

## MANAGEMENT DISCUSSION AND ANALYSIS

### FORWARD-LOOKING STATEMENT

Statements in this Management Discussion and Analysis of financial condition and results of operations of Rushil Décor Limited describing the Company's objectives, expectations or predictions may be forward-looking within the meaning of applicable securities laws and regulations. Forward-looking statements are based on certain assumptions and expectations of future events.

Rushil Décor Limited cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company assumes no responsibility to publicly amend, modify or revise forward-looking statements, on the basis of any subsequent developments, information or events. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include changes in Government regulations, tax laws, economic developments within the country and such other factors globally.

The financial statements are prepared under historical cost convention, on accrual basis of accounting, and in accordance with the provisions of the Companies Act, 2013, (the Act) and comply with the Indian Accounting Standards as pronounced by the Institute of Chartered Accountants of India (ICAI) from time to time.

The Management of Rushil Décor Limited has used estimates and judgments relating to the financial statements on a prudent and reasonable basis, in order that the financial statements, reflect in a true and fair manner, the state of affairs and profit for the year.

The following discussions on our financial condition and result of operations should be read together with our audited financial statements and the notes to these statements included in the annual report. Unless otherwise specified or the context otherwise requires, all references herein to 'we', 'us', 'our', 'the Company', 'Rushil Décor' are to 'Rushil Décor Limited'.

### INDIAN ECONOMY OVERVIEW

The sudden outbreak of Covid-19 in 2020-21 brought the entire world to a point of cessation. Its ramification on health, social, education and business has been so profound that the pandemic's impact is still beyond human evaluation. The fear of the virus spread was so overwhelming that in no time most nations sealed their respective borders, imposed lockdowns, and directed all their efforts to ensure the safety of their citizens. In turn, the global trade and commerce suffered severe setback, reversing the growth trajectory for many emerging economies, including India.

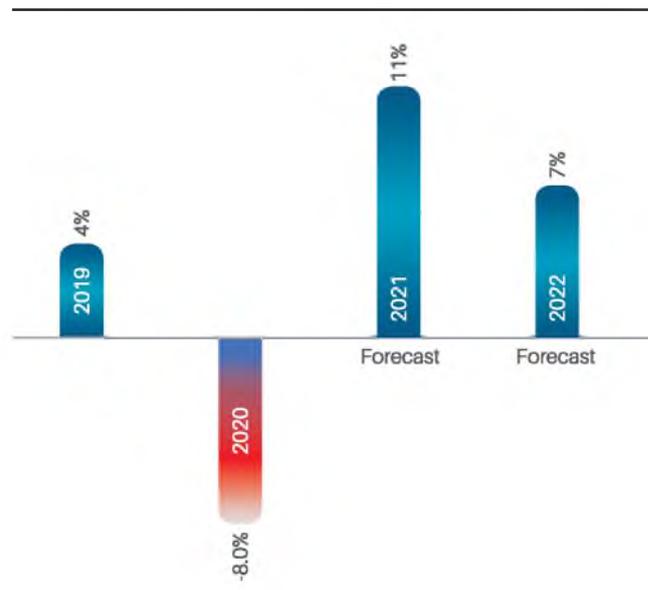
Though India registered a minimal growth of 0.4% in the

third quarter and 1.6% growth in the fourth quarter, the overall GDP for 2020-21 contracted by 7.3% as against positive growth rate of 4% in 2019-20. The first nationwide lockdown from 25<sup>th</sup> March, 2020, led to widespread panic, stalling the economic growth engines of the country for months. Though activities in rural areas especially those related to agriculture continued more or less unimpeded due to lesser restrictions, the urban areas bore the brunt of the full-fledged lockdown and the rising number of Covid-19 cases. As a result, the GDP growth of the services sector fell by 16% and the manufacturing sector contracted by 7.2% in the same fiscal (Sources: <https://www.financialexpress.com/economy/impact-on-indian-economy-after-the-covid-19-second-wave/2275353/>, <https://www.ciiblog.in/economy/indias-economic-performance-during-2020-21/>).

### OUTLOOK

The economy is on the course of revival despite the widespread second wave of Covid-19 that hit India towards the end of 2020-21. Asian Development Bank estimates that the Indian economy is likely to grow at the rate of 11% in 2021-22. This growth would come on the back of the Government's fiscal stimulus worth ₹ 29.87 Lacs Cr., entailing growth in industrial production as well as income levels, gradual lifting of lockdown restrictions, large-scale vaccination drives and release of pent-up demand (Source: <https://www.thehindubusinessline.com/data-stories/data-focus/whats-influencing-the-size-of-indias-covid-19-relief-stimulus/article33171458.ece>).

