



ICRA Limited

An Associate of Moody's Investors Service

Date: May 6, 2011

Mr. Vipul Vora
Vice President- Finance and Accounts
Rushil Decor Limited
1, Krinkal Apartment,
Mahalaxmi Society
Paldi
Ahmedabad-380007
Gujarat

Dear Sir

Re : ICRA Grading of Initial Public Offer of 5643750 nos. Equity Shares of Rs. 10 each to be issued by Rushil Decor Limited to the Public ("IPO")

Please refer to your mandate letter dated July 31, 2010 for grading the IPO of Rushil Decor Limited. The Rating Committee of ICRA, after due consideration, has assigned the "IPO Grade 2"* (pronounced as Initial Public Offer Grade two) to the captioned IPO programme. This provisional grading indicates below-average fundamentals.

We are enclosing herewith the Credit Perspective (CPR) for assigning IPO Grade 2 to the captioned IPO programme.

With kind regards,

Yours sincerely,
for ICRA Limited

Sabyasachi Majumdar
Vice President

**IPO fundamentals are graded on a five point scale from Grade 5 (indicating strong fundamentals) to Grade 1 (indicating poor fundamentals)*

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RUSHIL DÉCOR LIMITED

Issue Details

Rushil Decor Limited (RDL) is proposing to come out with an Initial Public Offer of 56.44 lakh shares of face value Rs. 10/- each, through 100% book building route. Of the total issue, 50% is reserved for QIBs, 15% for non-institutional investors and 35% for the retail investors. Post IPO, the shares will be listed on the NSE & BSE.

Proposed Use of IPO Proceeds

The net proceeds of the issue are proposed to be used for the following purposes:

- Part finance the setting up of manufacturing facility of Medium Density Fibre (MDF) board at Chikamagalur in Karnataka
- Margin money for working capital
- General corporate Purpose and issue related expenses

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IPO Grading

ICRA has assigned an IPO Grade 2 indicating below-average fundamentals to the proposed initial public offering of Rushil Decor Limited (RDL). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include inter alia business and competitive position, financial position and prospects, management quality, corporate governance and history of compliance and litigation.

Disclaimer: Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timelines, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA is provided on an "as is" basis, without representations and warranties of any nature.

Website:
www.icra.in

Strengths

- Experienced promoters with long track record in the wood panel industry
- Favourable demand outlook for engineered wood products (EWP) driven by strong growth in furniture and construction segments
- Diversification into particle and Medium Density Fibre (MDF) board will improve the product mix and profitability of the company

Concerns

- Competitive pressures arising from intensely competitive and fragmented nature of the industry and RDL's limited bargaining power owing to moderate scale of operations
- Vulnerability of RDL's profitability to adverse movements in raw material prices and foreign exchange movements
- Availability and pricing of raw material may be impacted by adverse agro-climatic conditions
- High working capital intensity of operations to put pressure on cash flows of the company
- Execution risks arising from the expansion plans of the company in the MDF segment which is exacerbated by the company's limited track record in that segment and the size of the expansion relative to RDL's current scale of operations

Grading Rationale

The IPO grade assigned by ICRA reflects the favourable demand outlook for engineered wood products driven by strong growth in furniture and construction segment, RDL's long track record in the wood panel industry and improvement in product mix owing to diversification into particle board and MDF business. The grading is however constrained by the intensely competitive nature of the industry and the vulnerability of the industry to changes in regulation by Central Empowered Committee (CEC). The grading also reflects RDL's moderate scale of operations, risk of raw material availability in case of adverse agro-climatic conditions, vulnerability of RDL's profitability to adverse movement in raw material prices and foreign exchange risk on export receivables. Going forward, the company's ability to achieve the desired production and sales in the new particle board and MDF project will be the key to its future growth and profitability.

Entity Profile

Rushil Decor Limited (RDL) is a part of the Ahmedabad based Rushil group engaged in the manufacturing and sales of laminated sheets. The company was promoted by Mr. Ghanshyambhai Thakkar in 1993 as a private limited company. In 2005, the promoters merged other group companies namely Mica Rushil Private Limited and Rushil High Pressure Laminates Private Limited which were in the same line of business. In 2007, RDL was converted into a public limited company and its name was changed to Rushil Décor Limited.

RDL started as a manufacturer of laminated sheets with an installed capacity of 8.4 lakh sheets per annum which has increased to 30 lakh sheets per annum as on date. In 2009, RDL diversified into the manufacturing of Plain Particle Board. Currently the company is setting up a MDF unit at Chikmanglur, Karnataka.

