Responsive Industries Limited (RIL)

December 04, 2023

Ratings:

Instrument / Facility	Amount (Rs crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank facilities – Term Loan	21.31	IVR A-/ Stable Outlook [IVR Single A minus with Stable Outlook]	Assigned	Simple
Long-Term/Short-Term Fund based Working Capital Facility – CC/WCL (Sublimit – PCFC/EPC/FBD/EBR)	240.00	IVR A-/ Stable Outlook [IVR Single A minus with Stable Outlook]/ IVR A2+ [IVR A Two Plus]	Outlook Revised	Simple
Short-Term Non - Fund based – Letter of credit. (Sublimit – BG/SBLC)	60.00	IVR A2+ [IVR A Two Plus]	Reaffirmed	Simple
Short-Term Non - Fund based – CEL	4.80	IVR A2+ [IVR A Two Plus]	Assigned	Simple
Total	**326.11**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision in outlook from Negative to Stable considers the improved financial performance in H1FY24 as compared to the corresponding previous year. The company's revenue increased by 12.47% in H1FY24 as against H1FY23 on account of increased export sales, & change in product mix. During H1FY24 EBITDA margins improved to 22.18% from 8.91% in H1FY23. Further, the PAT improved to INR 71 crore in H1FY24 from INR (15) crore in H1FY23 on account of reduction in raw material cost coupled with better sales realizations.

The company continues to derive strength from its experienced promoters, well-diversified product portfolio & strong marketing network, reputed clientele, comfortable debt protection metrics & coverage ratios, improvement in profitability and established market position. However, the rating strengths are partially offset by elongated operating cycle & susceptible to volatility in forex rates and raw material prices.

Key Rating Sensitivities:

Upward Factors:

- Sustained improvement in Revenue & EBITDA margin while improving the debt protection metrics.

Downward Factors:

- Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics.
- Any adverse impact on profitability due to volatility in forex rates and raw material prices or unfavourable sales mix.

Key Rating Drivers with detailed description:

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), Stone Plastic Composite (SPC) besides this the company has entered into water proofing membranes has sparked the industry and is expected to be the next biggest evolution in flooring.

Improvement in profitability

On a consolidated basis, EBITDA increased to Rs.109.97 Cr in FY23 from Rs.109.76 Cr in FY22. However, in terms of EBITDA margins it has improved from 9.95% in FY22 to 11.29 %

in FY23 primarily on account of reduction in raw material cost coupled with improved sales realization.

During H1FY24 the EBITDA margins improved to 22.18% from 8.91% in H1FY23 whereas the PAT margins improved to 13.3% as compared to losses reported in H1FY23. The improvement in profitability has been on account of better sales realization, change in product mix and higher share of sales from export markets. We understand from the company that the profitability is expected to remain at similar levels in H2FY24 as well.

Comfortable debt protection metrics & coverage ratios

The company's capital structure has remained comfortable over the past 3 years with overall gearing ratio at 0.26x in FY23 (0.25x in FY22). The TOL/TNW stood comfortable at 0.37x in FY23 as compared to 0.40x in FY22. Further, the ICR stood at 3.86x in FY23 and DSCR at 4.18x in FY23.

Established market position

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 producers 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.

Well-diversified product portfolio & strong marketing network

The Company's main products include Vinyl Flooring, Synthetic Leather, Luxury Vinyl Tile (LVT), Stone Plastic Composite (SPC), water proofing membranes having 30+ product categories within. It has a wide distribution network and exports 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 includes 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, TATA (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.

Key Rating Weaknesses:

Elongated Operating cycle.

The Operating Cycle of the company elongated to 166 days in FY23 on account of higher collection days & inventory days. The debtor days stood higher at 115 days in FY23 as compared to 73 days in FY22 on account of higher share of export sales and increased share of revenue contribution from Indian Railways during the year. This also resulted in increased inventory days from 56 days in FY22 to 91 days in FY23. Going forward, the operating cycle is expected to be moderate in the projected years because of improved collection cycle.

Susceptible to volatility in forex rates and raw material prices

The cost of raw material 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 favorable or adverse effect on the Company.