GDP Growth Rate: India (% per year)



(Source: GDP Growth Rate: India: Asian Development Bank <https://www.adb.org/countries/india/economy>)

## Management Discussion and Analysis (Contd.)

As a nation of 1.39 Billion people, India has demonstrated quicker recovery trends in demand as far as consumption of staple commodities, high-end necessities such as electronics, home furnishing as well as luxurious goods such as automobiles are concerned. Especially, the demand for home décor and electronics has been steadily climbing up, as people have been forced to remain within the confines of their homes due to the lockdowns and their swift adoption of the work-from-home trend.

Rapid urbanization has also contributed to exponential growth in the real estate sector. It is estimated that there is a shortage of around 10 Million housing units in urban India. According to industry research, supply of additional 25 Million units by 2030 is required to meet the growing urban demand. This growth potential is expected to percolate to allied industries such as consumer goods and home décor industries (Source: <https://www.ibef.org/industry/real-estate-india.aspx>).

The size of the Indian furniture market is estimated to be around USD 25-30 Billion. As more and more people take to revamp their homes to adapt to their changing working styles, the demand for smart, sophisticated and comfortable furniture has seen an upward trend. Also, with higher disposable income, the span of home refurbishing cycle has gone down from 15 to 20 years a generation ago to five to seven years. Higher penetration of online home décor platforms such as PeperFry, FabFurbish and Urban Ladder has contributed further to the demand of ready-to-assemble (RTA) furniture. (Source: <https://retail.economictimes.indiatimes.com/news/home-and-decor/furniture-and-decor/wfh-brings-new-home-furniture-and-design-trends/79693646>).

India imports more than half of its total furniture requirements from China. Hence, the Department for Promotion of Industry and Internal Trade is planning to provide tax breaks to domestic furniture manufacturing units to make India more self-reliant in this space. The combined growth of real estate as well as home décor industries presents a huge scope for the synergetic growth of domestic wood panel industry as well (Source: <https://economictimes.indiatimes.com/news/economy/policy/incentives-for-furniture-manufacturing-in-the-works/articleshow/81087447.cms>).

### 1. Industry Structure and Development

The furniture industry can be segmented into many bases. Based on real estate, it can be classified into furniture for commercial spaces, homes, and hospitality sector. Out of these categories, the furniture for homes claims a lion's share in the total market.

Based on materials used, the furniture industry is categorised into wood and engineered wood panels, glass, metal, cane, acryl, plastic and others. Again, wood and wood-based products (which include engineered wood panels such as Medium Density Fibreboard, plywood, particleboard - all processed from raw timber) garner a larger market share. This is principally due to wood being a durable nature-based product and being abundant in supply.

Furniture made out of wood panels such as plywood, Medium Density Fibreboard (MDF) and particle board have higher acceptability with masses as wood panels are eco-friendly and are a cheaper alternative to pure wood. Also, they are highly durable and render themselves suitable to manufacturing light-weight, stylish and multipurpose furniture. Beyond offering functional value, the furniture made out of engineered wood panels such as MDF, plywood also adds to the style and comfort quotient of the contemporary homes (Source: <https://www.gmiresearch.com/report/wood-based-panel-market/>, <https://www.grandviewresearch.com/industry-analysis/furniture-market>).

### Wood Panel Industry

The wood panel industry is on the cusp of healthy expansion as the principal component for furniture manufacturing in India. A robust growth in the residential real estate sector and accompanying demand for trendy furniture are unanimously tilting the scales in the favour of this industry. As per Televisory report, the size of the wood panel industry in India is ₹ 28,000 Cr. and is estimated to grow at 10% to 12%.

