Press Release

Rushil Decor Limited

September 13, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	234.74 (enhanced from Rs. 231.19 crore)	IVR A-/ Stable (IVR Single A minus with Stable Outlook)	Revised from IVR BBB+/Stable (IVR Triple B plus with Stable Outlook)	Simple
Short Term Bank Facilities	44.00	IVR A2+ (IVR A Two Plus)	Revised from IVR A2 (IVR A Two)	Simple
Total	**278.74 (INR Two hundred seventy eight crore and seventy four lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Rushil Decor Limited (RDL) considers healthy growth in its scale of operations in FY22 & in Q1FY23 coupled with improvement in its debt protection metrics backed by rise in its gross cash accruals. Further, improving capacity utilisation underpinned by healthy demand for Medium Density Fibreboard (MDF) is also expected to drive further topline growth over the medium term. Further, the ratings continue to derive comfort from its experienced promoters and management team with its long and successful track record, its state-of-the-art manufacturing facilities, proximity to raw material sources, diversified product stream with a strong brand name, extensive distribution network in geographically diversified business operations and stabilisation of operations of new MDF plant at Visakhapatnam, Andhra Pradesh. These rating strengths are 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.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure along with improvement in debt service parameters
- Improvement in working capital management

Downward factors

- Dip in operating income or profitability impacting the debt coverage indicators with moderation in interest coverage ratio to below 1.5x
- Deterioration in capital structure leading to overall gearing above 2x
- Elongation in the operating cycle

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. The founder promoter of the company Late Mr. Ghanshyam Thakkar had more than three decades of experience in this field. The operation of the company is currently looked after by 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 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.

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 and Visakhapatnam. RDL has established relationship with various nearby sawmills 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 and Visakhapatnam, Andhra Pradesh.

Geographically diversified business operations

Exports contributed ~22% to the total sales in FY22. RDL has a presence in the export market in its laminates and MDF segments. Its major export destinations are Bangladesh, China, Middle East countries, US as well as European markets.

Improvement in financial performance in FY22 & in Q1FY23

The company reported significant revenue growth in FY22 to Rs.624.17 crore as against Rs.335.44 crore in FY21 driven by higher MDF sales volume and better average sales realisation across all its product segments. MDF sales volume in FY22 increased to 176545 cbm from 77520 cbm in FY21 led by stabilisation of new MDF plant (installed capacity 240000 cbm per annum) in Andhra Pradesh. Besides, there was improvement in average sales realisation of laminates from Rs.601 per sheet in FY21 to Rs.691 per sheet in FY22 while in MDF segment it increased from Rs.20041 per cbm in FY21 to Rs.24416 per cbm in FY22. The EBITDA margin improved from 10.43% in FY21 to 11.85% in FY22 benefitting from economies of scale and better average sales realisation. Moreover, with rise in depreciation expenses attributable to completion of AP plant, gross cash accruals improved from Rs.26 crore during FY21 to Rs. 54.05 crore during FY22. In Q1FY23, the company achieved a PAT of Rs 27.20 crore and gross cash accruals of ~Rs. 33 crore on a revenue of Rs. 210.95 crore.

Satisfactory capital structure with improvement in debt protection metrics

The capital structure of the company continued of remain satisfactory. Further, despite increase in its debt level, the long-term debt equity ratio improved from 1.06x as on March 31, 2021 to 1.02x as on March 31, 2022 on account of repayment of term loans and accretion of profits to reserves (considering subordinated unsecured loans of Rs.29.89 crore as on March 31, 2022, bought in by the promoters as a part of net worth). The overall gearing also continued to remain satisfactory at 1.30x as on March 31, 2022. Driven by increase in EBITDA level, interest coverage ratio improved from 2.82x in FY21 to 3.64x in FY22. Moreover, total indebtedness as indicated by its TOL/ATNW stood satisfactory at 1.91x as on March 31, 2022.

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 capita 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 58-62% of the total production cost 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. Moreover, 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 exposure through plain vanilla forward contract. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement.

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 about 1-2 months. However, the company enjoys a credit period of about 2-3 months 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 satisfactory at ~74% in the past 12 months ended June 2022 indicating adequate liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria of assigning Rating Outlook

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate marked by its sufficient cash accruals vis-a-vis its debt repayment obligations in the near term. Moreover, RDL's average utilisation of bank lines stood comfortable ~74% during the last 12 months ending June 2022 providing an adequate liquidity buffer. However, the average non-fund-based limit utilisation stood high at ~96% during the past twelve month ended June 2022.

About the Company

Incorporated in 1993, RDL was promoted by the Ahmedabad (Gujarat) based Thakkar family under the guidance of Late 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 has also set up a manufacturing facility at Vishakhapatnam, Andhra Pradesh for manufacturing thin and thick MDF boards with an installed capacity of 2,40,000 CBM, the commercial operation of which was started from March 05, 2021, onwards. 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. Krupesh Thakkar and is well supported by a team of experienced professionals.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	335.44	624.17
EBITDA	34.97	73.94
PAT	13.72	22.80
Total Debt	347.58	389.73
Tangible Net worth	277.36	298.68
EBITDA Margin (%)	10.43	11.85
PAT Margin (%)	4.04	3.64
Overall Gearing Ratio (x)	1.25	1.30

**Classification as per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21		Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long term	149.74	IVR A-/Stable	IVR BBB+/Stable (Aug 31, 2021)	IVR BBB+/ Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)	IVR BBB+/Stable (August 8, 2019)
2.	Working capital Fund based*	Long term	85.00	IVR A-/Stable	IVR BBB+/Stable (Aug 31, 2021)	IVR BBB+/ Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)	IVR BBB+/Stable (August 8, 2019)
3.	Letter of credit^	Short term	44.00	IVR A2+	IVR A2 (Aug 31, 2021)	IVR A2 (March 30, 2021)	IVR A2 / Credit Watch with Developing Implications (September 17, 2020)	IVR A2 (August 8, 2019)

* PC cum FBP/FBD of Rs. 28 crore; WCDL of Rs. 20 crore and PCFC/FCBP/FCBD of Rs. 15.00 crore are sub-limits

^Bank Guarantee of Rs.12 crore is a sub limit

Name and Contact Details of the Rating Analyst:

Name: Mr. Ashish Agarwal	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: aagarwal@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2029	149.74	IVR A-/Stable Outlook
Working capital Fund based*	-	-	-	85.00	IVR A-/Stable Outlook
Letter of credit^	-	-	-	44.00	IVR A2+

* PC cum FBP/FBD of Rs. 28 crore; WCDL of Rs. 20 crore and PCFC/FCBP/FCBD of Rs. 15.00 crore are sub-limits
^Bank Guarantee of Rs.12 crore is a sub limit

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Rushil-Decor-sep22.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 on the basis of complexity and a note thereon is available at www.infomerics.com.