Press Release

Rushil Decor Limited

September 17, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	154.04 * (Reduced from Rs.159.78 crore)	IVR BBB+ (Credit Watch with Developing Implications) (IVR Triple B Plus under Credit watch with developing implications)	Reaffirmed (Under Credit watch with Developing Implications)
Long Term Bank Facilities – Cash Credit	85.00 (Enhanced from Rs.57.00 crore)	IVR BBB+ (Credit Watch with Developing Implications) (IVR Triple B Plus under Credit watch with developing implications)	Reaffirmed (Under Credit watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee/Letter of Credit	44.00 (Enhanced from Rs.33.00 crore)	IVR A2 (Credit Watch with Developing Implications) (IVR A Two under Credit watch with developing implications)	Reaffirmed (Under Credit watch with Developing Implications)
Total	**283.04**		

**Outstanding as on June 30, 2020*

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rushil Décor Limited (RDL) continues to derive comfort from its experienced promoters and management team with a 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 and extensive distribution network in geographically diversified business operations. The ratings also factor in its stable operating performance despite marginal moderation in top line in FY20 coupled with satisfactory financial risk profile and positive demand outlook of the home furnishing industry. These rating strengths are partially offset by susceptibility of its operating margin to raw material price fluctuation, exposure to foreign exchange fluctuation risk, on-going expansion project, working capital intensive nature of operations, moderation in capital structure in FY20 with moderate debt protection parameters and intense competition along with cyclical nature of the wood-panel industry. Further, Infomerics expects that the demand recovery will remain under pressure because of the weak macro-economic environment translating into lower spending and a potential change in the consumer behaviour due to the ongoing pandemic in the near term, at least. The demand recovery is likely to be very small and gradual. The ratings have been put under credit Watch with developing implications owing to deterioration in the financial performance during Q1FY21 coupled with delay in commissioning of the new MDF plant with cost overrun consequent to the outbreak of COVID-19 pandemic. However, the company is gradually gaining its sales momentum back since June,2020 and the commissioning of the new MDF plant is also running as per revised schedule. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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 parameter

Downward factors

- Dip in operating income or profitability impacting the debt coverage indicators, deterioration in working capital management and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.
- Further delay in achieving COD for the ongoing project leading to further cost overrun involved in the ongoing project.

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. Mr Ghanshyam Thakkar, promoter and whole-time director, have more than three decades of experience in this field. He is well supported by his son, 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 promoters

The promoters have supported the business by infusing funds as required in the form of unsecured loans (Rs.60.39 crore outstanding as on March 31, 2020 out of which Rs.53.60 crore are subordinated to the term loans and treated as a part of adjusted net worth) and have demonstrated positive commitments since inception.

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. RDL has established relationship with various nearby saw mills 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.

Geographically diversified business operations

The Export sales contributed about 30-35% of its total revenue over the past three years ending on FY20. RDL has a significant presence in the export market in its laminates segment. During FY20, exports accounted for around 66% of RDL's total laminate sales. Its major export destinations are Bangladesh, China, Middle East countries, US as well as European markets.

Stable operating performance in FY20 though marginal moderation in top line

Total Operating Income (TOI) witnessed a y-o-y decline of ~2% from Rs.344.33 crore in FY19 to Rs.336.39 crore in FY20 due to decline in volume sales as well as sales realisation of laminates in FY20 as compared to FY19. However, there was improvement in volume sales and realisation of MDF in FY20 as compared to FY19. The performance of the company has remained more or less on the same lines during the first three quarters of FY20. However, there was a significant decline in total income in Q4FY20 due to the outbreak of COVID 19 and the ensuing lockdown from March 22, 2020 due to which the sales for the last ten days of Q4FY20 got affected. This led to deterioration of EBITDA as well as EBITDA margin during Q4FY20. Also, during Q4FY20, the management had incurred a lot of expenses on business promotion and giving incentive schemes to the distributors in order to enable them to achieve their targeted sales for the year. This also fuelled the deterioration in profit margins in the last quarter of FY20. However, in spite of marginal deterioration in TOI in FY20 as compared to FY19, EBITDA margin on an average improved slightly from 10.81% in FY19 to 11.21% in FY20 on account of marginal decline in raw material and other operating cost in FY20 as compared to FY19. In spite of the improvement in EBITDA margin in FY20, PBT margin declined marginally from 6.51% in FY19 to 5.81% in FY20 on account of decline in non-operational income like forex gain, interest income, etc in FY20. However, PAT margin improved from 4.07% in FY19 to 6.80% in FY20 on account of deferred tax adjustment. GCA improved from Rs.22.96 crore in FY19 to Rs.24.38 crore in FY20. During Q1FY21, the financial performance of the company worsened with net loss due to the outbreak of COVID 19 pandemic impacting the demand coupled with shut down in its plants. However, the company is gradually gaining its sales momentum back since June,2020. Improvement in demand scenario and sales momentum is a key rating monitorable.

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 capital 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-vanila forward contract. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement (during FY19 and FY20, RDL earned profit on forex fluctuation of Rs.5.05 crore and Rs.1.26 crore respectively).

