RSPL Limited

December 22, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	300.0	300.0	[ICRA]AA(Stable) reaffirmed
Fund based, long term facilities	259.0	599.0	[ICRA]AA(Stable) reaffirmed
Term Loans	100.0	355.0	[ICRA]AA(Stable) reaffirmed
Proposed Term Loans	2000.0	2631.0	[ICRA]AA(Stable) reaffirmed
Non fund based, short term facilities	228.0	480.4	[ICRA]A1+ reaffirmed
Commercial Paper programme	400.0	400.0	[ICRA]A1+ reaffirmed
Total	**3287.0**	**4765.4**	

Rating action

ICRA has reaffirmed the long term rating of [ICRA]AA (pronounced ICRA double A) for Rs. 300 crore[1] non-convertible debenture programme, Rs 599.0 crore (enhanced from Rs. 259.0 crore) long term fund based facilities, Rs. 355.0 crore (enhanced from Rs. 100 crore) term loans, Rs. 2631 crore (enhanced from Rs. 2000 crore) proposed term loans of RSPL Limited (RSPL). ICRA has also reaffirmed short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 480.4 crore (enhanced from Rs 228.0 crore) non-fund based short term facilities of RSPL. ICRA has also reaffirmed the rating of [ICRA]A1+ for Rs. 400 crore commercial paper programme of RSPL. The outlook on the long term rating is Stable.

Rationale

The reaffirmation of the ratings takes into account the leading market position of "Ghadi" detergent brand with nearly 22% market share, large and distributed manufacturing base complemented by a wide distribution and marketing network leading to robust financial performance of the company with healthy revenue and profit growth in the past few years. The ratings also factor in the significant liquidity with the company owing to its liquid investments. The financial performance of the company in FY2017 remained healthy despite sales volume de-growth in the detergent segment and increasing raw material prices mainly linear alkyl benzene (LAB). RSPL was able to undertake price increase for its products during the year and nearly offset the impact of decline in sales volume while conserving core-operating margins. During 7M FY2018, RSPL witnessed modest revenue growth of 3.7% YoY owing to price increases while volumes declined nearly 3% YoY owing to channel destocking prior to implementation of Goods & Services Tax (GST). Revenue growth in FY2018 is expected to be around 8%-10% owing to growth in volumes driven by restocking post GST which was evident in the period of July to October 2017, while operating profitability is expected to remain in-line with past years with operating margins in the range of 10%-11%. However, post completion of backward integration with soda ash project, the operating margins are expected to improve to around ~12%-13%.

[1] *100 lakh = 1 crore = 10 million*

The ratings however also take into account the dependence of the company on a single brand, Ghadi, for nearly 90% of its revenue, competition from the unorganised players in the economy segment of the detergents and vulnerability to volatility in the prices of the commodities like soda ash and LAB. The ratings also factor in the construction of a soda ash manufacturing plant being undertaken by the company to achieve self-sufficiency for its raw material requirements. The project entails a funding of ~Rs 3500 crore to be funded using a debt-equity mix of 2:1 and the company has already spent around Rs. 1900 crore on the project by end of September 2017 mainly through internal accruals and limited reliance on debt. However, further remaining capex is being funded through debt being availed from consortium of banks. The significant capex will lead to an increase in leverage (Total Debt/ OPBDITA)[2] to around 3.5x-4x times by end of FY2019 and moderating thereafter as operating profitability improves due to backward integration. However, the company is also planning to raise funds through an IPO/QIP in FY2019 to fund the capital expenditure which will reduce reliance on debt and lead to improvement in credit metrics.

Outlook: Stable

ICRA believes RSPL will continue to have stable market share and cash generation in the medium term owing to its strong brand equity and wide distribution network. The outlook may be revised to positive if RSPL is able to materially diversify its revenue streams with successful introduction of new products and reduce its reliance on Ghadi detergent for major share of revenue and thus reducing revenue concentration risk.

The outlook may be revised to Negative if the company loses its market share leading to material impact on financial performance and/or there are material time and cost over runs for the soda ash project. The failure to raise funds through equity dilution within 12-18 months leading to sustained high reliance on debt and deterioration of credit metrics will lead to revision of outlook to Negative.

Key rating drivers

Credit strengths

Healthy market share in the detergent market- RSPL has been competing in the detergent market since 1987 with its flagship brand "Ghadi". The company focuses mainly on the economy segment of the detergent market. RSPL has witnessed significant growth over the last three decades and now commands a value-wise market share of nearly 17% in the detergent market and stands second behind the market leader Hindustan Unilever Limited (HUL) which has multiple brands present across premium, mid-premium and economy segment of detergents.

Distributed marketing base with strong distribution and marketing network and low advertising & promotion (A&P) expense- RSPL has nearly 25 small manufacturing units & 6 wind power generation plants spread across the country which enables it to undertake production near the consumption centers and lower its cost of freight backed by a strong distribution network. RSPL has kept its advertising and promotion expenses (6%-7% of operating income) lower than its peers (12-14%) as it relied more on print media to reach out to its target customer base. However, with increasing penetration of television network, the part of advertising spends on television networks have been increasing for RSPL as well along with overall increase in spending. Nevertheless, the overall A&P spending remains significantly lower than its peers.

