



Press Release
Rainbow Stones Private Limited
February 16, 2024
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	-	-

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 takes into account the established track record of operations as well as the moderate financial risk profile of the company marked by moderate network, moderate gearing levels and comfortable debt protection metrics. The rating is however constrained on account of moderation in the business risk profile of the company. The revenues of the company declined and stood at Rs.21.20 crore in FY23 as against Rs.27.68 crore in FY22. Further the company's revenues stood at Rs.14.95 crore in 9MFY24. The rating is further constrained due to the working capital intensive operations and the stretched liquidity position of the company. However, the liquidity position is expected to improve in the medium term as the company has prepaid majority of the long-term debt through infusion of funds by the promoters resulting in nil maturing debt obligations in the medium term.

Going ahead, RSPL's ability to improve its business risk profile in the medium term owing to the completion of the capacity expansion of the Ongole unit will remain a key monitorable.

About the Company

Hyderabad based, Rainbow Stones Private Limited 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 with 1,00,000 meters per annum capacity.

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

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.

Moderate financial risk profile

RSPL has a moderate financial risk profile marked by tangible net worth of Rs.16.42 crore as on March 31, 2023, against Rs.16.04 crore as on 31 March 2022. The increase in the tangible networth is due to accretion of profits in reserves. The gearing level of the company stood at 1.36 times as on 31 March 2023 against 1.03 times as on 31 March 2022. The total debt of the company comprised of long-term debt of Rs.5.19 crore, unsecured loans from the director of Rs.5.51 crore and short-term debt of Rs.10.06 crores as on 31 March 2023. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 3.38 times for FY23 against 6.92 times for FY22. The Debt Service Coverage Ratio (DSCR) stood at 1.18 times for FY23 as against 6.43 times for FY22. The DSCR is expected to improve in the medium term on account of prepayment of the long term loan and no further plans of any debt funded capex. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.88 times for FY23 against 2.46 times for FY22. Acuité believes that the financial risk profile of the company is likely to remain moderate in medium term.

Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 611 days as on March 31, 2023, as against 372 days as on March 31, 2022. The inventory levels stood at 213 days for FY23 against 114 days for FY22. Average inventory holding period of the company is 60 days. The inventory is high as the company purchases and stores more blocks to safeguard from the fluctuating granite blocks prices. The inventory days stood at 124 days as on December 2023. The debtor days and stood at 74 days for FY23 against 10 days. Average credit period allowed to the customers is around 10-15 days. Although the debtors days stood high in FY23, majority of funds have been realised and the debtors days stood at 36 days as on December 2023. The creditor days of the company stood at 1150 days in FY23 against 456 days for FY22. The average credit period received from the suppliers is around 2-3 months. The company also categorizes the advances from customers in creditors and hence the creditors days are high. The company uses the packing credit facility and the average utilization of the facility remains moderate at ~43 percent in last six months ended January' 24. Acuité believes that the ability of the company to improve the working capital operations will remain key monitorable 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 further stretch in working capital operations leading to deterioration of its financial risk profile and liquidity.

Liquidity position: Stretched

RSPL has a stretched marked by average cash accruals generation of Rs.2.53 crore in FY23

compared against maturing debt obligations of Rs.1.97 crore over the same period. Further, it has working capital intensive nature of operations marked by high GCA days of 611 days as on March 31, 2023.. The cash accruals of the company are estimated to remain in the range of Rs.3.04-3.66 crore during 2024-25 period against nil maturing debt obligations over the same period. The company maintains unencumbered cash and bank balances of Rs.0.44 crore as on March 31, 2023. The current ratio stood below unity at 0.97 times as on March 31, 2023.

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 position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	21.20	27.68
PAT	Rs. Cr.	0.39	0.59
PAT Margin	(%)	1.85	2.13
Total Debt/Tangible Net Worth	Times	1.36	1.03
PBDIT/Interest	Times	3.38	6.92

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

Not Applicable

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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Nov 2022	Packing Credit	Long Term	9.50	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BB Stable (Reaffirmed)
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*)

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 avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.56	ACUITE BB Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	02 Mar 2022	Not avl. / Not appl.	02 Sep 2027	Simple	0.44	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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