Delay in commissioning of the ongoing expansion project with involvement of cost overrun

The company has embarked an expansion project in Vishakhapatnam, Andhra Pradesh for manufacturing thin and thick MDF boards foreseeing the opportunities in this segment. The manufacturing unit will have an installed capacity of 2,40,000 CBM per annum (2.67x of its current capacity). RDL has achieved financial closure for the project. The project was initially expected to start commercial operations from April, 2020. However, the COD got delayed by one year i.e., April, 2021(duly approved by the bankers) due to the fact that the automation software for the main plant and machinery could not be installed since the engineers from Germany and China could not travel to the plant location on account of travel restrictions owing to the outbreak of COVID 19 during March, 2020. Hence, the commercial production came to a complete standstill. Due to delay in commencement, total project cost is revised at ~Rs.378.10 crore (inclusive of GST) with a cost overrun of Rs.37.30 crore which is to be funded through term loan/ECB/demand loan/ of Rs.252.90 crore, promoter's contribution/unsecured loans of Rs.93.70 crore and the balance through internal accruals. The cost overrun relates to the increase in cost of plant and addition of some equipment and the amount of GST that is included in the total project cost. However, GST paid will be adjusted against the GST liability once the commercial operation starts.

Till March 31, 2020 RDL had incurred a total cost of Rs.375.30 crore (~99% of envisaged total cost), which was funded through equity of Rs.40.00 crore, subordinated unsecured loan of Rs.53.60 crore, internal accruals of Rs.28.00 crore, ECB/term loans of Rs.232.80 crore and balance through unpaid suppliers. Considering the size of the project, RDL is exposed to project implementation and stabilization risk associated with completion of the project within envisaged time and cost parameters. Further, RDL is also exposed to any reduction in MDF sales realisations due to increase in MDF manufacturing capacity in the country going forward. However, favorable growth prospects of MDF partly mitigate the risk of sustained decline in sales realisations.

Moderate capital structure with moderate debt protection parameters

The long term debt equity ratio and the overall gearing ratio moderated from 0.57x and 0.79x respectively as on March 31, 2019 to 1.11x and 1.34x as on March 31, 2020 (considering the subordinated unsecured loan amounting to Rs.53.60 crore as quasi equity). The moderation in the capital structure was mainly due to elevated debt levels due to its ongoing capex initiatives for commissioning MDF manufacturing plant. As a result, Total debt to GCA also deteriorated from 8.32x in FY19 to 14.43x in FY20. However, interest coverage ratio remained healthy and improved marginally from 3.31x in FY19 to 3.80x in FY20. Despite rise in its debt level, RDL has maintained its total indebtedness at a satisfactory level as indicated by its TOL/ANW at 1.91x as on March 31, 2020 (1.32x as on March 31, 2019) backed by funds infused by the promoters in the form of subordinated unsecured loans. Moreover, comfort can be derived from the fact that the proposed MDF plant is expected to start its operation from April, 2021 and the repayment obligation for term loans taken for the capex is going to start from June, 2022 backed by the moratorium period of about 15 months. z

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 ~85% in the past 12 months ended July, 2020 indicating moderate liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the company had historically been adequate with consistent positive cash flow from operations over FY18-FY20 and current ratio at 1.11x as on March 31,2020. Further, RDL has sufficient cushion in accruals vis-à-vis its scheduled repayment obligations which stand at Rs.8.20 crore in FY21 and Rs.19.33 crore in FY22. Also, the company has a comfortable free cash and cash equivalents of Rs.9.73 crore as on July 31, 2020. Moreover, RDL's average utilisation of bank lines stood moderate at about 85% during the last 12 months ending July 2020 providing some liquidity buffer.

About the Company

Incorporated in 1993, RDL was promoted by the Ahmedabad (Gujarat) based Thakkar family under the guidance of 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 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. Ghanshyam Thakkar (whole -time director) along with his son Mr Krupesh Thakkar, (Managing Director) well supported by a team of experienced professionals.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	344.33	336.39
Total Income	352.23	339.13
EBITDA	37.24	37.71
PAT	14.33	23.05
Total Debt	191.10	351.76
Adjusted Net worth	241.00	263.48
EBITDA Margin (%)	10.81	11.21
PAT Margin (%)	4.07	6.80
Overall Gearing Ratio (x)	0.79	1.34

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr.	Name of	Current Rating (Year 2020-21)	Rating History for the past 3 years

No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	154.04 * (Reduced from Rs.159.78 crore)	IVR BBB+ (Credit Watch with Developing Implications)	IVR BBB+ / Stable Outlook (August 08, 2019)	-	-
2.	Cash Credit	Long Term	85.00 (Enhanced from Rs.57.00 crore)	IVR BBB+ (Credit Watch with Developing Implications)	IVR BBB+ / Stable Outlook (August 08, 2019)	-	-
3.	Bank Guarantee/Letter of Credit	Short Term	44.00 (Enhanced from Rs.33.00 crore)	IVR A2 (Credit Watch with Developing Implications)	IVR A2 (August 08, 2019)	-	-

Outstanding as on June 30, 2020

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: 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	154.04 * (Reduced from Rs.159.78 crore)	IVR BBB+ (Credit Watch with Developing Implications)
Long Term Bank Facilities – Cash Credit	-	-	-	85.00 (Enhanced from Rs.57.00 crore)	IVR BBB+ (Credit Watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee/Letter of Credit	-	-	-	44.00 (Enhanced from Rs.33.00 crore)	IVR A2 (Credit Watch with Developing Implications)

**Outstanding as on June 30, 2020*