[2] OPBDITA: Operating profit before depreciation/amortisation, interest and taxes

Robust financial risk profile characterized by healthy revenue growth and profitability coupled with low reliance on debt- RSPL's financial risk profile was characterised by healthy revenue and volume growth along with low reliance on debt during FY2012 to FY2017. In FY2017 company witnessed decline in revenues owing to volume de-growth and limited traction of products other than Ghadi detergent. Nevertheless profitability remained healthy as company was able to mitigate impact of volume de-growth partially through price increases during the year. Over next few years, the coverage and capitalisation metrics are expected to moderate owing to large debt funded capex for soda ash project, the metrics will still remain adequate in the near term owing to healthy profitability and cash accruals generated by the company. In case the company is able to raise funds through equity dilution, the coverage metrics will remain in-line with the past trends.

Credit weaknesses

Significant revenue concentration risk on a single brand: Ghadi is the flagship brand of RSPL under which it sells detergent powder and bars. The brand holds a good reputation among the consumers and contributes nearly 90% of the revenues for RSPL. However, this also leads to significant reliance of RSPL on one brand for its revenues. The company has also tried to introduce premium brands like Venus toilet soap and Xpert dish-wash bar in order to diversify its revenue base. However, these brands have not been able to scale up and contribute minimally to the revenues. Any change in consumer preference towards Ghadi detergent or the economy segment of the detergent market could significantly impact the revenues and cash generation of RSPL.

High competition from unorganised players in the economy segment: RSPL faces significant competition from unorganised players in the detergent market. According to certain estimates, there are nearly 500 unorganised players in the detergent market which results in significant competition in terms of the price points in the highly price sensitive economy segment.

Vulnerability of profitability to commodity cycles for raw materials primarily soda ash and LAB: Soda ash and LAB are the two major raw materials used for manufacturing of detergent. The prices of these two commodities have remained volatile in the past owing to the commodity cycles which exposes the profitability of RSPL to volatility in price of these products. However, with completion and successful integration of the soda ash project, the vulnerability to raw material price volatility will be mitigated to a large extent.

Significant capex to be incurred for the soda ash project: In order to reduce dependence on imports and ensure in-house availability of raw materials, RSPL has undertaken construction of a 0.5 MMTPA soda ash manufacturing plant. The project will meet the total raw material requirements of the company, which is expected to reach 0.5 MMTPA in 2020 from 0.35 MMTPA presently. The total cost of the project is ~Rs. 3500 crore to be funded in a debt-equity ratio of 2:1. Though the project is strategically important for RSPL, it will be exposed to significant construction and execution risks. Further, failure to raise equity within 12-18 months leading to sustained high reliance on debt and deterioration of credit metrics would adversely impact the credit profile of RSPL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating methodology for Fast Moving Consumer Goods

Commercial paper rating methodology

About the company:

RSPL Limited (RSPL) is the flagship of the RSPL Group and is one of the leading manufacturers and marketer of detergents in India in the popular brand within the laundry care segment with its brand "Ghadi". RSPL was incorporated on June 22, 1988 as Shri Mahadeo Soap Industries Private Limited. On June 17, 2005, the company's name was changed to Rohit Surfactants Private Limited following the merger of four group companies, also engaged in the manufacture of detergent cake and powder, with RSPL. In 2008, the group underwent a restructuring, which resulted in the detergent and leather business being consolidated in Rohit Surfactants, while the real estate business of the group was separated. In 2011, the leather business of the company was also hived off into a separate entity and the company was converted into a public limited company from August 29, 2011 and was renamed as RSPL Limited. The company is a closely held company held by the Gyanchandani family of Kanpur.

The company has steadily expanded its operations over the years and currently has 25 manufacturing units spread across India. Besides, the company also has its own packaging units at Greater Noida and Kanpur. The company sells detergents in the economy segment under the "Ghadi" brand, toilet soaps under the "Venus" brand and dish-wash bars under the "Xpert" brand. RSPL has a large marketing set up with over 3,300 exclusive distributors. The company also has wind energy units in five states with a total generation capacity of 50.1 MW.

In FY2017, RSPL reported a net profit of Rs. 306 crore on an operating income of Rs. 4009 crore. In FY2016, the company reported a net profit of Rs 383 crore on an operating income of Rs 4170 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	4170	4009
PAT (Rs. crore)	385	306
OPBDIT/ OI (%)	14.7%	11.7%
RoCE (%)	39.4%	28.7%
Total Debt/ TNW (times)	0.36	0.65
Total Debt/ OPBDITA (times)	0.85	2.36
Interest coverage (times)	16.97	14.85
NWC/ OI (%)	6%	8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating September 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	NCD	Long Term	300.0	200.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based, long term	Long Term	599.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Term Loan-1	Long Term	75.15	75.15	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Term Loan-2	Long Term	126.52	126.52	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Term Loan-3	Long Term	153.33	153.33	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Proposed term loan	Long Term	2631.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
7	Non fund based, short term	Short Term	480.4	-	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
8	Commercial Paper	Short Term	400.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE816K07017	NCD	October 2016	9.20%	October 2026	300.0	[ICRA]AA(stable)
NA	Term Loan-1	December 2013	-	September 2019	75.15	[ICRA]AA(stable)
NA	Term Loan-2	March 2014	-	October 2019	126.52	[ICRA]AA(stable)
NA	Term Loan-3	May 2014	-	November 2021	153.33	[ICRA]AA(stable)
NA	Proposed Term Loan	-	-	-	2631.00	[ICRA]AA(stable)
	Commercial Paper	-	-	7-365 days	400.00	[ICRA]A1+
NA	Fund based, long term	-	-	-	599.00	[ICRA]AA(stable)
NA	Non-fund based, short term	-	-	-	480.40	[ICRA]A1+

Source: RSPL Ltd.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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