Rushil Décor Limited

August 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities – Term Loan	146.19 * (Reduced from Rs.154.04 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed
Long Term Fund Based Facilities – Cash Credit	85.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities – Export Credit Limits *(PC/FBP/FBD/PCFC/FCBP/FCBD)*	(24.00) (sub-limit to the total Cash Credit limit)	IVR A2 (IVR A Two)	Assigned
Short Term Non-Fund Based Facilities- Bank Guarantee/Letter of Credit	44.00	IVR A2 (IVR A Two)	Reaffirmed
Total	**275.19 (Two Hundred & Seventy Five crore and Nineteen lakh)**		

**Outstanding as on July 04, 2021*

Details of Facilities are in Annexure I

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Rushil Décor Limited (RDL) continues to derive comfort from its experienced promoters and management team with its 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, extensive distribution network in geographically diversified business operations and commencement of operations in new MDF plant at Visakhapatnam, Andhra Pradesh. The ratings also factor in its stable financial performance in FY21 albeit marginal moderation in margins and positive demand outlook of the home furnishing industry. 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. The ratings also note its depressed financial performance during Q1FY22.

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 accruals
- Improvement in the capital structure along with improvement in debt service parameters

Downward rating factor(s) –

- Dip in operating income and/or moderation in profitability impacting the debt coverage indicators on a sustained basis, deterioration in working capital management impacting the liquidity 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. 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 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.30.91 crore outstanding as on March 31, 2021, is subordinated to the term loans and treated as a part of adjusted net worth) and have demonstrated positive commitments since inception. The promoters have converted subordinated unsecured loans to the extent of Rs.23.98 crore into equity by way of right issue of shares in FY21.

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

The export sales contributed about 30-35% of its total revenue over the past three years ending on FY21. RDL has a significant presence in the export market in its laminates segment. During FY21, exports accounted for around 63% of RDL's total laminate sales. Its major export destinations are Bangladesh, China, Middle East countries, US as well as European markets.

Stable financial performance in FY21 albeit marginal moderation in margins

Total operating income (TOI) remained almost stagnant in FY21 at Rs.335.44 crore as against a TOI of Rs.336.39 crore in FY20. Despite very marginal moderation in TOI in FY21 as compared to FY20, EBITDA margin decreased from 11.21% during FY20 to 10.43% during FY21 due to increase in the prices of raw materials coupled with increase in operational and administrative expenses. Consequently, PBT and PAT margin also declined from 5.81% and 6.80% respectively during FY20 to 5.49% and 4.04% respectively during FY21. However, due to deferred tax adjustments and increase in depreciation provision, GCA improved from Rs.24.38 crore during FY20 to Rs.28.39 crore during FY21.

During Q1FY22 the performance of the company remained depressed with TOI of Rs.91.17 crore (Rs.49.46 crore during Q1FY21) and book loss of Rs.7.58 crore (book loss of Rs.1.45 crore during Q1FY21). However, there was no cash loss and the company has earned a cash profit of ~Rs.2.67 crore. The profitability of the company was impacted due to the fact that the new MDF plant at Visakhapatnam, Andhra Pradesh started commercial production in March 2021 with low-capacity utilisation during the initial months of operation and will take approximately 3-4 months to stabilize before reaching to its full capacity utilization. Also, the production was hampered due to lockdown restrictions in the state during Q1FY22. Further, the increased losses during Q1FY22 were also owing to foreign currency losses of Rs.4.35 crore during the aforesaid period. During 4MFY22, RDL achieved sales of Rs.140.72 crore. Infomerics expects gradual improvement in the performance of the company with stabilization in its new plant.

Completion of the expansion project of manufacture of MDF Boards

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. RDL has already generated a revenue of Rs.30.73 crore from the new MDF plant during 4MFY22.

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 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 plain vanilla forward contract. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement (during FY20 and FY21, RDL earned profit on forex fluctuation of Rs.1.26 crore and Rs.3.42 crore respectively).

Moderate capital structure with moderate debt protection parameters

The long-term debt equity ratio and overall gearing improved from 1.11x and 1.34x respectively as on March 31, 2020, to 1.06x and 1.25x as on March 31, 2021 on account of subsequent repayment of term loans and accretion of profits to reserves. (Considering subordinated unsecured loans of Rs.30.91 crore as on March 31, 2021, bought in by the promoters as a part of adjusted net worth). However, due to decrease in profitability in FY21, interest coverage ratio, moderated from 3.80x in FY20 to 3.18x in FY21. With elevated debt level taken for the new MDF unit at Visakhapatnam, Andhra Pradesh, total debt to GCA remained high at 12.24x in FY21 (14.43x in FY20). However, despite rise in its debt level, RDL has maintained its total indebtedness at a satisfactory level as indicated by its TOL/ANW at 1.85x as on March 31, 2021 (1.91x as on March 31, 2020) 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. 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 ~80% in the past 12 months ended May 2021 indicating moderate liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity - Adequate

The liquidity of the company is adequate marked by sufficient cash accruals vis a vis its debt repayment obligations. Also, the company has been generating consistent positive cash flow from operations over FY19-FY21. Also, the company has a comfortable free cash and cash equivalents and unutilised working capital limits to the extent of Rs.26.75 crore as on August 09, 2021. Moreover, RDL's average utilisation of bank lines stood moderate at about 80% during the last 12 months ending June 2021 providing some liquidity buffer. However, the average non-fund-based limit utilisation stood high at ~96% during the past twelve month ended July 2021.

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, (Managing Director) and is well supported by a team of experienced professionals.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	336.39	335.44
Total Income	339.13	339.77
EBITDA	37.71	34.97
PAT	23.05	13.72
Total Debt	351.76	347.58
Adjusted Net worth	263.42	277.36
EBITDA Margin (%)	11.21	10.43
PAT Margin (%)	6.80	4.04
Overall Gearing Ratio (x)	1.34	1.25

**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 2021-22)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21		Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	146.19 * (Reduced from Rs.154.04 crore)	IVR BBB+/ Stable	IVR BBB+/ Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)	IVR BBB+/ Stable (August 08, 2019)	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21		Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
2.	Cash Credit	Long Term	85.00	IVR BBB+/ Stable	IVR BBB+/ Stable (March 30, 2021)	IVR BBB+/ Credit Watch with Developing Implications (September 17, 2020)	IVR BBB+/ Stable (August 08, 2019)	-
3.	Export Credit Limits *(PC/FBP/FBD/PCFC/ FCBP/FCBD)*	Short Term	(24.00) (sub-limit to the total Cash Credit limit)	IVR A2	-	-	-	-
4.	Bank Guarantee/Letter of Credit	Long Term	44.00	IVR A2	IVR A2 (March 30, 2021)	IVR A2 / Credit Watch with Developing Implications (September 17, 2020)	IVR A2 (August 08, 2019)	-

**Outstanding as on July 04, 2021*

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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. 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 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	146.19 * (Reduced from Rs.154.04 crore)	IVR BBB+ / Stable
Long Term Bank Facilities – Cash Credit	-	-	-	85.00	IVR BBB+ / Stable
Short Term Bank Facilities – Export Credit Limits *(PC/FBP/FBD/PCFC/ FCBP/FCBD)*	-	-	-	(24.00) (sub-limit to the total Cash Credit limit)	IVR A2
Short Term Bank Facilities – Bank Guarantee/Letter of Credit	-	-	-	44.00	IVR A2

**Outstanding as on July 04, 2021*

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Rushil-decor-lenders31aug21.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple
2.	Cash Credit	Simple
3.	Bank Guarantee/Letter of Credit	Simple

Press Release

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.