



Press Release

Raja Industries

August 25, 2022

Ratings

Instrument Facility /	Amount (Rs. Crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Fund Based Bank Facilities	50.00	IVR BBB / Stable Outlook	Rating Revised and Outlook Assigned; removed from Credit Watch with Developing Implications	Simple
Total	50.00 (Fifty Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has removed the ratings of the bank facilities of Raja Industries from 'credit watch with developing implications' after emergence of clarity on the impact of COVID-19 pandemic on the group's business and financial risk profile. For arriving at the rating, 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 revision in the ratings assigned to the bank facilities of Raja Industries is on account of improvement in the group's scale of operations, profitability, capital structure and debt coverage indicators in FY22.

The ratings also continue to draw comfort from extensive experience of promoters and established market position, availability of synergies from supply chain through forward integration, healthy scale of operations and prudent risk management practices and moderate capital structure with healthy debt protection metrics.

However, the rating strengths are partially offset by elongated operating cycle, 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

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection indicators.

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or further deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.
- 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 scale of operations and profitability and prudent risk management practices

The group has healthy scale of operations, with total operating income of Rs. 850.87 Crore in FY22(Prov.) as against Rs. 670.98 Crore in FY21. Further, in spite of relatively subdued market condition due to COVID-19, the group has reported sales of ~Rs. 311 Crores during Q1FY23. EBITDA and PAT reported are Rs. 71.24 Crore & Rs. 22.12 Crore respectively in FY22 as against Rs. 68.27 Crore and Rs. 12.55 Crore respectively in FY21. EBITDA margin of the group declined in FY22 by 180 bps to 8.37% from 10.17% in FY21. However, PAT margin improved in FY22 by 69 bps to 2.54% from 1.85% in FY21. Gross Cash Accruals of the group increased from Rs. 32.83 Crore in FY21 to Rs. 44.06 Crore in FY22(Prov.). Also, prudent risk management practices including stocking of adequate cotton for the non-peak season, and procuring cotton bales against firm orders, help mitigate the impact of price fluctuations.

Improvement in capital structure and debt coverage indicators

The overall gearing (including quasi equity) of the group stood comfortable at 0.73x as on March 31, 2022(Prov.); improved from 2.19x as on March 31, 2021. The Group is having tangible net worth base of Rs. 274.07 Crore and adjusted tangible net worth of Rs. 255.07 Crore as on March 31, 2022(Prov.). Unsecured loans to the tune of Rs. 91.24 crore have been considered as quasi-equity as the same are subordinate to bank loan. Entity is having healthy debt protection metrics i.e. ICR of 2.83x in FY22(Prov.) as against 2.69x in FY21. TOL/TNW stands at 0.88x in FY22(Prov.) as against 2.53x in FY21 while total debt to GCA improved from 9.71 years in FY21 to 4.53 years in FY22.



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Key Rating Weaknesses

Elongated Operating Cycle

The operating cycle of the group remained elongated at 81 days as on March 31, 2022 (FY21: 111 days) due to high inventory period. The decline in working capital cycle was largely on account of decline in average inventory period to 66 days as on March 31, 2020 (FY21: 95 days). Debtor collection period stood at 25 days as on March 31, 2020 (FY21: 22 days). Going forward, any deterioration in operating cycle and resultant adverse impact on its liquidity shall remain key monitorable.

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.

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.

List of the entities considered for consolidation is furnished in Annexure II.

Extent of consolidation: Full



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Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of Assigning Rating Outlook](#)

Liquidity – Adequate

The Group has adequate liquidity marked by Gross Cash Accruals of Rs. 44.06 Crore in FY22(Prov.) as against current maturities of long-term borrowings amounting to Rs. 26.58 Crore due for payment in FY23. The average utilisation of working capital limits of the Raja group entities is in the range of 36% to 61% during the past 12 months ended July, 2022 indicating moderate utilisation. The current ratio and quick ratio reported by the group are 2.10x and 1.32x as on March 31, 2022. The group has free cash and bank balance of Rs. 2.69 Crore as on 31-March-2022.

About the Group and the Company

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.

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	31-3-2021	31-3-2022
	(Audited)	(Provisional)
Total Operating Income	670.98	850.87
EBITDA	68.27	71.24
PAT	12.55	22.12
Total Debt	318.68	199.71
Tangible Net worth (including Quasi Equity)	145.68	274.07
Adjusted Tangible Net worth	195.16	255.07
EBIDTA Margin (%)	10.17	8.37
PAT Margin (%)	1.85	2.54
Overall Gearing Ratio (x)	2.19	0.73

*Classification as per Infomerics` standards

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-3-2021	31-3-2022
	(Audited)	(Provisional)
Total Operating Income	570.57	559.73
EBITDA	5.00	6.54
PAT	1.35	2.20
Total Debt	87.45	33.42
Tangible Net worth (including Quasi Equity)	15.37	67.63
Adjusted Tangible Net worth	41.78	58.35
EBIDTA Margin (%)	0.88	1.17
PAT Margin (%)	0.24	0.39
Overall Gearing Ratio (x)	5.69	0.49

* Classification as per Infomerics` standards

Status of non-cooperation with previous CRA: Brickwork Ratings in its press release dated October 06, 2021 has informed that they have migrated the rating of Raja Industries to "Issuer Not Cooperating" category due to unavailability of adequate information.

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (May 27, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	50.00	IVR BBB/ Stable	IVR BBB-/ Credit Watch with Developing Implications	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.



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Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	-	50.00	IVR BBB/ Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
1. Raja Industries	100%
2. Raja Spintex LLP	100%
3. Raja Texspin LLP	100%
4. D Raja Cotton Private Limited	100%

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-DRaja-aug22.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.