

Press Release

Rainbow Stones Private Limited

June 05, 2018



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

Hyderabad-based, Rainbow Stones Private Limited (RSPL), incorporated in 2006 is promoted by Mr. Gorre Linga Reddy, Mr. Bathula Venkat Reddy and Mr. Sagar Reddy Chapala. The company is an export oriented unit engaged in the processing of granite rough blocks into polished slabs. Its sales are primarily to Europe and USA. The processing unit is located at Hosur, Tamil Nadu.

Key Rating Drivers

Strengths

- **Experienced Management and long track record of operation**

RSPL was established in the year 2006 and thus benefits from its long track record of operation. RSPL is managed by a board of three directors who are well experienced in this line.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by Networth of Rs. 13.27 crore as on March 31, 2017 as compared to Rs. 12.66 crore as on March 31, 2016. The Debt to equity ratio improved to 0.47 times as on March 31, 2017 from 0.67 times as on March 31, 2016. Total debt of Rs. 6.22 crore consists of packing credit facility. The DSCR (Debt Service Coverage Ratio) has improved and stood healthy at 11.47 times for FY16-17 from 7.07 times for FY 15-16 and 4.63 times for FY 14-15. Further, ICR (Interest Coverage Ratio) improved to 12.64 times for FY16-17 from 8.17 times for FY 15-16.

Weaknesses

- **Uneven trend of revenue**

The revenue of RSPL is uneven from FY 15-17. The turnover which stood at Rs. 34.67 crore for FY 14-15 improved to Rs. 49.07 crore in FY 15-16 and declined to Rs. 38.82 crore in FY 16-17. Further Revenue booked during FY 17-18(prov) is Rs. 30.75 crore. The decline in revenue is due to decline in demand for the products from European market.

- **Susceptibility of profitability to fluctuations in raw material prices and forex rates**

The EBITDA margin declined to 10.18 percent in FY2017 as compared to 12.53 percent in the previous year. The decline in margin is on account of increase in raw material prices. The company exports 100 percent of its sales to USA, European countries and Far and Middle East countries. Hence, the profitability is exposed to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism.

- **Stretched working capital position**

Although the inventory and debtors days in FY 2017 were 39 and 27 respectively, the creditors level was stretched at 323 days. Resultantly the current ratio stood at 0.76 times in FY 2017.

Analytical Approach

Acuité has considered stanalone business and financial risk profile of RSPL to arive at the rating.

Outlook: Stable

Acuité 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 may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	38.82	49.07	34.67
EBITDA	Rs. Cr.	3.95	6.15	4.91
PAT	Rs. Cr.	0.76	1.63	0.99
EBITDA Margin	(%)	10.18	12.53	14.15
PAT Margin	(%)	1.96	3.33	2.86
ROCE	(%)	7.22	12.91	9.42
Total Debt/Tangible Net Worth	Times	0.47	0.67	1.64
PBDIT/Interest	Times	12.64	8.17	4.86
Total Debt/PBDIT	Times	1.52	1.35	3.42
Gross Current Assets (Days)	Days	227	147	183

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-May-2017	Packing Credit	Long Term	15.00	ACUITE BB / Stable
	Letter of Credit	Short Term	2.00	ACUITE A4+
19-Jan-2016	Packing Credit	Long Term	15.00	ACUITE BB / Stable
	Letter of Credit	Short Term	2.00	ACUITE 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	ACUITE A4+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+

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About Acuité Ratings & Research:

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