

June 07, 2024

Raj Industries: Ratings reaffirmed; rated amount enhanced

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	49.00	[ICRA]A- (Stable); reaffirmed, assigned for the enhanced amount
Short-term – Non-fund based	86.00	100.00	[ICRA]A2+; reaffirmed, assigned for the enhanced amount
Total	107.00	149.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for the bank lines of Raj Industries (Raj) considers its stable performance in FY2024 and expectation of a sustained improvement in its credit profile in the near-to-medium term. Raj's operational profile remains supported by its long track record of operations, a reputed client base (particularly in the business-to-business [B2B] segment), growing demand for its own brands in the business-to-customer (B2C) segment and its strong presence in the key select geographics where it operates, with new launches seen in FY2024, thus strengthening its product profile. The company reported a healthy volume growth of ~15% in its soap and soap noodles segment, backed by stable demand. In addition, the ratings factor in the firm's adequate liquidity profile, driven by low receivables and inventory holding, resulting in moderate working capital requirements.

However, the ratings continue to be constrained by the firm's exposure to volatility in raw material prices, especially in the B2C segment, due to intense competition and its limited ability to fully pass on the increased input cost to customers, which has kept the profitability range bound. Nevertheless, the partners' extensive experience in the soap manufacturing industry and established relationship with clients partly mitigate the risk. Being a partnership firm, Raj's capital structure is vulnerable to capital withdrawal by the partners, as evident from significant withdrawals seen in the past. As the firm is operating at its optimum level of capacity, any major debt-funded capex or material withdrawal, which impacts the credit metrics or liquidity profile, will remain a key monitorable.

The Stable outlook on the [ICRA] A- rating reflects ICRA's opinion that Raj will continue to benefit from increasing share of revenue from its own brands, new client additions and expectation of stable credit metrics in the absence of any debt-funded capex.

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 enabled the firm to establish steady relationships with reputed industry players. It has integrated soap plant with palm fatty acid distillate (PFAD), fatty acid and soap manufacturing facilities.

Increasing volume 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 from its own brands, which offer relatively higher margin and the revenue contribution has increased to 49.5% in FY2024 from 42.3% in FY2020. ICRA notes the firm's recent focus on brand promotion in the retail segment along with the launch of the new brand, Saheli, has led to increased traction in the segment. In FY2024, the firm

achieved sales of ~Rs. 550 crore, reflecting a muted growth over FY2023. It recorded a ~15% volume increase in FY2024, mainly driven by a healthy growth in the B2C segment.

Favourable working capital cycle – The firm has a short working capital cycle with the overall debtor days of 30-45, 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 fluctuations in prices of raw materials – Raj's profitability remains exposed to fluctuations in prices of raw materials. The prices of key raw materials (PFAD/lauric acid and others) witnessed significant volatility during FY2022-FY2023 due to the challenging geopolitical scenario amid the Russia-Ukraine conflict. The rise in input costs may result in a decline in profitability, given Raj's limited ability to pass on the price increase, particularly in its B2C segment. Nevertheless, with stable prices seen over the last few quarters post easing of supply-side pressure, Raj reported a stable operating profit margin (OPM) during FY2023 and FY2024. Nevertheless, the OPM declined to some extent in FY2024 due to higher marketing and selling expenses of the promoters' brands in the B2C segment. ICRA expects the firm's credit metrics to remain comfortable in the current fiscal on account of healthy profitability and range-bound leverage. Any significant weakening in the cost structure will continue to be a key rating factor.

High capital withdrawals by partners – Raj is a partnership concern, making it vulnerable to capital withdrawal by the partners, as witnessed in the past. The partners have withdrawn ~Rs. 24 crore in FY2023 and ~Rs. 21 crore in FY2024. The withdrawals have been on account of personal expenses and tax expenses of the partners. These apart, ~Rs. 9 crore was paid to one of the retiring partners in FY2024.

Exposure to intense competition in the soap manufacturing industry, especially in the retail segment – The soap manufacturing industry is intensely competitive with numerous national and local players in the field. This limits the pricing power of players and keeps revenue growth and margin expansion under check.

Liquidity position: Adequate

Raj's liquidity position is adequate on account of its comfortable buffer in its working capital limits of ~Rs. 33 crore as of April 2024. The firm had ~Rs. 10 crore of free cash, cash equivalent and liquid investments as of March 2024. 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.

Rating sensitivities

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

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

¹ Total outside liability/Total net worth

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

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 brand recently, in the detergent category. The current manufacturing capacity for soap noodles and soap stands at 1,10,000 metric tonnes per annum (MTPA).

Key financial indicators (audited)

Raj standalone	FY2023	FY2023	FY2024 (E)
Operating income	395.8	544.0	550.1
Profit before tax (PBT)/ PAT	0.1	30.2	20.8
OPBDIT/OI	0.7%	6.9%	5.6%
PBT or PAT/OI	0.0%	5.5%	3.8%
Total outside liabilities/Tangible net worth (times)	0.7x	0.5x	0.9x
Total debt/OPBDIT (times)	7.5x	0.9x	1.9x
Interest coverage (times)	1.9x	14.0x	7.8x

Source: Company, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; E: Estimated, 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 (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & Rating in FY2022
				June 07, 2024	Oct 09, 2023	Feb 14, 2023	Oct 13, 2022	Sep 23, 2021
1 Cash credit	Long term	49.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A (Stable)
2 Letter of credit	Short term	95.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1
3 Loan equivalent risk	Short term	5.00	-	[ICRA]A2+	[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	49.00	[ICRA]A- (Stable)
NA	Letter of credit	NA	NA	NA	95.00	[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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