

Press Release

Rainbow Stones Private Limited

October 05, 2020



Rating Reaffirmed

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

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the 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**'.

The rating reaffirmation draws comfort on account of extensive experience of promoters for over three decades, coupled with a comfortable financial risk profile with comfortable debt protection metrics supported by growth in profitability margins. The rating, however, remains constrained at the same level on account of high working capital-intensive operations driven majorly by a stretch in the payables, diversion of bank borrowings from debt payable to the creation of long-term assets and declining revenue since last three years from FY2017 to FY2020 (Prov).

About the Company

Hyderabad based, RSPL was incorporated in 2006 and is engaged in processing of granite rough blocks into polished granite slabs and exports primarily to Europe, USA, Australia, to name a few. The company is promoted by Mr. Bathula Venkat Reddy, Mr. Sagar Reddy Chapala and Mr. Gore Linga Reddy who have over three decades of experience in this industry. The processing unit is located at Hosur, Tamil Nadu.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of RSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established industrial presence**

RSPL, promoted by Mr. Bathula Venkat Reddy, Mr. Sagar Reddy Chapala and Mr. Gore Linga Reddy have over three decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. Exports account for ~99 percent of total sales. The Company exports primarily to Europe, USA, Australia, to name a few.

Acuité believes that promoter's entrepreneurial experience and healthy relationship with customers is expected to support the business risk profile over the medium term.

- **Comfortable financial risk profile**

RSPL's financial risk profile is comfortable marked by healthy gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), supported adequately by healthy debt protection metrics. The gearing stood at 0.00 times as on 31st March, 2020 (Prov) against 0.18 times as on 31st March, 2019. TOL/TNW is at 2.84 times as on 31st March, 2020 (Prov) against 2.39 times as on 31st March, 2019. Tangible net worth of the company stood modest at Rs.15.41 Cr as on 31st March, 2020 (Prov) against Rs.14.53 Cr as on 31st March, 2019. Debt protection metrics of interest coverage ratio and DSCR stood healthy at 30.85 times and 26.59 times, respectively in FY2020 (Prov) on account of moderate profitability margins of 13 percent. Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of modest networth against low bank borrowings supported by comfortable debt-protection metrics.

Weaknesses

- **Working capital intensive operations**

RSPL's operations are highly working capital intensive as highlighted by an increase in the GCA days of 347 days in FY2020 (Prov) from 292 days in FY2019. This is majorly driven by high inventory days and creditor's days. The high inventory days stood at 95 days in FY2020 (Prov) against 82 days in FY2019. The inventory policy followed by the company is generally 1-2 months to meet immediate orders of the customers. The creditors days stood further stretched at 1011 days in FY2020 (Prov) against 810 days in FY2019; since the payment is made based on proforma and the creditors also includes advances from customers. The company makes an advance payment to its suppliers or the payment is made based on proforma. The collection cycle followed by the company is in the range of 0 to 90 days as reflected by 0 days in FY2020 (Prov) against 13 days in FY2019 due to quick recovery from the customers. The working capital limits were not utilized through twelve months in FY2020 (Prov). Acuité believes that the working capital operations are expected to remain high with respect to the inventory and payable cycle and which will remain key rating sensitivity factors.

- **Declining revenues**

RSPL's operating income witnessed a declining trend since last three years from FY2017 to FY2020 (Prov) due to slowdown in demand from the construction industry in the foreign market. Coupled to that, the global outbreak of COVID-19 also leads to an impact on the revenues from Q4 of FY2020 onwards; the company couldn't sell their finished goods worth Rs.1.50 Cr-Rs.2.50 Cr during the end of March, 2020. The turnover of the company stood at Rs.25.50 Cr in FY2020 (Prov.) against Rs.38.82 Cr in FY2017. The company has achieved a turnover of Rs.9.73 Cr for 5M FY2021, which includes exported orders worth Rs.8.00 Cr to Europe from May, 2020 to September, 2020.

Since the company has favorable orders in hand worth Rs.3.00 Cr to Rs.4.00 Cr for September, 2020, the revenues and margins are expected to improve going forward due to increased orders from customers. However, due to the cascading impact of COVID-19 and subsequent slowdown in the construction sector in the foreign market, the revenues are expected to remain impacted.

- **Susceptibility of profitability to fluctuations in forex rates**

RSPL is a 100% EOU (export-oriented unit). It exports majorly to USA, European countries, Australia, to name a few. However, the profitability is exposed to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism.

Rating Sensitivities

- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity.
- Growth in revenue with the sustainability of the profitability margins.

Material Covenants

None

Liquidity: Adequate

RSPL has adequate liquidity, marked by adequate net cash accruals to no long-term repaying obligations. The company has generated cash accruals of Rs.2.74 Cr in FY2020 (Prov.) against no long-term repaying obligations for the same period. Going forward the net cash accruals are expected to be in the range of Rs.2.19 Cr to Rs.3.90 Cr against no repayment obligations through FY2021 to FY2023. The working capital limits remained unutilized through twelve months ending March - 2020. The current ratio stood at 0.55 times as on 31st March, 2020 (Prov). Unencumbered cash and bank balances stood at Rs.6.35 Cr as on 31st March, 2020 (Prov). The company has not availed any moratorium during the period of lockdown, i.e. April to June, under the RBI guidelines. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against nil repayment obligations.

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 lower than expected growth in revenues and profitability or in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	25.50	25.64
PAT	Rs. Cr.	0.89	0.64
PAT Margin	(%)	3.47	2.51
Total Debt/Tangible Net Worth	Times	0.00	0.18
PBDIT/Interest	Times	30.85	24.72

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-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jul-2019	Packing Credit	Long Term	10.00	ACUITE BB/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB/ Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Withdrawn)
	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ (Reaffirmed)
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	8.00*(Reduced from Rs. 10 Cr)	ACUITE BB/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

*PC/PCFC/EPC includes sublimit of OCC/ODBD to the extent of Rs.1.00 crore.

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About Acuité Ratings & Research:

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