RSPL Limited

January 25, 2019

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); rating revised from [ICRA]AA(Stable)
Fund based, long term facilities	599.0	599.0	[ICRA]AA- (Stable); rating revised from [ICRA]AA (Stable)
Term Loans	2686.0	2771.0	[ICRA]AA- (Stable); rating revised from [ICRA]AA(Stable)
Proposed Term Loans	300.0	215.0	[ICRA]AA- (Stable); rating revised from [ICRA]AA (Stable)
Non-fund based, short term facilities	480.4	480.4	[ICRA]A1+ reaffirmed
Commercial Paper programme	400.0	400.0	[ICRA]A1+ reaffirmed
Total	**4765.4**	**4765.4**	

*Instrument details in Annexure-1

Rationale

The revision in the long-term rating reflects the moderation in the credit metrics of RSPL Limited (RSPL) owing to lower than expected growth in cash accruals and the increase in the capital outlay for the soda ash project. RSPL's volume growth has been tepid in the last couple of years particularly in the detergent powder segment owing to heightened competition from the organised and un-organised players. As a result, the volume growth in the detergent powder segment in 9m FY2019 was 0.1% YoY after a 0.6% volume decline in FY2018. The volume growth in the Ghadi cake segment was ~1.6% YoY in 9m FY2019 post a healthy volume growth of 10.9% YoY in FY2018. However, the overall volume growth in the detergent segment has been low at ~0.6% YoY in 9m FY2019 after a growth of 2.9% YoY. Though the company has recently launched "Ghadi machine wash" under its flagship brand to accelerate the volume growth however the performance of the same remains to be seen. The overall revenue growth is expected to be around ~5%-6% YoY in FY2019 with the operating margins expected at ~11%. The low volume growth has been impacted by the heightened competition in the Rs. 10 segment of detergent powders and detergent bars. As a result, the growth in net cash accruals has been lower than expectations and the same will continue in FY2019 as well. Thus, the leverage levels (Total Debt/ OPBDITA)[1]will peak by the end of FY2019 as the Soda Ash project is completed; however, these will decline going forward as the benefits of backward integration begin to flow to the operating profits of the company. The loans availed for the soda ash project have a long tenure of 11 years which provides comfort on the debt servicing front. The revision in the rating also factors in the increase in the capital outlay of the soda ash project from Rs. 3,496 crore to Rs. 4,216 crore owing to changes in the scope of the project. The increased capital outlay pertains to the provisions for additional capacity expansion of the soda ash facility that the company may undertake in future.

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

RSPL has plans to raise ~Rs. 1500 crore through an IPO by dilution of 10% equity by the end of CY2019 to retire most of the project debt which would lead to the improvement in the credit metrics of the company. The quantum and timeliness of equity infusion will remain a key monitorable going forward.

The ratings continue to factor in 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 healthy financial performance of the company. The financial performance of the company remained stable in FY2018 vis-à-vis FY2017 at the operating level though the net profit declined by ~11% YoY owing to the increase in the interest costs incurred for the working capital borrowings which have remained elevated during the year as company put in more than budgeted internal funds in the soda ash project. However, RSPL’s profitability is expected to moderate further in FY2019 primarily due to the significant increase in the interest costs during the year owing to the continued higher working capital borrowings and other term loans availed other than the loans availed for the soda ash project. RSPL has been able to undertake price increases at different intervals during the year to partially offset the impact of the increase in the price of raw materials mainly Linear Alkyl Benzene (LAB) during the year.

The ratings however also take into account the dependence of the company on a single brand, Ghadi, for nearly 90%-95% of its revenue, competition from the organised and unorganised players and vulnerability to volatility in the prices of the commodities like soda ash and LAB. The ratings also factor in the 0.5 MMTPA soda ash manufacturing project being undertaken by the company to achieve self-sufficiency for its raw material requirements. The total capital outlay for the project has increased from Rs 3,496 crore to Rs. 4,216 crore due to changes in scope of the project. The project is being funded in a debt equity ratio of 2:1. By the end of October 2018, the company had incurred Rs. 3,446 crore of capex funded through debt of Rs.1883 crore including Rs. 200 crore NCD. The first stream of soda ash plant started trial operations in October 2018 and is expected to be start commercial production by the end of January 2019 while the second stream is expected to be commissioned by the end of March/April 2019. The commissioning of the project is nearly three to four months earlier than the scheduled timeline of July 2019.

Outlook: Stable

The stable outlook reflects ICRA’s expectation of the volumes and cash accruals of the company to remain stable which would lead to the improvement of the credit metrics in the near to medium term as company does not have any major upcoming capex plans post completion of the soda ash project. The benefit of backward integration from the soda ash project will start accruing to the operating profits, though at net level the increased interest costs will keep the cash accruals stable

The Outlook may be revised to Positive once the company is able to raise funds through dilution of equity and/or material improvement in the cash generation leading to improvement in the credit metrics of the company.

