

## Press Release

### Rainbow Stones Private Limited

November 18, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	ACUITE BB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	17.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.17.00 crore bank facilities of Rainbow Stones Private Limited (RSPL). The outlook is '**Stable**'.

### Rationale for reaffirmation

The rating reaffirmation takes into account the stable operating performance of the company marked by modest growth in operating income, stable profitability and moderate financial risk profile. RSPL's operating income improved to Rs. 27.68 Cr in FY22 as against Rs.24.35 Cr in FY21, while its profitability ranged between 8.92-10.58 % during the same period. The rating remained constrained by working capital intensive nature of operations of the company and the foreign exchange fluctuation risk.

### 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. The installed capacity is 1, 39,000 meters per annum. The company has purchased a new facility in Ongole, Andhra Pradesh.

### Analytical Approach

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

### Key Rating Drivers

### Strengths

## **Experienced management**

RSPL was incorporated in 2006 and is promoted by Mr. Bathula Venkat Reddy, Mr. Sagar Reddy Chapala and Mr. Gore Linga Reddy having 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 experience and healthy relationship with customers is expected to support the business risk profile over the medium term.

## **Stable operating performance**

The revenue of the company stood at similar levels at Rs.27.68 crore in FY2022 as against Rs.24.35 crore in FY2021. The revenue of the company till September 2022 stood at ~Rs.15 crores. The Company during the year FY2022 purchased a new facility at Ongole, Andhra Pradesh. The revenues from the new facility is expected to add to the top line FY2023 onwards. The operating profit margin of the company improved to 10.58 percent in FY2022 as against 8.92 percent in FY2021, driven by saving in employee and power costs during the year. The PAT margin of the company stood at 2.17 percent in FY2022 as against 1.98 percent in FY2021.

Acuité believes that the revenues of the company will improve in the medium term on account of the increased capacity due to the purchase of the Ongole factory.

## **Moderate Financial Risk Profile**

RSPL has a moderate financial risk profile marked by tangible net worth of Rs.16.04 crore as on 31 March 2022 as against Rs.15.45 crore as on 31 March 2021. The increase in the tangible net worth is due to accretion of profits in reserves. The gearing level of the company stood low at 1.03 times as on 31 March 2022 as against nil times as on 31 March 2021. The total debt of the company comprised of long-term debt of Rs.6.57 crore, unsecured loans from the director of Rs.2.90 crore and short-term debt of Rs.4.86 crores as on 31 March 2022. The company has taken the loan in FY2022 for the purchase of Ongole factory. The coverage ratios of the company stood healthy with Interest Coverage Ratio (ICR) of 6.92 times for FY2022 against 20.45 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 6.44 times for FY2022 against 18.95 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.46 times for FY2022 as against 1.92 times in FY2021.

Acuité believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of no major debt-funded capital expenditure.

## **Weaknesses**

### **Working Capital Intensive Nature of Operations**

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 372 days as on March 31, 2022 as against 442 days as on March 31, 2021. The inventory levels stood at 114 days for FY2022 compared against 105 days for FY2021. Average inventory holding period of finished goods of the company is ~60 days. The inventory holding period is higher as the company stocks up inventory of raw material i.e granite blocks to safeguard against its fluctuating prices. The debtor days improved to 10 days for FY2022 against 12 days for FY2021. Average credit period allowed to the customers is around 10-15 days. The company uses the packing credit facility, and the average utilization of the facility remains low at ~21 percent in last six months ended September 2022.

Acuité believes that the working capital operations of the company will remain a key rating sensitivity in medium term.

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

RSPL exports majority of its revenue to the markets of USA, Europe and Far and Middle East countries. However, the profitability is exposed to fluctuations in foreign exchange rates in the absence of adequate hedging mechanism

## **Rating Sensitivities**

Improvement in scale of operations while sustaining the profitability margins.

Any stretch in working capital operations leading to deterioration of its financial risk profile and liquidity.

### Material covenants

None

### Liquidity position: Adequate

RSPL has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.2.36 crore in FY22 compared against nil maturing debt obligations over the same period. The cash accruals of the company are estimated to remain in the range of Rs.2.48-4.46 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.1.97-1.50 crore during the same period. The company's reliance on working capital borrowings is also on a lower side marked by average utilization of working capital limits of ~21 percent during the last six months period ended September 2022. The company maintains unencumbered cash and bank balances of Rs.0.43 crore as on March 31, 2022. The current ratio stood below unity at 0.95 times as on March 31, 2022.

### 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	27.68	24.35
PAT	Rs. Cr.	0.60	0.48
PAT Margin	(%)	2.17	1.98
Total Debt/Tangible Net Worth	Times	1.03	0.00
PBDIT/Interest	Times	6.92	20.45

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Dec 2021	Packing Credit	Long Term	8.00	ACUITE BB ( Issuer not co-operating*)
	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ ( Issuer not co-operating*)
	Proposed Bank Facility	Long Term	7.00	ACUITE BB ( Issuer not co-operating*)
05 Oct 2020	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Packing Credit	Long Term	8.00	ACUITE BB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	7.00	ACUITE BB   Stable (Reaffirmed)
23 Jul 2019	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB   Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Withdrawn)
	Packing Credit	Long Term	10.00	ACUITE BB   Stable (Reaffirmed)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE BB   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.50	ACUITE BB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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