The wood panel industry mainly comprises:

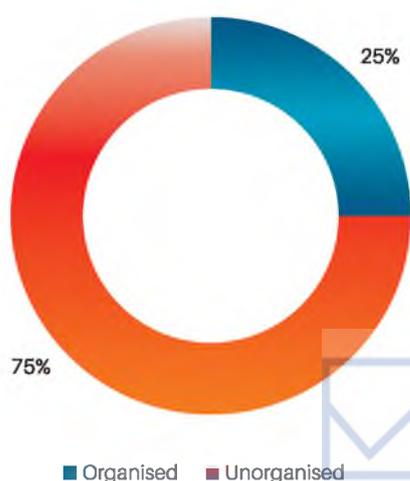
- Plywood
- Medium Density Fibreboard (MDF)
- Particleboard

These are also known as 'engineered wood', as they are processed from raw timber. As a cheaper, more durable, and eco-friendly alternative to wood, these products are gaining traction in the market. They are highly suitable to cater to the market demands of lightweight, multipurpose furniture that confirms to the up-market style in vogue. The demand for wood panels have received yet another boost in tandem with demand for smart furniture during lockdown as many households have switched to work-from-home mode and children have been attending schools online from their homes

## Management Discussion and Analysis (Contd.)

(Sources: <https://www.televisory.com/blogs/-/blogs/indian-wood-panel-industry-growth-drivers-and-present-trends>, <https://www.mordorintelligence.com/industry-reports/wood-furniture-market-in-india>).

India's plywood and panel industry is highly fragmented and unorganized given the low barriers to entry.



### Medium Density Fibreboard

The use of Medium Density Fibreboard (MDF) is increasingly finding market acceptance over plywood globally and India is no exception. Its global market size is estimated at 105.16 million cubic meters in 2020. It is expected to witness a CAGR of 4% in the period of 2021-2026.

MDF is produced by processing raw wood under heat and pressure, adding a synthetic adhesive, along with agrofibers, recycled wood and other wood by-products. This makes it an economically priced, durable and eco-sensitive alternative to wood. MDF has become a preferred choice for furniture manufacturers because:

- It gives very high-quality finishing
- It is suitable for precise machining techniques
- It is apt for manufacturing modern, branded, low-maintenance furniture
- It is suitable for the entire range of home furniture such as modular kitchen, wardrobes and others
- It is priced 50% cheaper than premium quality plywood and 25% to 30% cheaper than mid-range plywood

(Sources: <https://www.mordorintelligence.com/industry-reports/medium-density-fiberboard-mdf-market>)

In India, MDF has penetrated all the regions in terms of market presence and is rapidly advancing in terms of both consumer demand as well as production capacity. The production capacity has grown by more than 12x from 400 CBM to 5,000 CBM by the end of 2019. Due to sustained momentum in demand as well as prices, manufacturers are getting a clear revenue visibility, despite some price war in the market space. The capacity utilization in the industry has also gone up by 15% to 20%.

Industry experts believe that demand for MDF will match the increase in production capacity within the next couple of years. MDF's market share will further bolster with the rising prices of Poplar Timber, a chief source of economy grade plywood in North India. Further, the Director General of Trade Remedies (DGTR) has endorsed continuation of ADD (definitive anti-dumping duty) on imports of thick MDFs, chiefly from Malaysia, Thailand, and Sri Lanka. This bodes well for the domestic manufacturers in terms of capturing higher market share and avoiding aggressive price cuts (Source: <https://www.plyreporter.com/article/51172/Is-MDF-Replacing-Plywood>, <https://www.sawdust.online/industry-trends/mdf-chequered-past-bright-future/>).

### Laminate Sheets

Decorative laminates are extensively used in enhancing the aesthetic appeal of the décor as well as lend a degree of protection to wooden furniture. Laminates have a widespread use in building and construction activities, especially in the home interiors, as they are made by pressing together layers of paper firmly to the required thickness, printed with a decorative design on the top. Their longevity and sturdiness render them fit for use as a protective layer over major parts of home furniture such as cabinets, walls, doors and tabletops. New technological and design innovations add new dimensions of safety to laminates such as scratch-free or fire-proof laminates.

Available in a wide variety of attractive designs, striking colours and finishes such as matt or glossy, decorative laminates have become an essential element of urban home décor. The global market size for decorative laminates is estimated to be worth USD 91,015.03 Million by 2025, registering a CAGR of 5.3%. On the global demand map for decorative laminates, China and India are leading from the front as their huge demand emanates from their enormous population base, growing urbanization and mass-

## Management Discussion and Analysis (Contd.)

scale construction activities in residential as well as commercial real estate sector (Source: <https://www.marketresearchfuture.com/reports/decorative-laminates-market-2363>).

It is estimated that Indian plywood and laminates market would register an impressive CAGR of 4.83% till 2027 and reach the market value of USD 7,323.3 Million. Apart from voracious consumer demand, implementation of tax reforms such as GST is expected to aid the organized manufacturers capture a larger market share as against their unorganized counterparts. Despite headwinds in the form of the Covid-19 pandemic, lockdowns and stagnation of construction activities, additional capacity of about 30 million is expected to be created in India in 2020 (Source: <https://www.researchnester.com/reports/india-plywood-and-laminates-market/2366>, <https://www.plyreporter.com/article/71799/indian-laminate-industry-20-new-presses-in-2020> and Internet).

