Rushil Decor Limited

October 17, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	196.94	IVR A-/ Stable (IVR A Minus with Stable outlook)	IVR A-/ Stable (IVR A Minus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	44.00	IVR A2+ (IVR A Two Plus)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**240.94 (INR Two Hundred and Forty Crore and Ninety- Four Lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Rushil Decor Limited (RDL) continue to derive comfort from its long and successful track record under experienced promoters and management team with 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 satisfactory business performance of the company in FY24 [FY refers to the period from April 1 to March 31] and in Q1FY25 coupled with its improved capital structure and satisfactory 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. The ratings also consider the risks related to ongoing capex. The company is expanding its laminates production capacity by adding a new facility for jumbo size laminates in Mansa, Gujarat. Timely commissioning of the plant along with stabilization of operations, without any significant cost overruns, will be a key monitorable.

The stable outlook reflects that the company will maintain a stable operating performance and ensure adequate cash flow generation from operations to comfortably meet its debt obligations.

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 2x
- Significant delay in commissioning of the laminate plant resulting in higher-than-expected time or cost overrun/ any debt funded large capex leading to deterioration in capital structure with moderation in overall gearing to above 1.5x
- Elongation in the operating cycle impacting liquidity

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, Chairman, having an experience of more than three decades in the wood panel industry. Mr. Rushil Thakkar, son of Mr. Krupesh Thakkar, is the Managing Director of 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 ~28% to the total sales in FY24. Its major export destinations are Middle East countries as well as Asian markets.

- **Satisfactory business performance in FY24 & in Q1FY25**

  In FY24, total operating income remained stable at Rs.843.97 crore compared to Rs. 838.40 crore in FY23. Despite increase in sales volume, moderation in average sales realisation impacted revenue growth. EBITDA margin moderated from 17.82% in FY23 to 14.21% in FY24 mainly on account of rising raw material cost, specifically the wood cost and higher sales and marketing expenditure. Consequently, PAT margin and cash accruals have also moderated. Gross cash accruals decreased from Rs.115.47 crore in FY23 to Rs.78.18 crore in FY24. In Q1FY25, the company has achieved revenue of ~Rs. 224 crore. However, the company has witnessed moderation in its EBITDA margin on y-o-y basis in Q1FY25.

- **Improvement in capital structure and satisfactory debt protection metrics**

  The capital structure of the company strengthened following the fund raising of ~Rs. 107 crore through right issue in May 2023 and share warrant money received of Rs. 48.76 crore till June 2024 (out of total share warrant issue of Rs. 122.66 crore). Tangible Net worth improved to Rs.518.84 crore as on March 31,2024 from Rs. 339.15 crore as on March 31, 2023. This led to improvement in long-term debt equity ratio from 0.79x as on March 31, 2023 to 0.41x as on March 31, 2024 and overall gearing ratio from 1.02x as on March 31, 2023 to 0.57x as on March 31, 2024. Due to decrease in EBITDA level, interest coverage ratio moderated from 6.35x in FY23 to 3.72x in FY24. Moreover, total indebtedness as indicated by its TOL/ATNW also improved to 1.07x as on March 31, 2024 compared to 1.64x as on March 31, 2023.

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.

- **Exposure to risks related to project commissioning and stabilisation**
  The company is expanding its laminates production capacity by adding a new facility for jumbo size sheets (laminates) in Mansa, Gujarat. This facility will add 2.8 million jumbo-size laminate sheets per year to its existing production capacity. The total project cost for jumbo-size laminate project is estimated at Rs. 90.00 crore and it will be completed in two phases. Phase 1, costing Rs. 79.00 crore is scheduled for FY24-25, while Phase 2, costing Rs. 11.00 crore is scheduled for FY25-26. As on Jun 30, 2024, the company has already incurred Rs. 32.78 crore, funded through equity share warrants. Timely commissioning of the plant along with stabilization of operations, without any significant cost overruns, will be a key monitorable.
- **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 Thailand, 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**
  The company enjoys a natural hedging due to its imports and exports. 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 59-91 days during the last three fiscals.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

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 ~80% during the last 12 months ending July 2024 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 34.92 lakh sheets per annum for laminates at its manufacturing facilities located in Gujarat (Gandhinagar), 330000 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. Rushil Thakkar and is well supported by a team of experienced professionals. Further, RDL has incorporated a subsidiary Company (with 51% shareholding) having name Rushil Modala Ply Limited on 19th March, 2024 by entering Joint Venture Agreement with Modala Panels and Boards for the purpose of manufacturing plywood and other allied products in the state of Karnataka.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	838.40	843.97
EBITDA	149.39	119.93
PAT	77.67	43.11
Total Debt	375.78	295.78
Adjusted Tangible Net Worth	369.04	518.84
EBITDA Margin (%)	17.82	14.21
PAT Margin (%)	9.25	5.09
Overall Gearing Ratio (x)	1.02	0.57
Interest Coverage (x)	6.35	3.72

** Classification as per Infomerics' standards.*

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 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Sep 21, 2023	Sep 13, 2022	Aug 31, 2021
1.	Term Loans^	LT	111.94	IVR A-/ Stable	IVR A-/ Stable	IVR A-/ Stable	IVR BBB+/ Stable
2.	Working capital Fund based*	LT	85.00	IVR A-/ Stable	IVR A-/ Stable	IVR A-/ Stable	IVR BBB+/ Stable
3.	Letter of Credit^	ST	44.00	IVR A2+	IVR A2+	IVR A2+	IVR A2

* PC cum FBP/FBD of Rs. 36 crore; WCDL of Rs. 35 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: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans	-	-	-	Mar 2029	111.94	IVR A-/ Stable
Fund based Working Capital*	-	-	-	-	85.00	IVR A-/ Stable
Letter of Credit^	-	-	-	-	44.00	IVR A2+

* PC cum FBP/FBD of Rs. 36 crore; WCDL of Rs. 35 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: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Rushil-Decor-17oct24.pdf

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

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.