Rushil Decor Limited

July 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	232.61 (enhanced from Rs.112.37 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**
Short-term Bank Facilities	33.00	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**265.61 (Rupees Two Hundred Sixty Five crore and Sixty One lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rushil Decor Limited (RDL) continue to remain underpinned by the vast experience of its promoters in the wood panel industry, strong distribution network and marketing support, geographically diversified revenue profile, proximity of its manufacturing facilities to the key raw material suppliers along with satisfactory capacity utilisation levels.

The ratings further derive strength from consistent growth in its scale of operations along with improvement in profitability, increased proportion of its high-margin Medium Density Fibre (MDF) to its total sales, improvement in its leverage along with comfortable debt coverage indicators. The ratings also favourably factor in favorable growth prospects of wood panel industry on the back of rising urbanization, focus of the Government on development of smart cities and growth of the real estate sector, particularly in Tier-II and Tier-III cities. The ratings also takes cognizance of successful completion of its wood-polyvinyl chloride (WPVC) project within envisaged time and cost parameters and commencement of commercial operations therein.

The ratings, however, continue to remain constrained on account of its working-capital intensive operations, susceptibility of its profitability to foreign exchange rate fluctuation and its presence in a highly fragmented, cyclical and competitive wood panel industry. The ratings are also constrained on account of envisaged deterioration in financial risk profile and implementation risk associated with the ongoing large size debt-funded MDF capacity expansion project at Andhra Pradesh.

Going forward, the ability of RDL to increase its scale of operations by increasing the sales volume of laminates and its high-margin product (MDF), maintain healthy capacity utilisation levels and improve its profitability margins and liquidity would be key rating sensitivities. Also, scaling up and realizing the envisaged benefits from its recently completed WPVC project along with effective management of its incremental working capital requirements amidst a competitive environment would also remain crucial.

Notwithstanding above, RDL’s ability to complete its large size ongoing capex project at Andhra Pradesh within envisaged time and cost parameters would also be a key rating monitorable.

Outlook: Stable

The revision in the outlook for the long-term bank facilities from Positive to stable is on account of envisaged deterioration in the capital structure and debt coverage indicators, despite improvement in operational performance and profitability, due to ongoing large size debt-funded capex by RDL.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the wood panel industry: Mr Ghanshyam Thakkar, promoter and whole-time director of RDL, has more than three decades of experience in trading, manufacturing and marketing of plywood, laminates and other wood panel products. He is supported by his son, Mr Krupesh Thakkar, Managing Director of RDL, who has an experience of around two decades in the wood panel industry, and actively manages routine operations of the company. Furthermore, they are ably supported by independent directors and professionals for day to day operations of the company.

Geographically diversified revenue profile, established marketing network and proximity to raw material sources: RDL has a geographically diversified revenue profile with exports of laminates contributing around 29% of RDL’s total sales

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

during FY18 (refers to the period April to March). RDL has an established market in India, with significant market share in Southern India for MDF boards. RDL markets its products under brand name of 'VIR LAMINATES' and 'VIR BOARDS' and has a well-established marketing and distribution network in India and abroad. Furthermore, due to strategic location of RDL's manufacturing facilities in Gujarat and Karnataka, the company has a competitive advantage in terms of lower procurement cost of raw materials and logistic expenditure.

State of the art manufacturing facilities along with comfortable capacity utilisation levels and successful commissioning of its WPVC plant: The manufacturing facilities of RDL are ISO 9001:2000 certified. Furthermore, while its MDF unit has Bureau of Indian Standards (BIS) and eco-mark certification, the laminate manufacturing unit has a Green-label certification from Singapore environmental council. The capacity utilisation levels has continuously increased and remained at healthy levels during last three years ended FY18. RDL has successfully commissioned the WPVC plant having an annual production capacity of 5,760 MTPA at Chikmagalur, Karnataka within envisaged time and cost parameters. It commenced commercial operations from January 2018.

Continuous growth in scale of operations along with improvement in profitability: TOI of RDL grew at a compounded annual growth rate (CAGR) of 8% during last five years ended FY18. During FY18, RDL reported a y-o-y growth of 12% in its total operating income (TOI) to Rs.346.16 crore (Rs.308.99 crore in FY17) supported by growth in sales volume and increase in sales realisation of MDF. Also, RDL reported a healthy PBILDT margin of 17.08% during FY18; y-o-y improvement by 57 bps on account of increase in sales realisation of laminates and MDF coupled with lower raw material costs. The proportion of high-margin MDF to its total sales has also increased continuously from 43% in FY16 to 50% in FY18. Improvement in PBILDT margin along with reduction in interest cost resulted in a healthy PAT margin of 8.95% during FY18 (8.06% in FY17). Consequent to growth in TOI and improvement in profitability, RDL reported a gross cash accruals (GCA) of Rs.40 crore during FY18 (Rs.33 crore in FY17).

Improvement in its leverage and debt coverage indicators: Despite undertaking debt-funded WPVC project at Chikmagalur, the overall gearing of RDL improved from 0.85x as on March 31, 2017 to 0.67x as on March 31, 2018 on account of fresh equity infusion, healthy accrual to reserves and scheduled repayment of long-term debt. Debt coverage indicators also improved and remained comfortable as marked by a healthy interest coverage of 6.80x during FY18 (FY17: 4.92x) and Total debt to GCA of 2.90 years (FY17: 3.24 years).
However, going forward, the leverage and debt coverage indicators is expected to deteriorate due to its on-going large-size debt funded capex at Andhra Pradesh.