### Poly Vinyl Chloride Boards

Poly Vinyl Chloride (PVC) is a high-strength synthetic resin made from the polymerization of vinyl chloride. It is in very high demand in building and construction industry because of its multifaceted use in windows, doors, sidings, roofs, wires, cables, pipes and fittings. Such a wide variety of applications emerges from PVC's safety, quality, durability and cost effectiveness as a material. PVC is light weight, tough, easy to mould, strong material that resists corrosion, rotting or adverse impacts of weather effectively. For the similar reasons, the PVC boards are also high in demand as they give highly aesthetic look after finishing and are economically priced. Though in fledging stage, the market for PVC boards in India is gradually expanding with the size of the market touching nearly ₹ 2,000 Cr. before the pandemic of COVID-19 hit. With our state-of-the-art manufacturing facility in Karnataka equipped with production capacity of 12,480 Cubic Meters (CBM), we are rightly poised to claim an increasingly larger share of the market for PVC boards in India.

(Source: <https://www.plyreporter.com/article/81988/pvc-board-industry-running-at-50-capacity>)

## 2. Opportunities and Threats

### Opportunities

❖ **Strong Brand:** Quality is sacrosanct for Rushil Décor Limited. The use of latest technology has enabled the Company to build a strong brand. The Company's premium brands such as 'VIR

Laminates', 'Signor' and 'VIR MDF' are well-known in the market because they continuously live up to the brand image and give an aesthetic feel.

❖ **Diverse Portfolio:** Rushil Décor Limited offers a diverse range of products keeping in mind the divergent taste of consumers. The Company always keeps the spotlight on consumers when a product is being developed or added. Consumers' budget drives their decision making, and the Company's products take care of that. Designs are dynamic aspect of a product and consumers' preferences are always changing. The Company's product development team is well aware of this fact and hence offer varied designs to suit consumer preferences.

❖ **Growth Drivers:** The MDF and PVC segments are fast growing owing to their inherent strengths and advantages. There is a huge opportunity in terms of market growth as well as import substitution. The MDF segment has high entry barriers especially in terms of required capex. Hence, there are a few unorganised players in the MDF segment and the industry is more than 90 percent organized.

❖ **Government Policy:** In the wake of Covid-19, the segments that Rushil Décor Limited manufactures have been out of demand and this is true for all the players in this industry. The Government is well aware of the fact that like many other industries, this and related industries too need to be supported at this critical juncture. Even the state Governments have been sensitive to this issue and have been doing their best to support the industry.

❖ **Housing Demand:** Unlike the first wave of Covid-19, the recovery in demand for residential real estate has been faster in the second wave. The residential markets of Bengaluru, Chennai, Thane, Noida-Greater Noida, Kolkata, and Delhi witnessed price corrections ranging from 1%-2.3% during the quarter that also saw rising medical expenses and debt. This rise in price reflects the inherent strength of the housing sector even during the troubled times. The quarter also witnessed a rise in supply pan-India by almost 8% due to new launches, with Hyderabad seeing a maximum jump of 20%.

## Management Discussion and Analysis (Contd.)

The recovery can be attributed to factors such as a consistent demand in large-sized properties and a higher flow of global PE funds ensured by good risk-adjusted returns by the sector. This swift recovery signals a revival as well as stability in the industry. This will, in turn, lead to greater furniture demand. Also, with easing restrictions, the tourism industry should recover fast. To sum it up, the furniture market in India is growing on strong fundamentals, with demand drivers likely to sustain over the medium term.

### Threats

- ❖ **High Competition:** The industry in which the Company operates has intense competition, especially from the unorganized sector in the plywood and wood panel segment as around 75% of the market players are still unorganized. Also, there is a huge volume of import being witnessed. After the first wave of Covid-19, the unorganized sector has taken a lot of time to recover. The second wave being more severe, the impact on the unorganized sector has been more intense. This is likely to act in favour of the organized market.
- ❖ **New Entrants:** For the plywood segment, entry barrier in terms of required capex is pretty low. There always remains a pressure of new entrants getting in the organized market, which has been the case, leading to higher competition.
- ❖ **Raw Materials:** With increasing urbanization, deforestation is taking a toll on the raw material availability. Further, erratic monsoon has played a role in suppressing the raw material supply. Rising crude price has been another reason leading to an increase in raw material prices.
- ❖ **Manpower Crunch:** Manpower availability has been one of the most-impacted matrix of operation for this industry and for the Company more so in the wake of the pandemic. Most migrant labourers left for their respective home locations and many of them are yet to return leading to labourer supply shortage. Moreover, skilled manpower is scarce and availability is an issue.

