	191.10	351.76
Adjusted Net worth	241.00	263.48
EBITDA Margin (%)	10.81	11.21
PAT Margin (%)	4.07	6.80
Overall Gearing Ratio (x)	0.79	1.34

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	154.04 *	IVR BBB+/ Stable	IVR BBB+ (Credit Watch with Developing Implications) (September 17, 2020)	IVR BBB+/ Stable (August 08, 2019)	-	-
2.	Cash Credit	Long Term	85.00	IVR BBB+/ Stable	IVR BBB+ (Credit Watch with Developing Implications) (September 17, 2020)	IVR BBB+/ Stable (August 08, 2019)	-	-
3.	Bank Guarantee/Letter of Credit	Long Term	44.00	IVR A2	IVR A2 (Credit Watch with Developing Implications) (September 17, 2020)	IVR A2 (August 08, 2019)	-	-

**Outstanding as on June 30, 2020*

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.

Name and Contact Details of the Rating Team:

Name: Mr. Harshita Didwania	Name: Mr. Avik Podder
Tel: (022) 62396023	Tel: (022) 62396023
Email: hdidwania@infomerics.com	Email: apodder@infomerics.com

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.

Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	March, 2030	154.04 * (Reduced from Rs.159.78 crore)	IVR BBB+ / Stable
Long Term Bank Facilities – Cash Credit	-	-	-	85.00 (Enhanced from Rs.57.00 crore)	IVR BBB+ / Stable

Short Term Bank Facilities – Bank Guarantee/Letter of Credit	-	-	-	44.00 (Enhanced from Rs.33.00 crore)	IVR A2

**Outstanding as on June 30, 2020*