Key Rating Weaknesses
Implementation risk associated with the undertaken large size debt-funded capex: RDL is undertaking a large-size project of setting up new manufacturing unit for thin and thick MDF boards at Vishakhapatnam, Andhra Pradesh which shall have an installed capacity of 2,40,000 CBM per annum. The total project cost is estimated at Rs.341 crore, which is envisaged to be funded through a debt of Rs.225 crore, unsecured loans of Rs.54 crore, equity infusion of Rs.40 crore and balance through internal accruals. RDL has achieved financial closure for the project and till June 11, 2018, RDL had incurred a total cost of Rs.61 crore, which was funded through an equity infusion of Rs.38 crore and balance through internal accruals. The project is expected to commence commercial operations from April 2020.
Owing to the large size of the project and execution timeframe, RDL is exposed to implementation and stabilization risk associated with timely completion of the project within envisaged cost parameters. RDL is also exposed to scaling up risk considering its size and substantial MDF capacity addition in the medium term by other players across India. Consequently, ability of RDL to scale up its operations post commissioning of the project shall also remain crucial from the credit perspective.
However, this risk is partly mitigated by the favorable growth prospects of MDF, proximity of its plant to the port and comfortable moratorium period for the project debt.

Moderate exposure to volatility in foreign exchange rates; albeit natural hedge available: RDL is exposed to volatility in foreign exchange rates on its export receivables. However, the risk is partially mitigated on account of natural hedge available on imports, borrowing in foreign currency (External Commercial Borrowings; ECBs), usage of Export Earner's Foreign Currency (EEFC) bank account and entering into forward contracts for its balance exposure.

Working capital intensive nature of operations: RDL's operations are inherently working capital intensive mainly due to its elongated working capital cycle owing to significant inventory holding requirement. During FY18, RDL's operating cycle remained high at 107 days. The liquidity position of RDL continued to remain moderate as indicated by moderate current ratio and moderate utilisation of its fund-based for the trailing twelve months ended May 2018.

Presence in a fragmented & cyclical wood-panel industry: The plywood and laminate industry is highly fragmented with presence of unorganized players, resulting in high competition and pressure on prices. Furthermore, it is also threatened by cheap imports mainly from China, Malaysia and Indonesia. However, MDF industry is completely organized. MDF segment is likely to driven by the pick-up in real estate construction following the smart city initiative, rising employment and income growth, 7th pay commission payout and moderating interest rate. Further, reduction in the GST rate on MDF is likely to support consumption growth. Furthermore, various government initiatives planned to promote the residential and commercial construction is envisaged to strengthen the demand side drivers and create a favourable market scenario for MDF.

Analytical approach: Standalone Approach

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios - Non- Financial Sector]

About the Company
Incorporated in 1993 by Ahmedabad-based Thakkar family, RDL is a public limited listed company engaged in manufacturing Laminate sheets and MDF boards. Its facility is equipped to manufacture decorative (single-sided) as well as industrial (double-sided) laminates with a wide range of design, colour and finish and MDF boards of different sizes. RDL sells its products under its own brand name 'VIR LAMINATES' and 'VIR BOARDS' in the domestic and export markets.
RDL had an installed capacity of 30 lakh sheets per annum for laminates and 90,000 cubic metres (CBM) per annum for MDF board as on March 31, 2018, at its manufacturing facilities located in Gujarat (Gandhinagar) and Karnataka (Chikmaglur) respectively. During FY18, RDL commissioned Wood-plastic composites (WPC) manufacturing plant at its facility at Chikmagalur having a production capacity of 5,760 MTPA.

Brief financials of RDL are tabulated below:

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	308.99	346.16
PBILDT	51.01	59.14
PAT	24.89	30.98
Overall gearing (times)	0.85	0.67
Interest coverage (times)	4.92	6.80

(A – Audited)

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	NA	NA	NA	57.00	CARE BBB+; Stable
Term Loan-Long Term	NA	NA	March 2027	175.61	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	NA	NA	NA	33.00	CARE A2
Term Loan-Long Term	NA	NA	NA	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	57.00	CARE BBB+; Stable	-	1)CARE BBB+; Positive (16-Jun-17)	1)CARE BBB+; Stable (23-Dec-16) 2)CARE BBB+ (04-Jul-16)	1)CARE BBB (06-Jan-16) 2)CARE BBB (27-Jul-15)
2.	Term Loan-Long Term	LT	175.61	CARE BBB+; Stable	-	1)CARE BBB+; Positive (16-Jun-17)	1)CARE BBB+; Stable (23-Dec-16) 2)CARE BBB+ (04-Jul-16)	1)CARE BBB (06-Jan-16) 2)CARE BBB (27-Jul-15)
3.	Non-fund-based - ST-Letter of credit	ST	33.00	CARE A2	-	1)CARE A2 (16-Jun-17)	1)CARE A3+ (23-Dec-16) 2)CARE A3+ (04-Jul-16)	1)CARE A3+ (06-Jan-16) 2)CARE A3+ (27-Jul-15)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Positive (16-Jun-17)	1)CARE BBB+; Stable (23-Dec-16) 2)CARE BBB+ (04-Jul-16)	1)CARE BBB (06-Jan-16) 2)CARE BBB (27-Jul-15)

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