Press Release
Rushil Decor Limited

August 08, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	159.78	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Long Term Bank Facilities – Cash Credit	57.00	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	33.00	IVR A2 (IVR Single A Two)	Assigned
Total	**249.78**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Rushil Decor Limited (RDL) derives comfort from its experienced promoters and management team with a long and successful track record, infusion of funds by the promoters in Q4FY19 in the form 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 stable operating performance despite moderation in FY19, improvement in margins in Q4FY19 &Q1FY20 and positive demand outlook of the home furnishing industry. The rating strengths are partially offset by susceptibility of its operating margin to raw material price fluctuation, exposure to foreign exchange fluctuation risk, on-going expansion project, working capital intensive nature of operations, moderation in capital structure in FY19 with moderate debt protection parameters and intense competition along with cyclical nature of the wood-panel industry. RDL's ability to complete the ongoing project without any time and cost overrun, steady growth in scale of operations with improvement in profitability, improvement in the capital structure and effective management of its incremental working capital requirements are the key rating sensitivities.

List of 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 of RDL, has more than three decades of experience in this field. He is well supported by his son, Mr. Krupesh Thakkar, Managing Director of RDL, 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 from in 1993 and gradually diversified its product profile. RDL has established itself as a renowned player in Laminates & allied products. The company forayed in to MDF segment in 2012 and within short span of time became one of the largest MDF player in the country. Presently, within the organised sector, RDL remains one of the largest manufacturers of MDF boards and decorative laminates in India.

- **Infusion of funds by the promoters in Q4FY19**

The promoters have infused Rs.53.60 crore in the form of subordinated interest-bearing unsecured loan subordinated to Bank facilities, to fund the ongoing capex and have shown positive commitments towards the business. The unsecured loans are mostly infused in Q4FY19 and interest thereon shall not be withdrawn upto March 31, 2022).

- **State of the art manufacturing facilities with satisfactory capacity utilization**

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.

- **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 impart 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 contributed about 30-35% of its total revenue over the past three years ending on FY19. RDL has a significant presence in the export market in its laminates segment. During FY19, exports around for around 62% of RDL's total laminate sales with a y-o-y growth of about 8%.

- **Stable operating performance though moderated in FY19**

Total operating income (TOI) of the company grew at a CAGR of ~6% over the last three years (FY17-FY19). The laminate segment remained a steady performer for the company with a stable performance over the years. RDL reported a steady growth of about 12% in FY18 mainly driven by higher sales volume and increase in sales realisation in the MDF segment. However, during FY19, TOI remained stagnant with marginal increase. Though the laminate segment witnessed a y-o-y growth of about 3%, the MDF segment witnessed moderation of about 9% in FY19. The operating performance improved in Q4FY19 and Q1FY20. Satisfactory operating performance by the company with regular positive cash flow from operations during FY15-FY19 gives comfort. However, trend in MDF sales realisation is a key monitorable.

- **Positive demand outlook of the 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.

Key Rating Weaknesses:

- **Susceptibility of operating margin to raw material price fluctuation**

Raw material cost formed about 62-64% 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. 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.

- **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. However, the market is intensively competitive with larger and established players.

- **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. As a policy, the company doesn't keep its foreign exchange exposure open for the current period, at present the company has hedged its net exposer for the current year through plain-vanilla forward contract. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement (during FY18 and FY19, RDL earned profit on forex fluctuation of Rs.1.89 crore and Rs.5.05 crore respectively).

- **Ongoing expansion project**

The company has embarked an expansion project in Vishakhapatnam, Andhra Pradesh for manufacturing thin and thick MDF boards foreseeing the opportunities in this segment. The manufacturing unit will have an installed capacity of 2,40,000 CBM per annum (2.67x of its current capacity). The project is expected to commence commercial operations from April, 2020. RDL has achieved financial closure for the project. Considering the size of the project, RDL is exposed to project implementation and stabilization risk associated with completion of the project within envisaged time and cost parameters. Further, However, comfortable moratorium period of 15 months for the project debt mitigate the risk of cash flow mismatch in the initial moths after commencement of production to an extent.

- **Moderation in capital structure with moderate debt protection parameters**

The debt equity ratio and the overall gearing ratio moderated from 0.35x and 0.66x respectively as on March 31,2018 to 0.57x and 0.79x as on March 31,2019 (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. The leverage ratios are expected to deteriorate further in FY20 due to pending disbursement of term loans to be taken (~Rs.153.7 crore) to fund the project. However, the debt protection parameters of the company remained satisfactory with interest coverage ratio of 2.74x in FY19.. However, despite rise in its debt level, RDL has maintained its total indebtedness at a satisfactory level as indicated by its TOL/ANW at 1.33x as on March 31,2019 (1.34x as on March 31,2018) backed by funds infused by the promoters in the form of subordinated unsecured loans.

- **Working capital intensive nature of operations**

High working capital intensity marked by elongated operating cycle is inherent in the laminates and wood panel industry. 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. 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 60-90 days from its suppliers. Consequently, operating cycle hovered around 90-100 days during the last three fiscals.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity</u>

The liquidity of the company had historically been adequate with consistent positive cash flow from operations over FY15-FY19 and current ratio at 1.24x as on March 31,2019. Further, RDL has sufficient cushion in accruals vis-à-vis its scheduled repayment obligations which stand at Rs.11.52 crore in FY20 and Rs.16.74 crore in FY21. RDL's average utilisation of bank lines stood moderate at about 85% during the last 12 months ending March 2019 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 5,760 MTPA 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	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	343.45	344.33
EBITDA	56.49	37.24
PAT	30.92	14.33
Total Debt	101.20	244.69
Adjusted Total Debt	101.20	191.09*
Tangible Net worth	153.98	187.40
Adjusted Tangible Net worth	153.98	241.00*
EBITDA Margin (%)	16.45	10.81
PAT Margin (%)	8.93	4.07
Overall Gearing Ratio (x)	0.66	0.79

******considering the subordinated unsecured loan amounting to Rs.53.60 crore as quasi equity*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	57.00	IVR BBB+ / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	159.78	IVR BBB+ / Stable Outlook	-	-	-
3.	Short Term Non-Fund Based Limits – Letter of Credit	Short Term	33.00	IVR A2	-	-	-

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	57.00	IVR BBB + / Stable Outlook
Long Term Fund Based Limits – Term Loan	-	-	March,2029	159.78	IVR BBB + / Stable Outlook
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	33.00	IVR A2 (IVR Single A Two)