The unhedged foreign currency exposure as at 30-Sep-2023 is Nil.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has taken consolidated approach for the purpose of analysing the business and financial performance of the company. It has combined the business and financial risk profiles of RIL and its wholly owned subsidiaries – Axiom Cordages Limited (India), Responsive Industries Limited (Hong Kong), Responsive Industries Limited LLC (USA) and Responsive Industries Limited (Singapore), hereinafter referred to as the Responsive Group on account of common management, fungibility of cash flows between the entities and expected support in terms of promoter funding to operationalize the overseas units (into similar line of business).

Extent of Consolidation – Full.

Applicable Criteria:

Criteria of assigning Rating Outlook

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 increase in scale of operations. The GCAs were and are sufficient to cover the loan repayments. The average utilization of CC limits remained moderate at 67 % during the 12 months ended September 30, 2023. The Current & Quick ratios have improved to 1.96 and 1.30 respectively in FY23 from 1.69 and 1.12 respectively in FY22. The company has unencumbered cash and bank balance and investment of INR 31.78 crore as on 31 Mar 2023. On an overall basis, the liquidity position is thus 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 6 infrastructure and real estate sectors. It is amongst top 4 producers of vinyl flooring globally. It has a state-of-the-art factory and infrastructure set-up at Boisar in Palghar district in Thane, spread across 52-acre of land, having 15 manufacturing lines. The Company has 1 Indian subsidiary - Axiom Cordages Limited, 3 wholly owned foreign subsidiaries - Responsive Industries Limited (Hong Kong), Responsive Industries Limited LLC USA and Responsive Industries Limited (Singapore) and 1 foreign step-down subsidiaries - Axiom Cordages Limited (Hong Kong). It has presence in shipping ropes business through its subsidiary Axiom Cordages Limited. Remaining overseas subsidiaries are in similar line of business as RIL.

Financials: Consolidated

(Rs. crore)

For the year ended/* As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1103.42	973.66
EBITDA	109.76	109.97
PAT	0.16	24.43
Total Debt	235.55	257.13
Tangible Net-worth	936.87	972.34
Ratios		
EBITDA Margin (%)	9.95	11.29
PAT Margin (%)	0.01	2.47
Overall Gearing Ratio (x)	0.25	0.26

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Sep 15, 2022)	Date(s) & Rating(s) assigned in 2022-23 (July 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (May 07, 2021)
1.	Long term Bank facilities – Term Loan	Long Term	21.31	IVR A-/ Stable Outlook	-	-	-

2.	Long-Term/Short-Term Fund based Working Capital Facility – CC/WCL (Sublimit – PCFC/EPC/FBD/EBR)	Long Term	240.00	IVR A-/ Stable Outlook / IVR A2+	IVR A-/ Negative Outlook / IVR A2+	IVR A-/ Stable Outlook/ IVR A2+	IVR A-/ Stable Outlook/ IVR A2+
3.	Short-Term Non - Fund based – Letter of credit. (Sublimit – BG/SBLC)	Short Term	60.00	IVR A2+	IVR A2+	IVR A2+	IVR A2+
4.	Short-Term Non - Fund based – CEL	Short Term	4.80	IVR A2+	-	-	-

Name and Contact Details of the Rating Team:

Name: Prakash Kabra
Tel.: (022) 6239 6023
Email: prakash.kabra@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

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 Bank facilities – Term Loan	-	-	-	21.31	IVR A-/ Stable Outlook
Long-Term/Short-Term Fund based Working Capital Facility – CC/WCL (Sublimit – PCFC/EPC/FBD/EBR)	-	-	-	240.00	IVR A-/ Stable Outlook/ IVR A2+
Short-Term Non - Fund based – Letter of credit. (Sublimit – BG/SBLC)	-	-	-	60.00	IVR A2+
Short-Term Non - Fund based – CEL	-	-	-	4.80	IVR A2+

Annexure 2: List of companies considered for consolidated analysis:

Particulars	Nature	% of shares held as on 31.03.2023
Direct Subsidiaries:		
Axiom Cordages Limited	Subsidiary	89.87%
Responsive Industries Limited, Hong Kong	Subsidiary	100.00%
Responsive Industries Limited, Singapore	Subsidiary	100.00%
Responsive Industries Limited LLC, USA	Subsidiary	100.00%

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Responsive-dec23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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