

October 09, 2023

Raj Industries: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	21.00	21.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based	86.00	86.00	[ICRA]A2+; reaffirmed
Total	107.00	107.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in ICRA's expectation that Raj Industries' (Raj) credit metrics will remain conformable in the near- to medium-term on account of limited leverage and stable profit margin. In addition, the ratings factor in the firm's short working capital cycle owing to low receivables and inventory holding, resulting in moderate working capital intensity. The ratings continue to positively factor in the extensive experience of the promoters in the soap manufacturing industry, the firm's long track record of operations, reputed client base (particularly in the business-to-business, or B2B, segment) and the growing demand for its own brands in the business-to-customer (B2C) segment.

However, the ratings continue to be constrained by the firm's exposure to raw material price volatility, especially in the B2C segment, due to intense competition and its inability to fully pass on the increased input cost to customers, which impacts its profitability. Besides, Raj is a partnership firm, and its capital structure is vulnerable to capital withdrawal by the partners, as evidenced by the significant withdrawals in the past.

The Stable outlook on the [ICRA] A- rating reflects ICRA's opinion that Raj will continue to benefit from the stabilised raw material price, new client addition in the B2B segment and increasing share of revenue from its own brands.

Key rating drivers and their description

Credit strengths

Established track record of promoters in the soap manufacturing industry – The promoters have over five decades of experience in manufacturing soaps and soap noodles. This has enabled them to establish steady relationships with reputed players in the industry. Raj has an integrated soap plant with palm fatty acid distillate (PFAD), fatty acid and soap manufacturing facilities.

Increasing revenue from own brands and established relationships with reputed B2B customers – Raj enjoys established relationships with reputed players from the fast-moving consumer goods (FMCG) industry. It sells soap noodles to customers such as ITC Ltd., Reckitt Benckiser, Godrej and Patanjali, which ensures healthy revenue visibility. Additionally, Raj has been deriving substantial revenue contribution from its own brands, which offer relatively higher margin and the revenue has increased over a period of time (46.4% in 5M FY2024 from 29.7% in FY2018). ICRA notes the firm's recent focus on brand promotion in the retail segment, which led to increased traction in the segment. In 5M FY2024, the firm achieved sales of ~Rs 261 crore, a YoY growth of ~11%.

Short working capital cycle – The firm has a short working capital cycle with overall debtors’ days being 30-45 days, mainly in the B2B segment. Raj maintains inventory for up to 45 days, which includes both raw materials and finished goods. The cycle remains supported by the long credit period availed from key suppliers. While fund-based requirements are low, Raj remains dependent on non-fund based limits to procure key raw materials.

Credit challenges

Exposure of margins to raw material price fluctuations – Raj’s profitability remains exposed to raw material price fluctuations. The key raw material price (PFAD/lauric acid and other raw materials) witnessed a significant increase since Q4 FY2022 and Q1 FY2023 due to the challenging geopolitical scenario with the Russia–Ukraine conflict. The rise in input costs resulted in a sharp decline in profitability in FY2022 and H1 F2023, given Raj’s inability to pass on the increase, particularly in its B2C segment. Nevertheless, with prices moderating over the last few quarters on a sustained basis, with easing of supply-side pressures, Raj witnessed a significant revival in operating profit margin (OPM) during H2 FY2023 and 5M FY2024. ICRA expects the firm’s credit metrics to remain comfortable in the current fiscal on account of healthy profitability and limited leverage. Any significant weakening in cost structure will continue to be a key rating factor.

High withdrawals by partners – The firm is a partnership concern, making it vulnerable to capital withdrawal by the partners, as witnessed in the past. The partners have withdrawn ~Rs. 26 crore in FY2022 and ~Rs. 23 crore in FY2023. The withdrawal has been on account of personal expenses and tax expenses of the partners.

Intensely competitive soap manufacturing industry, especially in the retail segment – The soap manufacturing industry is intensely competitive with numerous reputed and local players in the field. This limits the pricing power of players and keeps revenue growth under check.

Liquidity position: Adequate

Raj’s liquidity position is adequate on account of its moderate buffer in its working capital limits and available free cash levels. The firm had ~Rs. 13 crore of free cash, cash equivalent and liquid investments as of August 2023. There are negligible long-term debt repayments and debt-raising plans in the near term. The capex requirement is also negligible for the firm over the medium term. The company also has adequate non-fund based limits for smooth operations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the firm demonstrates a significant improvement in scale and operating profit margins resulting in better coverage metrics and the strengthening of liquidity profile.

Negative factors – ICRA could downgrade the ratings if the firm witnesses a decline in earnings, if it undertakes any major debt-funded capex, or if its partners withdraw substantial profit from the business, affecting the credit profile on a sustained basis. Additionally, TOL/TNW¹ higher than 1.5 times, on a sustained basis, could be a negative rating factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of Raj.