The outlook maybe revised to Negative if there is significant volume de-growth or delay in ramping up of the capacity utilisation of the soda ash project leading to adverse impact on the cash flows and thus credit metrics of the company.

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 22% 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 centres 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 televisions, advertising spends on television networks have been increasing for RSPL along with an overall increase in advertising spending. Nevertheless, the overall A&P spending remains significantly lower than its peers.

Stable cash generation from detergents business-RSPL's cash generation has remained stable over the last couple of years despite volume de-growth witness in FY2017 and tepid volume growth in FY2018 driven by higher realisations as a result of price increases undertaken over last couple of years. Going forward though the company will be incurring significant interest costs driven by the debt availed for the soda ash project, the benefit of backward integration will negate the effect of the higher interest charges keeping the cash accruals stable.

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%-95% 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 organised and 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. Additionally, the organised players have also been aggressive in launching and promoting the Rs. 10 Stock Keeping Units (SKUs) for detergent powders and detergent bars. As a result, RSPL has been facing competition in the Rs.10 SKUs segment leading to volume de-growth, though the 1kg packs have shown healthy growth.

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 some extent.

Moderation in credit metrics due to large debt availed for the soda ash project; long repayment tenure provides comfort: 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 0.45 MMTPA in 2020 from 0.35 MMTPA presently. The company has availed significant amount of debt to meet the funding requirement for the soda ash project. The total debt on the books of RSPL increased to Rs. 2612.5 crore by the end of H1 FY2019 including long term loans of Rs. 2,192.7 crore and short-term debt of Rs. 419.8 crore vis-à-vis Rs. 2,253.0 crore debt at the end of FY2018 including long term debt of Rs. 1,846.1 crore and short-term debt of Rs. 406.9 crore. The leverage (TD/OPBDITA) increased to 5.2x at the end of H1 FY2019 vis-à-vis 4.5x at the end of FY2018. The same is expected to peak at the end of FY2019 as majority of the term loans would have been availed for the soda ash project. The leverage is expected moderate thereafter as the benefits of the backward integration will start accruing to the company. The gearing of the company has also increased to 1.3x at the end of H1 FY2019 vis-à-vis 1.2x at the end of FY2018. The interest coverage of the company also moderated to 4.8x in H1 FY2019 vis-à-vis 8.9x in FY2018 given the increase in the interest costs while the operating profit has remained stable. While debt metrics have moderated the tenure for the term loans for the Soda Ash project is 11 years with ballooning repayment, which should allow significant financial flexibility to the company as debt repayments would remain moderate vis-à-vis cash accruals.

Liquidity position

RSPL's liquidity position remains comfortable given the stable cash accruals of Rs. 300-320 crore annually, cash and cash equivalents of Rs. 185.7 crore at the end of H1 FY2019 and fund based working capital limits of Rs. 449 crore wherein the average utilisation for past six months have been around 90%. The debt repayments vis-à-vis cash accruals remains comfortable as the repayment schedule for the soda ash project is ballooning in nature with 11 years tenure. With no major capex planned in the near term the internal accruals will be sufficient to meet the repayment obligations and the maintenance capex requirement over next few years. Company also has plans to raise funds through equity dilution to replace the debt for the soda ash project. In such a scenario the liquidity position will further improve with repayment obligations moderating leading to more cash being conserved.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the FMCG industry
Parent	NA
Standalone	The ratings are based on the standalone financial statements of the company

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.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	4032.3	4426.3
PAT (Rs. crore)	306.1	269.3
OPBDIT/ OI (%)	12.36%	11.20%
RoCE (%)	28.53%	28.43%
Total Debt/ TNW (times)	0.6	1.2
Total Debt/ OPBDITA (times)	2.2	4.5
Interest coverage (times)	15.8	8.9

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date &Rating FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					January 2019	December 2017	October 2017	October 2016	December 2015
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 Loans	Long Term	2771.0	2,192.74	[ICRA]AA- (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Proposed term loan	Long Term	215.0	-	[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+	[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	-	October 2019	100.0	[ICRA]AA-(Stable)
NA	Term Loan-2	March 2014	-	November 2021	85.00	[ICRA]AA-(Stable)
NA	Term Loan-3	December 2017	-	December 2022	200.00	[ICRA]AA-(Stable)
NA	Term Loan-4	September 2017	-	December 2032	2386.00	[ICRA]AA-(Stable)
NA	Proposed Term Loan	-	-	-	215.00	[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.

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 1244545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 1244545 373
varun.gogia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 6406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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