



Press Release

Raja Industries

November 10, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Total	50.00 (Rupees Fifty Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has combined the business and financial risk profiles of Raja Industries, Raja Spintex LLP, Raja Texspin LLP and D. Raja Cotton Private Limited together referred to as Raja Cotton Group, as they are in the same line of business, are under the same management and have operational linkages.

The reaffirmation of the ratings assigned to the bank facilities of Raja Industries factors in improvement in capital structure of the group in FY23. The ratings continue to factor in the long track record of the promoters in the industry and synergies from supply chain through forward integration. The ratings are, however, constrained by highly fragmented industry with intense competition from large number of players, susceptibility of profitability to volatility in raw material prices and risks related to constitution of three Raja Cotton Group entities as partnership and LLP concern.



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Key Rating Sensitivities:

Upward Factors

- Substantial and sustained improvement in revenue and profitability margins while maintaining the debt protection metrics may lead to a positive rating action.

Downward Factors

- Any decline in scale of operations and/or moderation in profitability leading to decline in the debt protection metrics
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the firm
- Non-maintenance of level of unsecured loans considered as quasi-equity resulting in significant deterioration in capital structure

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters and established market position**

Raja Cotton Group has an established operational track record in the cotton ginning and spinning industry. The Group was incorporated in the year 1994 by Mr. Dilip Patel and Mr. Rasik Patel, who have around four decades of experience into the same line of business. Mr Dilip Patel is also the president of All Gujarat Cotton Ginners Association and has established healthy relationship with industry players over the years ever since, the group has expanded their operations by way of forward integration from cotton ginning to spinning. The Group benefits from the extensive experience of promoters, their strong understanding of local market dynamics, healthy relations with customers and suppliers and the group's integrated operations in the cotton ginning and spinning.



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- **Availability of synergies from supply chain through forward integration**

The group derives benefits from large and integrated scale of operations. The installed plants of the Group are forward integrated with in-house spinning capability which caters to significant captive demand of raw material through ginning. Also, the group has been operating under the same management and allocations of the outstanding orders are done considering the relevancy of workflow in spinning entities.

- **Improvement in capital structure of the group in FY23.**

Group's overall capital structure improved compared to FY22. Overall gearing ratio (adjusted) stood at 0.72x as on March 31st 2023 against 0.74x as on March 31st 2022. Adj.TOL/TNW stood at 0.88x as on March 31st 2023 against the 0.95x as on March 31st 2022. Interest coverage ratio stood at 3.04x in FY23. Group has considered Rs. 54.98 crore unsecured loan as quasi equity and same amount will remain in the group.

Key Rating Weaknesses

- **Highly fragmented industry with intense competition from large number of players and susceptibility of profitability to volatility in raw material prices**

The cotton ginning and spinning industry is highly fragmented in nature with several organized and unorganized players. Prices of raw cotton are highly volatile in nature and depend upon the factors like area under cultivation, crop yield, international demand-supply scenario, export quota decided by the government and inventory carry forward of the previous year. Hence, the profitability margins of the company are susceptible to fluctuation in raw material prices.

- **Risks related to partnership nature of constitution**

The constitution of Raja Industries as a partnership concern and that of Raja Spintex LLP and Raja Texspin LLP as 'Limited Liability Partnership' exposes the group to the inherent risk of significant withdrawals by the partners, which can have an adverse impact on the capital structure.



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- **Susceptibility of profitability to volatility in raw material prices**

Cotton being an agro-commodity is susceptible to agro-climatic risks. The profit margins are highly susceptible to changes in the prices of cotton. The government through the Minimum Support Price (MSP) fixes the price of cotton. However, the purchase price depends on the prevailing demand-supply situation, which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability. Additionally, demand for yarn largely is driven by international demand supply dynamics, resulting in volatile margins.

Analytical Approach: Consolidated

For arriving at the ratings, Infomerics has combined the business and financial risk profiles of Raja Industries, Raja Spintex LLP, Raja Texspin LLP and D. Raja Cotton Private Limited together referred to as Raja Cotton Group, as they are in the same lines of business, are under the same management and have operational linkages.

Applicable Criteria:

[Criteria of assigning rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Rating Criteria on Consolidation of companies](#)



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Liquidity – Adequate

The liquidity position of the group is expected to remain comfortable marked by its expected adequate gross cash accruals against its debt repayment obligations during FY24- FY25. The company has earned a gross cash accrual of Rs.37.88 crore against debt repayment obligation of Rs.29.23 in FY23 crore. Further, the current ratio stood comfortable at 2.78 times as on March 31, 2023. Average fund based working capital nominal utilization of the group in the past 12 months ended in September 2023 remained satisfactory at ~6-7% indicating an adequate liquidity buffer.

About the Group

Raja Cotton Group was founded in the year 1994 and has established track record of ginning and spinning in Kadi, Gujarat. The group has strong presence in cotton value chain from cotton ginning to oil extraction to yarn spinning with combined capacity of 108480 spindles and 1400 Bales of cotton per day. The Group was founded by Mr. Dilipbhai P Patel and Mr. Rasik Patel, who have around four decades of experience in the cotton industry. Raja Cotton Group consist of four entities i.e. Raja Industries which gins cotton and extracts oil from cotton seeds, Raja Spintex LLP and Raja Spintex LLP are into spinning of yarn and D. Raja Cotton Private Limited gins cotton and spins yarn

About the Firm

Raja Industries was constituted as a Partnership Firm in the year 1994 by Mr. Dilipbhai P Patel and family for carrying out an activity of cotton ginning and pressing at Kadi, Gujarat. Mr. Dilipbhai P Patel, Mr. Rasikbhai G Patel, Mr. Gauravbhai D Patel and four others are the partners of the firm.



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Financials (Consolidated)

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	849.44	704.87
EBITDA	75.18	60.52
PAT	23.88	6.55
Total Debt	195.78	149.12
Tangible Net Worth including quasi equity	265.63	206.47
Ratios		
EBITDA Margin (%)	8.85	8.59
PAT Margin (%)	2.79	0.92
Overall Gearing Ratio(x)	0.74	0.72

*As per Infomerics' standards

Financials (Standalone):

(Rs crore)

For the Year ended*/As on	31-March-22 (Audited)	31-March-23 (Audited)
Total Operating Income	557.90	659.38
EBITDA	6.55	3.16
PAT	1.42	0.65
Total Debt	29.52	14.55
Adj. Tangible Net Worth	66.85	40.51
EBITDA Margin (%)	1.17	0.48
PAT Margin (%)	0.25	0.10
Overall Gearing ratio(X)	0.44	0.36

* Classifications as per Infomerics standards

Status of non-cooperation with previous CRA: Brickwork Ratings in its press release dated October 20, 2022 has continued the rating of Raja Industries to "Issuer Not Cooperating" category due to unavailability of adequate information

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (August 25, 2022)	Date(s) & Rating(s) assigned in 2021-22 (May 27, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	50.00	IVR BBB/Stable	IVR BBB/Stable	IVR BBB-/CWDI	-



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	Revolving	50.00	IVR BBB/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Raja-Industries-nov23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.