### 3. Segmental Performance

The Company operates via the following key segments:

- ❖ Laminates & Allied Products
- ❖ Medium Density Fibreboard (MDF)
- ❖ Polyvinyl Chloride (PVC) Board

The segmental results for the year ended 31<sup>st</sup> March, 2021, are as follows (including inter-segment revenue of ₹ 3.75 Cr.):

- ❖ The Laminates and Allied products segment reported revenue of ₹ 175.60 Cr., accounting for 51.77% of the total revenue
- ❖ The MDF segment (combined with the new AP plant) reported revenues of ₹ 155.92 Cr., comprising 45.97% of the total revenue
- ❖ Revenue from the PVC board segment was at ₹ 7.66 Cr., accounting for 2.26% of the total revenue

### Key Developments During the Year

One of the major developments during the year has been the commissioning of our Andhra Pradesh plant for manufacturing MDF boards with the installed capacity of 800 Cubic Meter (CBM)/day boosting our the total MDF production capacity to 1100 CBM/day. The aforementioned plant employs Continuous Press (CPC) technology which results in higher efficiency in production and lowers raw material consumption. This, in turn, is estimated to create positive impact on margins in the coming fiscals.

### 4. Outlook for 2021-22

- ❖ Increase in production through expansion in installed capacity as well as elevation in the levels of capacity utilization
- ❖ Generate higher efficiencies in the production process by employing advanced technologies
- ❖ Boosting the market presence by enhancing the marketing initiatives and widening the selling and distribution channels network.

### 5. Risks and Concerns

Like every business, the Company faces risks, both internal and external, in the undertaking of its day-to-day operations and in pursuit of its longer-term objectives. A detailed policy drawn up and dedicated risk workshops are conducted for each business vertical and key support functions wherein risks are identified, assessed, analyzed and accepted/mitigated to an acceptable level within the risk appetite of the organization. The risk registers are also reviewed from time to time.

The Company faces the following risks and concerns:

- ❖ **Credit Risk**  
To manage its credit exposure, Rushil Décor Limited has determined a credit policy with credit limit requests and approval procedures. The

## Management Discussion and Analysis (Contd.)

Company does its own research of a counterparty's financial health and project prospects before bidding for a project. Timely and rigorous process is followed up with clients for payments as per schedule. The Company has suitably streamlined the process to develop a focused and aggressive receivables management system to ensure timely collections.

### ❖ Interest Rate Risk

The Company has judiciously managed the debt-equity ratio. It has been using a mix of loans and internal cash accruals. The Company has also well managed the working capital to reduce the overall interest cost.

### ❖ Economy and Market Risk

The Company's growth is linked to that of the construction and real estate industry. Any changes in the Indian real estate market, impacts the demand for related products and services. Since this industry plays a significant role in determining the economic growth, any slowdown in the overall economy would affect the real estate market as well.

### ❖ Competition Risk

Like in most other industries, opportunities for growth tend to lead to increase in competition. We face different levels of competition in each of our segments, from domestic as well as multinational companies. The Company has created strong differentiators in products, project execution, quality and delivery which make it resilient to competition. The Company also continues to invest in technology and R&D to remain way ahead of the curve. A diversified client base, comprising large- and mid-sized corporations, along with end consumers, further helps to insulate the Company from this risk. The Company strives to remain competitive with the quality of infrastructure, their customer-centric approach and ability to innovate customer-specific solutions, strong focus on pricing and strategic marketing strategy, and disciplined project executions, coupled with prudent financial and human resources management and better control over costs. Thus, the Company does not expect to be significantly affected by this risk.

### ❖ Raw Material Cost Risk

Profitability and cost effectiveness may be affected due to changes in the prices of raw materials, power and other input costs. Some of the risks that are potentially significant in nature and need careful monitoring, include raw material prices, and the availability of labour, power and others.

### ❖ Covid-19 Risk

The Company's manufacturing, distribution and logistics may get impacted by potential lockdowns in various regions across India if the pandemic continues to spread.

