Rushil Décor Limited

June 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	112.37 (enhanced from 94.48)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	Reaffirmed
Short-term Bank Facilities	33.00	**CARE A2 (A Two)**	Revised from CARE A3+ (A Three Plus)
Total Facilities	**145.37 (Rupees One hundred Forty Five crore and Thirty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Rating Rationale

The revision in the short-term rating of Rushil Decor Limited (RDL) takes into account substantial improvement in its profitability margin and gross cash accruals (GCA) during FY17 and moderation in utilisation of working capital bank borrowings during trailing 12 months ending March 2017 resulting in improvement in its leverage, debt coverage indicators and current ratio as on March 31, 2017.

The ratings continue to derive strength from the vast experience of its promoters in the wood panel industry, its geographically diversified revenue profile and its established marketing network. The ratings also continue to derive strength from proximity of its manufacturing facilities to the key raw material suppliers and favourable 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, 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.

Going forward, the ability of RDL to maintain the growth in sales volume of its high-margin MDF segment and ensure continued healthy capacity utilisation levels while maintaining its healthy profitability margins and capital structure would be the key rating sensitivities. Furthermore, RDL's ability to effectively manage its incremental working capital requirements amidst a competitive environment, improve its liquidity position and manage its foreign currency exposure, would also be crucial.

Outlook: Positive

CARE believes that RDL will continue to benefit over the medium-term on account of its established position in laminates and MDF segment, introduction of new value-added products [wood-polyvinyl chloride (WPVC)] and its focus on growth in sales volume of high-margin MDF segment in southern India resulting in improvement in profitability, liquidity and leverage.

The outlook, however, may be revised to 'Stable' in case of deterioration in capital structure owing to increase in working capital requirements or large-size debt-funded capex and reduction in profitability margin which is susceptible to volatile raw material prices.

Detailed description of the key rating drivers

Key Rating Strengths

Continuous growth in sales volume along with improvement in profitability

During FY17, RDL continued to report growth in capacity utilisation and sales volume of laminates and MDF boards over the previous year. However, the total operating income (TOI) grew at a modest rate during FY17 on account of moderation in sales realisation of laminates.

The PBILDT and PAT margin has improved by 420 bps and 555 bps respectively during FY17 on account of lower raw material cost, increase in proportion of high-margin MDF boards and reduction in interest cost. Consequently, this resulted in higher generation of gross cash accruals which aided the liquidity of the company.

Sustained improvement in leverage, debt coverage indicators and liquidity: RDL's overall gearing and debt coverage indicators witnessed sustained improvement during past three years ended FY17, on the back of reduction in debt (both term loans and working capital borrowings) and augmentation of net worth during FY17 (on account of additional equity

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

infusion through receipt of advance against allotment of warrants and accretion of profits to reserves). Current ratio improved from below unity as on March 31, 2016 to 1.17x as on as on March 31, 2017.

Vast experience of the promoters in the wood panel industry: Promoters of RDL have over two to three decades of experience in the wood panel industry comprising plywood, laminates and other allied products. 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 32% of RDL's gross sales during FY17. Furthermore, the company has a well-established distribution network and sales team in India and abroad, which comprises five marketing offices, 14 consignment agents, 70 distributors and 2,150 dealers.

The company also has easy access to major raw materials for manufacturing of laminates and MDF board due to strategic location of its manufacturing facilities in Gujarat and Karnataka, which gives it a competitive advantage in terms of lower cost of raw materials and lower logistic expenditure.

Key Rating Weaknesses

Moderate exposure to volatility in foreign exchange rates; albeit natural hedge available: RDL has exposure to volatility in foreign exchange rates on its export receivables, albeit it enjoys a natural hedge on account of payments for imports and foreign currency debt (External Commercial Borrowings; ECBs). Furthermore, the company also uses Export Earner's Foreign Currency (EEFC) bank account and forward covers on its open foreign exchange exposure to mitigate this risk to a certain extent.

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 FY17, RDL's operating cycle remained high at 101 days while utilisation of its fund-based working capital limits remained at a moderate level of 63% for 12 months ended April 2017, partially supported by higher generation of internal accruals during the year on the back of improved profitability.

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. MDF industry however is completely organized.

Furthermore, in the domestic market, fortunes of laminates and MDF are linked to the real estate industry which is inherently cyclical in nature. However, the export demand of both these products is buoyant, which has helps RDL maintain steady growth in revenue due to its geographically diversified presence and different product offering.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy of 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, 2017, at its manufacturing facilities located in Gujarat (Gandhinagar) and Karnataka (Chikmaglur) respectively.

As per the audited results for FY17, RDL reported a total operating income (TOI) of Rs.308.78 crore with a profit after tax (PAT) of Rs.24.53 crore, as against a TOI of Rs.297.57 crore with a PAT of Rs.7.15 crore during FY16.

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.*

Analyst Contact
Name: Mr Ujjwal Patel
Tel: 079-40265649
Cell: 8511193123
Email: ujjwal.patel@careratings.com

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
Term Loan-Long-term	-	-	2020	61.14	CARE BBB+; Positive
Term Loan-Long-term	-	-	2017	0.23	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	51.00	CARE BBB+; Positive
Non-fund-based - ST-Letter of credit	-	-	-	33.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long-term	LT	61.14	CARE BBB+; Positive	-	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)	1)CARE BBB- (07-Jul-14)
2.	Term Loan-Long-term	LT	0.23	CARE BBB+; Positive	-	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)	1)CARE BBB- (07-Jul-14)
3.	Fund-based - LT-Cash Credit	LT	51.00	CARE BBB+; Positive	-	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)	1)CARE BBB- (07-Jul-14)
4.	Non-fund-based - ST-Letter of credit	ST	33.00	CARE A2	-	1)CARE A3+ (23-Dec-16) 2)CARE A3+ (04-Jul-16)	1)CARE A3+ (06-Jan-16) 2)CARE A3+ (27-Jul-15)	1)CARE A3 (07-Jul-14)

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691