

Press Release

Rainbow Stones Private Limited

July 23, 2019

Rating Reaffirmed and Withdrawn



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

* Refer Annexure for details

Rating Rationale

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

Further, Acuite has also withdrawn short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on Rs.2.00 crore bank facilities.

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

Analytical Approach

Acuite has considered standalone business and financial risk profile of RSPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established industrial presence**

RSPL has been in operations for more than a decade and has established its presence in granite industry. The promoters have experience of more than a decade in industry and has resulted in developing healthy relationship with customers and suppliers.

Acuite believes that promoters' entrepreneurial experience and healthy relationship with customers is expected to support its business risk profile over the medium term.

- Moderate financial risk profile**

The financial risk profile of the company is moderate marked by network of Rs.14.35 crore as on March 31, 2019 (prov) as compared to Rs.13.75 crore as on March 31, 2018. The Debt to equity ratio stood moderate at 0.18 times as on March 31, 2019 (prov) Total debt of Rs.2.63 crore consists of packing credit facility. The DSCR (Debt Service Coverage Ratio) stood healthy at 23.83 times for FY18-19 as compared to 14.44 times for FY17-18. Total outstanding liabilities to total network stood moderate at 2.07 times as on March 31, 2019 (prov) as compared to 2.40 times as on March 31, 2018.

Acuite expects that RSPL will maintain moderate financial risk profile in absence of significant debt funded capex.

Weaknesses

- Declining revenue trend owing to ongoing subdued demand conditions**

RSPL's operating income witnessed a declining trend over the past three years following a slowdown in demand from construction industry in the foreign market. The management adopted a conservative approach to protect its margins. The operating income stood at Rs. 25.54 crore in FY2019 (prov) as compared to Rs. 31.82 crore in FY2018 and Rs.49.07 crore in FY2017 on account of decline in demand.

- Elongated working capital mechanism**

The working capital cycle is stretched as reflected in high inventory of 89 days during FY2019 (prov) over 51 days during FY18. Further, the debtors' days also increased to 30 during FY19 (prov) from 25 days in FY18.

• Susceptibility of profitability to fluctuations in forex rates

RSPL is an 100% EOU (export oriented unit). It exports majorly to USA, European countries and Far and Middle East countries. However, the profitability is exposed to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism.

Liquidity Position:

RSPL has moderate liquidity position marked by no fixed debt obligation vis-à-vis positive net cash accruals. The company generated net cash accrual in the range of Rs.2.87 to 4.64 crore during FY2019 to FY2016. The bank limit remains ~50-60 % utilized over the last six months ended June 2019. The current ratio stood 0.82 times as on March 31, 2019 on account of high trade payables which includes advances received from customers as well. The liquidity profile is expected to remain adequate in absence of any debt funded.

Outlook: Stable

Acuite 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	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	25.54	31.82	38.82
EBITDA	Rs. Cr.	3.18	3.62	3.95
PAT	Rs. Cr.	0.67	0.64	0.76
EBITDA Margin	(%)	12.47	11.37	10.18
PAT Margin	(%)	2.63	2.02	1.96
ROCE	(%)	7.16	6.84	9.22
Total Debt/Tangible Net Worth	Times	0.18	-	0.48
PBDIT/Interest	Times	26.22	15.46	12.64
Total Debt/PBDIT	Times	0.80	-	1.52
Gross Current Assets (Days)	Days	223	193	159

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
05-Jun-2018	Packing credit	Long Term	15.00	ACUITE BB/Stable (Reaffirmed)
	Letter of credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
10-May-2017	Packing credit	Long Term	15.00	ACUITE BB/Stable (Reaffirmed)
	Letter of credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
19-Jan-2016	Packing credit	Long Term	15.00	ACUITE BB/Stable (Assigned)
	Letter of credit	Short Term	2.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing credit	Not Applicable	Not Applicable	Not Applicable	10.00 (Reduced from Rs.15.00 cr)	ACUITE BB/Stable (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Withdrawal)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022 49294041 aditya.gupta@acuite.in Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294045 bhanupriya.khandelwal@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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