Promoters and Management

The company has been promoted by Mr. Ghanshyambhai Thakkar (66) who is the executive chairman of RDL. He holds Bachelor of Science Degree from Gujarat University and holds Diploma in Civil Engineering from Department of Technical Education from Gujarat State. Mr. Krupesh Thakkar, son of Mr. Ghanshyam Thakkar, is the managing director of the company. He has done B Com from Gujarat University and has been conferred with several accolades like Rajiv Gandhi Shiromani Award, Indira Gandhi Sadbhavna Award from Government of Sikkim and Tamil Nadu. He is also the president of Laminated Manufacturers Association.

The promoters have also inducted professionals to manage the day-to-day affairs of the company. However, the promoters play an active role in the company's management and decision-making.

Currently, the promoters hold 88.58% stake in the company, which will come down to 55.55% post-issue.

Table 1: Shareholding Pattern

Category	Pre Issue	Post Issue
Promoters & Promoter Group	88.58%	55.55%
Independent director	1.87%	1.14%
Relative of an independent director	9.55%	5.81%
Public	-	37.50%

Corporate Governance

The Board of Directors comprises of five directors of which three are independent directors. The board is broad based with directors having skill sets and experience in diverse fields. The company has constituted three committees to comply with corporate governance requirements which include Audit committee, Shareholders'/Investors' Grievance Committee and the Remuneration Committee all of which are chaired by independent directors.

Business and Competitive Position

Positive demand prospects for the wood panel industry driven by strong growth in furniture and construction sectors

The largest use of wood panel products is in construction and real estate industry. The demand for wood panel products is likely to grow at a healthy pace in the long-term driven by growth in construction and furniture demand. However the industry also remains exposed to cyclicity inherent in real estate business.

RDL's current product mix is dominated by laminated sheets, going forward the product profile will be more diversified with the stabilization of particle board unit and setting up of MDF unit

RDL is a small sized player in the wood panel industry with net sales of Rs. 95.46 crores in FY10. The company's primary area of operations is laminate sheets which contribute around 95% of the total sales of the company. The company produces a large variety of sheets like industrial sheets, decorative sheets etc to cater to the consumption patterns of different customers. Though the company has sizable laminate manufacturing capacity, its concentration on a single product has resulted in moderate scale in terms of turnover.

RDL is now diversifying its product base by venturing into particle board and MDF boards. The particle board unit became operational in November 2009 and MDF board unit is expected to commence production in October 2011. RDL's diversification into related product categories is likely to improve the product mix and profitability of the company going forward.

Capacity utilisation in laminates business has remained stable over the last four years; however the company's ability to ramp up production in particle Board unit will be critical

RDL has an installed capacity of 30 lakh laminate sheets per annum. The production of laminate sheets has remained fairly stable over the last four years owing to stable demand and established market for RDL's products.

Table 2: Installed capacity and production

	FY10	FY09	FY08	FY07
Laminates				
Installed capacity (lakh sheets)	30.00	30.00	30.00	30.00
Production (lakh sheets)	22.93	22.82	22.33	23.44
Particle Board				
Installed capacity (sq metre)	-	-	-	13,76,000

Production (sq metre)	-	-	-	2,35,959
Utilisation (%)	-	-	-	41%*

*Particle Board unit became operational in Nov 2009; hence production data is only for five months

The particle board unit started with monthly capacity utilisation of 30-40%. The production and sales volume of RDL's particle board has picked up since then. Going forward, RDL's ability to achieve the desired production and sales volume in its particle board and MDF unit will be the key to its future profitability.

Raw material is seasonal in nature and its availability will depend on crop production in adjoining areas; moreover variability in prices of petrol based chemicals like methanol, phenol etc increases the raw material price risk for the company

RDL's particle board unit uses cotton stalk as the raw material. The company sources raw material from near-by areas which are abundant in cotton stalk. However since cotton is seasonal in nature, the company has to maintain adequate stocks during off-season to sustain production throughout the year. Thus the working capital requirements will increase as the PB unit starts operating at full capacity. Apart from seasonality, cotton stalk availability will also depend on crop production in any particular year and may be impacted in case of crop failure.

The basic raw materials required for manufacturing decorative laminates are design paper, Kraft paper and chemicals like melamine, formaldehyde, phenol and methanol etc. The company procures kraft paper domestically while decorative paper is mainly imported from abroad. The main chemicals required for manufacture of laminates are phenol, methanol and melamine which are sourced from domestic as well as international markets depending on pricing and credit terms.

The company is exposed to raw material price risk as chemicals like phenol, methanol and melamine are petro products and are highly price sensitive.

Risk of foreign exchange fluctuation on export receivables as well as imported raw materials, the company enters into forward contracts to protect against forex risk

RDL is exposed to foreign exchange risk on export receivables. RDL's exports are denominated in dollars while its imports are in different currencies like USD, Euro and Yen. The company enters into Euro-dollar and Euro-Yen cross currency contracts and then hedges its net dollar receipts. The company enters into forward and plain vanilla (option) contracts to hedge against forex risk.