¹ Total outside liability/Total net worth

About the company

Raj, set up in 2007, manufactures and sells toilet soaps, laundry soaps, soap noodles, industrial monocarboxylic fatty acids and related products/by-products such as pitch, residue and crude glycerine. Its registered office is in Ludhiana (Punjab), while its manufacturing plant is in Nalagarh (Himachal Pradesh). The firm sells soap noodles to soap manufacturers such as ITC Ltd. and Reckitt Benckiser. It also sells toilet soaps under its own brands—Raj, Raj Super White and NJOY. It has also launched Saheli, in the detergent category. The current manufacturing capacity for soap noodles and soap stands at 1,10,000 metric ton per annum (MTPA).

Key financial indicators (audited)

Raj standalone	FY2022	FY2023
Operating income	395.8	544.0
PAT/PBT	0.1	30.2
OPBDIT/OI	0.7%	6.9%
PAT/OI	0.0%	5.5%
Total outside liabilities/Tangible net worth (times)	0.7x	0.5x
Total debt/OPBDIT (times)	7.5x	0.9x
Interest coverage (times)	1.9x	14.0x

Source: Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Oct 9, 2023	Feb 14, 2023	Oct 13, 2022	Sep 23, 2021	Oct 27, 2020
1 Cash credit	Long term	21.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A- (Positive)
2 Letter of credit	Short term	81.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A2+
3 Loan equivalent risk	Short term	5.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-

Source: Company,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Cash credit	Simple
Short term – Letter of credit	Very simple
Short term – Loan equivalent risk	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	21.00	[ICRA]A- (Stable)
NA	Letter of credit	NA	NA	NA	81.00	[ICRA]A2+
NA	Loan equivalent risk	NA	NA	NA	5.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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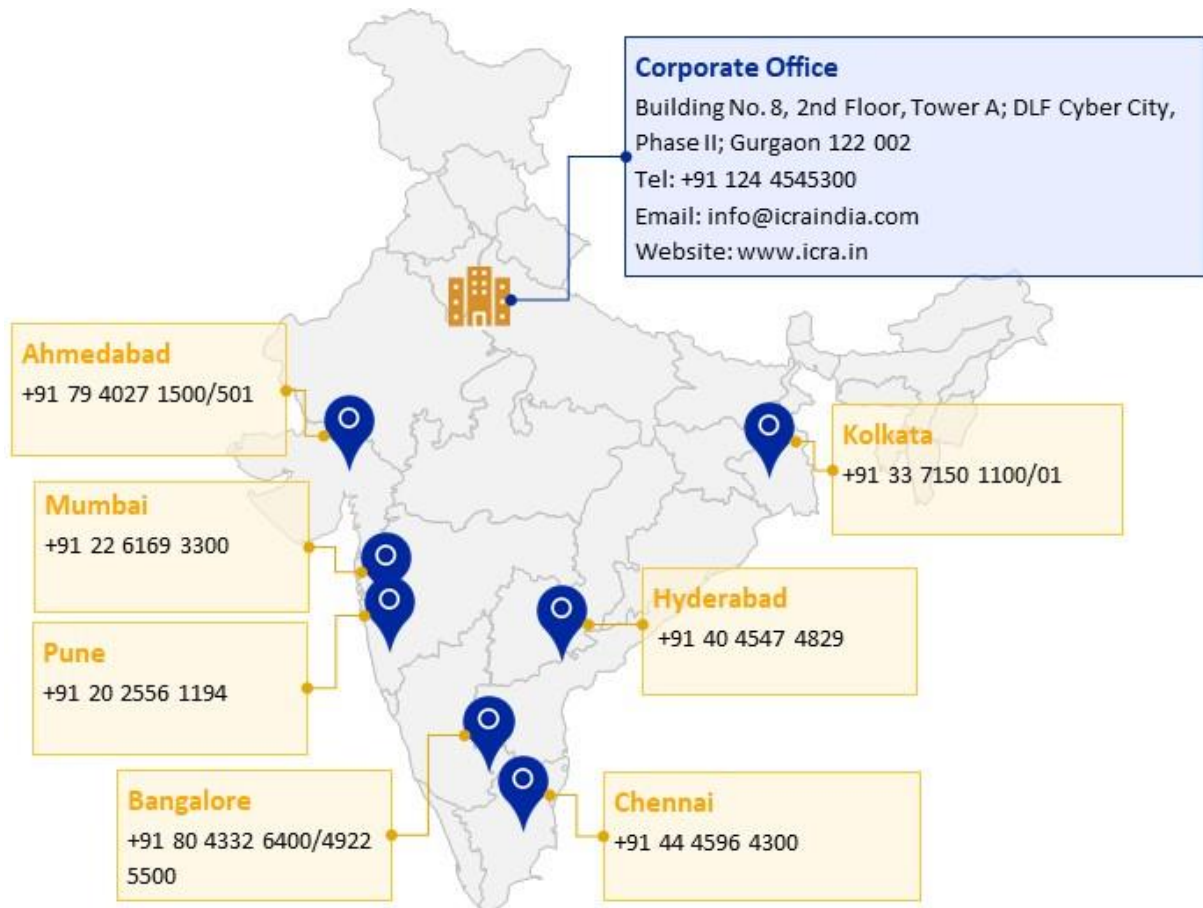
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