Rushil Decor Limited

September 21, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	208.31	IVR A-/ Stable (IVR Single A minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	44.00	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**252.31 (INR Two hundred fifty two crore and thirty one lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Rushil Decor Limited (RDL) 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 and extensive distribution network in geographically diversified business operations. Further, the ratings also consider higher capacity utilisation leading to improvement in financial performance in FY23 coupled with its satisfactory capital structure and comfortable debt protection metrics. 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 ~25% to the total sales in FY23. Its major export destinations are Middle East countries as well as Asian markets.

Improvement in business performance in FY23 however profit margins moderated in Q1FY24

In FY23, total operating income increased by ~34% on a y-o-y basis to Rs. 838.40 crore supported by higher sales volume with increase in capacity utilisation levels. Besides, increase in average sales realisation in H1FY23 on the back of improved demand also supported topline and profitability. Despite, moderation in realizations in H2FY23 on account of continued pressure from higher imports, EBITDA margin improved from 11.85% in FY22 to 17.82% in FY23 benefitting from economies of scale, better average sales realisation in H1FY23 and increased focus on value added products which command higher margins. Consequently, PAT margin and cash accruals have also improved. Gross cash accruals increased from Rs. 54.05 crore in FY22 to Rs.115.47 crore in FY23. In Q1FY24, the company has achieved revenue of ~Rs. 193 crore. However, the company has witnessed moderation in its margin on y-o-y basis in Q1FY24 mainly due to dip in sales realisations attributable to rise in cheap imports in the country.

Satisfactory capital structure with improvement in debt protection metrics

The capital structure of the company remained satisfactory. Based on tangible Net worth (including Quasi Equity) long-term debt equity ratio improved from 1.02x as on March 31, 2022 to 0.79x as on March 31, 2023 supported by accretion to reserves and repayment of term loans. Overall gearing ratio also improved from 1.30x as on March 31, 2022 to 1.02x as on March 31, 2023. Besides, capital structure is expected to strengthen further following the fund raising of ~Rs. 107 crore through right issue in May 2023 which was partly utilised for paying off unsecured loan of promoters and promoter group. Driven by increase in EBITDA level, interest coverage ratio improved from 3.64x in FY22 to 6.35x in FY23. Moreover, total indebtedness as indicated by its TOL/TNW (including Quasi Equity) stood satisfactory at 1.64x as on March 31, 2023 (1.91x as on March 31, 2022).

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. 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 foreign exchange exposure through forward contracts, plain vanilla option and other similar options. 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.

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 ~84% during the last 12 months ending July 2023 providing moderate liquidity buffer.

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	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	624.17	838.40
EBITDA	73.94	149.39
PAT	22.80	77.67
Total Debt	389.73	375.78
Tangible Net worth	298.68	369.04
EBITDA Margin (%)	11.85	17.82
PAT Margin (%)	3.64	9.25
Overall Gearing Ratio (x)	1.30	1.02

**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 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	
1.	Term Loan	Long term	123.31	IVR A-/Stable	IVR A-/Stable (Sep 13, 2022)	IVR BBB+/Stable (Aug 31, 2021)	IVR BBB+/Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)
2.	Working capital Fund based*	Long term	85.00	IVR A-/Stable	IVR A-/Stable (Sep 13, 2022)	IVR BBB+/Stable (Aug 31, 2021)	IVR BBB+/Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)
3.	Letter of credit^	Short term	44.00	IVR A2+	IVR A2+	IVR A2 (Aug 31, 2021)	IVR A2 (March 30, 2021)	IVR A2 / Credit Watch with Developing Implications (September 17, 2020)

* 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

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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.

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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

Term Loan	-	-	March 2029	123.31	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-sep23.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.