## 6. Internal control systems and adequacy

For the purposes of effective internal financial control, Rushil Décor Limited has adopted various policies and procedures to ensure orderly and efficient conduct of its business, including adherence to the Company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

There has not been any significant change in such control systems. The control systems are reviewed by the Management regularly. The same are also reviewed by the Internal Auditors from time to time. Additionally, the Company has adopted various policies and procedures to safeguard its interest. These policies and procedures are reviewed from time to time. A proper reporting mechanism has been implemented in the organization for reporting any deviation from the policies and procedures.

## 7. Discussion on Financial Performance

The consolidated financial performance of the Company for the year ended 31<sup>st</sup> March, 2021, is as follows:

- ❖ The total revenue from operations for the year ended 31<sup>st</sup> March, 2021, was at ₹ 339.77 Cr., as against ₹ 339.13 Cr. in the previous year. The Company was able to maintain topline despite significant headwinds in the market due to the Covid-19 pandemic and subsequent lockdowns, which hampered operations as well as demand.
- ❖ EBITDA before exceptional items for the fiscal stood at ₹ 39.29 Cr., vis-à-vis ₹ 40.45 Cr. in the previous financial year. EBITDA margin was at 11.57% with a marginal contraction of 36 bps, mainly on account of fixed expenses incurred even during the lockdown.

## Management Discussion and Analysis (Contd.)

- ❖ PAT for 2020-21 stood at ₹ 13.72 Cr. as compared to ₹ 23.04 Cr. in the previous financial year, mainly due to deferred tax benefit received in the previous year. PAT margin was at 4.04% in the year ended 31<sup>st</sup> March, 2021.
- ❖ EPS for the year was reported at ₹ 8.11.
- ❖ As on 31<sup>st</sup> March, 2021, the consolidated net worth stood at ₹ 246.15 Cr., and the total debt was ₹ 378.67 Cr.
- ❖ The net debt-to-equity ratio stood at 1.54 as on 31<sup>st</sup> March, 2021.

### 8. Material Development in Human resources, including number of people employed

The Company has Human Relations and Industrial Relations policies in place. These are reviewed

and updated regularly in line with the Company's strategic plans. The human relations team continually conducts training programs for talent development. The Company aims to develop the potential of every individual associated with it as a part of its business goal. Rushil Décor Limited leverages a mix of experienced as well as young talent to drive growth.

The Company values its human resources as the principal drivers of change. The Company focuses on providing individual development and growth in a work culture that encourages team work and high performance.

As on 31<sup>st</sup> March, 2021, the Company had a workforce of 1593(permanent and contractual).

### 9. The details of significant changes in key financial ratios:

During the fiscal year 2020-21, the details of significant change in the key financial ratios are summarised below:

Sr. No.	Key Financial Ratios	F.Y.2020-21	F.Y. 2019-20	Changes in %	Reasons for change
1	Debtors Turnover (in Days) (current debtors only)	63	67	-5.88%	-
2	Inventory Turnover (in Days)	92	93	-1.49%	-
3	Interest Coverage Ratio (in times)	2.50	2.64	-5.08%	-
4	Current Ratio (in times)	1.08	1.27	-14.80%	-
5	Debt Equity Ratio (in times)	1.54	1.93	-20.47%	-
6	Operating Margin (in %)	8.81%	9.46%	-6.88%	-
7	Net Profit Margin (in %)	4.09%	6.87%	-40.46%	Reason is mentioned below
8	Return on Net worth (in %)	5.57%	11.00%	-49.33%	Reason is mentioned below
9	Creditors Turnover (in days)	172	159	7.66%	-

#### Reason for Decline in Net Profit:

Overall Net Profit for the Fiscal Year 2021 has declined due to Increase in Tax Expense by ₹ 8.28 Cr. as compared to Fiscal Year 2020, increase in Depreciation by 12% i.e. ₹ 1.04 Cr., and Increase in Raw Material Cost by 1.94%, further there is decrease in Employee Benefit Expense by 8.5% i.e. ₹ 2.49 Cr., decrease in Other Expense by 2.8% i.e. ₹ 2.64 Cr., and having exceptional items as Profit on sale of Land of ₹ 1.52 Cr.

1. Tax Expense has been increased as compared to last year due to increase in deferred tax liability because of timing difference of depreciation.
2. The current year Depreciation expense has been increased by ₹ 1.04 Cr. mainly due to claiming of depreciation of ₹ 1.09 Cr. for new Andhra Pradesh MDF Plant.