

Press Release

10 May, 2017

Rainbow Stones Private Limited

Rating Reaffirmed

Total Bank Facilities Rated *	Rs.17.00 Cr
Long Term Rating	SMERA BB/ Outlook: Stable
Short Term Rating	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 17.00 crore bank facilities of Rainbow Stones Private Limited. The outlook is '**Stable**'.

Rainbow Stones Private Limited (RSPL), incorporated in 2006 is a Hyderabad-based company promoted by Mr. Bathula Venkat Reddy and Mr. Sagar Reddy Chapala. The company is engaged in the processing of granite rough blocks and exports to USA and Europe. The processing unit is located at Hosur, Tamil Nadu.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The company is engaged in the processing of rough granite blocks for more than a decade. The Directors, Mr. Gorre Linga Reddy, Mr. Bathula Venkat Reddy and Mr. Sagar Reddy possess more than two decades of experience in the granite processing business.

- **Healthy financial risk profile**

The financial risk profile is healthy marked by low gearing of 0.04 times as on 31st March, 2016 as against 0.79 times in the previous year. The interest coverage ratio improved from 4.86 times in FY2015 to 7.43 times in FY2016 due to improvement in profitability and decline in interest cost in FY2016. The tangible net worth of the company stood at Rs.12.66 cr as on March 31, 2016 as against Rs.11.07 cr in the previous year. The return of capital employed stood at 18.22 per cent in FY2016 as against 15.55 percent in the previous year.

Weaknesses

- **Modest scale of operation**

The company has modest scale of operations with operating income of Rs.48.98 cr in FY2015-16 as compared to Rs. 34.67 cr in FY2015. The company reported 41 percent revenue growth in FY2015-16 on account of increase in customer orders and higher capacity utilisation. The revenue stood at Rs.31.68 cr (provisional) in FY2016-17(10M).

- **Susceptibility of profitability to fluctuations in raw material prices**

The EBITA margin stood at 11.26 percent in FY2016 as compared to 14.15 percent in the previous year. The decline in margin is on account of high commission on sales in FY2016 against nil

commission paid in the previous year. The profitability is also susceptible to volatility in raw material prices i.e. granite blocks. The company exports 100 percent of its sales to USA and European countries. Hence, the profitability is exposed to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism.

• **Competitive and fragmented industry**

The granite industry is fragmented and the company faces intense competition from players like Pokarna Ltd, Bannari Amman Sugars Ltd, Pacific Industries Ltd and Aro Granite Industries Ltd.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that RSPL will maintain a 'Stable' outlook in the medium term on account of its long track record of operations and experienced management. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and effectively manages the working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue and profitability. Any deterioration in the liquidity position and financial risk profile may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2015-16, RCPL has reported profit after tax (PAT) of Rs.1.41 cr on operating income of Rs.48.98 cr, as compared with PAT of Rs. 0.99 cr on operating income of Rs. 34.67 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide release dated August 19, 2015 has suspended the ratings of RCPL on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Jan-2016	Packing Credit	Long Term	INR 15	SMERA BB / Stable
	Letter of Credit	Short Term	INR 2	SMERA A4+

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+

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ABOUT SMERA

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