

## Raj Industries

Instrument	Amount	Rating Action
<b>Fund Based Limits</b>	<b>In Rs. Crore</b>	
CC	19.00	[ICRA]A-(Stable); reaffirmed
<b>Non-Fund Based Limits</b>	<b>In Rs. Crore</b>	
Inland / Foreign Letter of Credit Limit	17.00	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>36.00</b>	

ICRA has reaffirmed its long-term rating of [ICRA]A- (pronounced ICRA A minus) on the Rs. 19.00 crore fund based facilities of Raj Industries. ICRA has also reaffirmed its short-term rating of [ICRA] A2+ (pronounced ICRA A two plus) on the Rs. 17.0 crore non-fund based bank facilities of the firm. The Outlook on the long-term rating is 'Stable'.

ICRA's rating reaffirmation takes into account the strong growth in Raj Industries' revenues in FY15 and 9MFY16, driven by robust demand for its products. This has been accompanied by an efficiently managed working capital cycle, which has resulted in minimal utilisation of its working capital limits. The firm's operating profit margins, after registering a decline in FY15 relative to the previous year, on account of volatility in raw material prices, have registered an improvement for the nine months ended December 31, 2015. This has been aided by growing demand for the firm's own brand as well as its established relationships with national and regional toilet soap marketers. The firm's gearing has also improved to 0.03 times as on December 31, 2015 from 0.11 times as on March 31, 2015.

These rating strengths are partially offset by the firm's low pricing power due to high customer concentration in its revenue profile, with its top two customers accounting for ~65-70% of the revenues and intense price competition in the end-user segment. Further, the firm's profitability is vulnerable to changes in excise duty structure and fluctuation in prices of key raw materials, whose prices are further linked to global crude oil prices, given that part of the raw material requirements is imported. ICRA also notes that being a partnership firm, the capital structure of the firm is vulnerable to withdrawal of capital by the partners, which is evident from the significant withdrawal done in FY15 and 9MFY16. ICRA also takes into account the fully utilised manufacturing capacity, which in the absence of any expansion plans in the foreseeable future, might constrain the revenue growth. Further, ICRA notes that the fiscal benefit will cease after 2017, which can reduce the cost competitiveness of the firm.

Going forward, the ability of the firm to increase its scale while maintaining its profitability and an optimal working capital cycle will remain the key rating sensitivities. Any further substantial withdrawal of capital by the partners or significant debt-funded capital expenditure may put downward pressure on the ratings.

### About the firm

Raj Industries is a partnership entity of the Bansal family of Ludhiana and was set up in April 2007. The promoter, Mr. Raj Paul Bansal, has been in the industry for over five decades and set up a unit for manufacturing laundry soap in 1956, named National Soap Mills, which is currently operational and has a manufacturing capacity of 10,000 metric tonnes per annum (MTPA). Subsequently, he also set up another company named Raj Soap and Detergents Pvt. Ltd. in 1987, which is engaged in manufacturing synthetic detergent-based cleaning products and the said unit has been merged with National Soap Mills in FY 12-13.

Raj Industries is in the business of manufacturing and sale of toilet soaps, laundry soaps, soap noodles, industrial monocarboxylic fatty acids and related products/by-products such as pitch, residue and crude glycerine. It has its registered office in Ludhiana, while the plant is located in Nalagarh (Himachal Pradesh) and avails fiscal incentives in the form of income tax / excise duty exemptions by the Government of Himachal Pradesh. The firm sells soap noodles to soap manufacturers such as ITC Ltd., Reckitt Benckiser, and also sells



toilet soaps under its own brands – Raj and Raj No. 1. The current manufacturing capacity of the firm stands at 105,000 MTPA and is currently fully utilised.

#### **Recent Results**

The firm reported a net profit of Rs. 24.43 crore on an operating income of Rs. 392.45 crore in FY15 as against a net profit of Rs. 25.16 crore on an operating income of Rs. 293.59 crore in the previous year. The firm, on a provisional basis, reported a net profit of Rs. 32.02 crore on an operating income of Rs. 282.72 crore for the nine months ending December 31, 2015.

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