New Projects –Risk & Prospects

RDL is setting up a MDF unit with an installed capacity of 90,000 cu m at Chikmagalur, Karnataka. The total cost of the project is Rs. 67.28 crores which is proposed to be financed through rupee term loan of Rs. 14 crores, external commercial borrowing of Rs. 30 crores and IPO proceeds of Rs. 23.28 crores. The debt for this project has already been tied up. However any delay in raising funds through IPO may affect the project funding.

Table 3: Project cost and means of finance

Projects Cost (Rs. Cr)	
Land and land development	1.00
Building and civil construction	7.20
Plant and machinery	47.42
Miscellaneous fixed assets	0.25
Preliminary and pre-operative expenses	5.00
Contingency	3.04
Working capital margin	3.37
Means of finance (Rs. Cr)	
Term loan	44.00
IPO proceeds	23.28

As far as the project execution is concerned, the company has already obtained the license required from CEC for setting up an MDF manufacturing unit. RDL has incurred Rs. 48.47 crores on this project as on April 23, 2011. RDL has placed the order for the MDF plant with Shanghai Wood Based Machinery Company Limited, China. The project is expected to commence commercial production in October 2011.

The diversification into MDF manufacturing will lead to a more diversified product mix for the company. Moreover since margins in MDF are higher than laminates business, the profitability of the company is

expected to improve. However the size of the project is large compared to RDL's current sale of operations which increases the execution risk for this project.

The demand for MDF/PB is growing at a healthy pace particularly in commercial real estate segment owing to their lower cost. Currently, the demand for MDF in India is mainly met through imports. Domestic producers like RDL have a competitive advantage vis-à-vis imports as they save on transportation costs as well as custom duties and import handling charges. The domestic producers have further benefitted with the imposition of anti-dumping duty on thick MDF boards (6mm and above). Thus the demand outlook for domestic manufacturers is positive. However competition in this segment is intense not only from imports but also from substitute products like particle boards. Thus the company's ability to maintain the sales momentum and gain adequate margins on the product will be the key factors.

Financial position

Profitability & Earnings:

Table 4: Key Profitability Indicators

In Rs. Million	FY 2010	FY 2009	FY 2008	FY 2007
Operating Income	99.86	95.02	77.45	72.83
OPBDIT	12.78	10.71	8.40	8.30
OPBDIT / OI (%)	12.80%	11.27%	10.84%	11.40%
PAT	3.51	2.78	2.02	2.58
PAT / OI (%)	3.52%	2.93%	2.60%	3.54%
ROCE (%)	16.19%	17.18%	14.97%	25.75%
RONW (%)	16.51%	15.22%	13.11%	30.36%
EPS (Rs./ share)	4.01	3.31	2.53	3.73

Source: Annual report

The operating income of the company has grown at a compounded annual growth rate of 11% during the period FY07 to FY10. The operating margins which were in the range of 10.5-11.5% over the last three years improved to 12.80% in FY10 owing to lower raw material cost. Higher turnover and operating margins led to increase in operating profits in FY10. This coupled with less than commensurate increase in depreciation and interest costs resulted in increase in PAT to Rs. 3.51 crores from 2.78 crores in FY09.

Financial Leverage:

Table 5: Capitalization Ratios

In Rs. Million	FY 2010	FY 2009	FY 2008	FY 2007
Total Debt	58.71	45.16	32.72	27.63
Net Worth	21.49	21.04	15.54	15.22
Total Debt / Net Worth	2.73	2.15	2.11	1.82

Source: Annual report

The gearing of the company has increased from 2.15 times as on March 31, 2009 to 2.73 times as on March 31, 2010 owing to debt contracted for setting up the particle board unit as well as higher working capital borrowings. Given the working capital intensive nature of business, the gearing levels are expected to remain high.

Cash Flows:

Table 6: Cash Flow Ratios

In Rs. Million	FY 2010	FY 2009	FY 2008	FY 2007
Fund Flow from Operations (FFO)	-7.09	2.93	-4.49	11.56
Gross Cash Flows	-10.47	-1.41	-9.37	7.03
Retained Cash Flows	-10.58	-1.41	-11.17	4.83
Free Cash Flows	-29.06	-3.23	-15.39	-13.78

Source: Annual report

The company's gross cash flows have been negative in the past three years because of low/ negative cash flow from operations and high interest payments. The free cash flows have been further impacted owing to capital expenditure incurred for the particle board unit in the last two years.

Compliance and Litigation History

Accounting Policy:

RDL prepares its financial statements on historical cost basis and based on accrual method of accounting and applicable Accounting Standards issued by Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

Litigation History:

There are a few civil cases pertaining to excise, income tax and service tax that are pending against the company. However, the amounts involved are not material.



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