



Press Release

Raja Industries

May 27, 2021

Ratings

Instrument/Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	50.00	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implications)	Assigned
Total	50.00 (Fifty Crores Only)		

Details of Facilities are in Annexure I

Detailed Rationale

The rating assigned to the bank facilities of Raja Industries comfort from extensive experience of promoters, established market position of the group, availability of synergies from supply chain through forward integration, healthy scale of operations, prudent risk management practices and comfortable capital structure with healthy debt protection metrics. However, these strengths are, partially offset by elongated operating cycle and highly fragmented nature of industry with intense competition from large number of players. Rating on credit watch with developing implication is on account of uncertainty in the operating scenario amidst Covid-19 pandemic and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the Raja Cotton Group is clear.

Key Rating Sensitivities

Upward rating factor(s) –

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity



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- Improvement in the capital structure with further improvement in debt protection metrics

Downward rating factor(s) –

- 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.

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.

Availability of synergies from supply chain through forward integration

Benefits derived from large scale of operations, integrated 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.



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Healthy scale of operations and prudent risk management practices

The group has very healthy scale of operations, with total operating income of Rs.671.80 Crores in FY20 as against Rs.746.85 Crores in FY19. Further, in spite of relatively subdued market condition due to COVID-19, the group has achieved revenue of Rs.667.35 Crores as per FY21 (Prov) results. EBITDA and PAT reported is Rs.47.88 Crores & Rs.13.94 Crores in FY20 as against Rs.62.70 Crores and Rs.22.94 Crores in FY19. As per FY21 (Prov) results, EBITDA and PAT reported is Rs.61.89 Crores & Rs.22.68 Crores. 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.

Comfortable capital structure with healthy debt protection metrics

The overall gearing based on ANW of the group stood comfortable at 0.96x as on March 31, 2021(Prov). The Group is having good tangible networth base of Rs.140.04 Crores and adjusted tangible networth of Rs.217.85 Crores in FY21(Prov) as against Rs.122.02 Crores & Rs.189.51 Crores in FY20. The Group is having comfortable debt protection metrics i.e. ICR & DSCR stood at 2.52x & 1.40x in FY20 as against 3.32x & 1.88x in FY19. As per FY21 (Prov) results, ICR stands at 3.48x and DSCR stands at 1.35x. TOL/ANW improved to 1.10x in FY21(Prov) as against 1.38x in FY20.

Key Rating Weaknesses

Elongated Operating Cycle

The operating cycle of the group elongated to 109 days as on March 31, 2021(Prov) (PY: 104 days). The increase in working capital cycle was largely on account of increase in average inventory period to 94 days as on March 31, 2021(Prov) (PY: 83 days). Debtor collection period stood at 22 days as on March 31, 2021(Prov) (PY: 27 days). Going forward, any further deterioration in operating cycle and resultant adverse impact on the liquidity position shall remain key monitorable.

Highly fragmented industry with intense competition from large number of players

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



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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.

Analytical Approach: Consolidated Approach

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 moving forward known as Raja Cotton Group, as they are in the same lines of business, under the same management.

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

Extent of consolidation: Full

Applicable Criteria

Rating Methodology for Manufacturing

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The Group has adequate liquidity as seen by Gross Cash Accruals of Rs.28.92 Crores in FY20 as against current maturities of long-term borrowings amounting to Rs.15.14 Crores. The Group has reported GCA of Rs.35.76 Crores as per FY21(Prov) results as against repayment obligation of Rs.21.89 Crores. The working capital limits of the group are utilized to the extent of ~40% during the past 12 months ended February, 2021 indicating sufficient liquidity buffer. The current ratio reported by the group is 2.07x in FY21(Prov) and expected to be at similar levels during the projected period. Moreover, the group has adequate gearing headroom on the back of its strong capital structure.



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About the Group and the Firm

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.

Financials (Consolidated):

(Rs. Crore)

For the year ended* / As on	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	671.80	667.35
EBITDA	47.88	61.89
PAT	13.94	22.68
Total Debt	285.38	286.12
Tangible Net worth (Book Value)	122.02	140.04
Adjusted Tangible Net worth	189.51	217.85
EBIDTA Margin (%)	7.13	9.27
PAT Margin (%)	2.03	3.36
Overall Gearing Ratio (x) on Book TNW	2.34	2.04
Overall Gearing Ratio (x) on Adjusted TNW	1.15	0.96

* Classification as per Infomerics' standards

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	707.08	575.00
EBITDA	1.26	3.81
PAT	1.97	2.34
Total Debt	72.43	81.51
Tangible Net worth (Book Value)	12.68	14.27
Adjusted Tangible Net worth	53.23	59.78



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EBIDTA Margin (%)	0.18	0.66
PAT Margin (%)	0.28	0.40
Overall Gearing Ratio (x)	5.71	5.71
Overall Gearing Ratio (x) on Adjusted TNW	0.60	0.60

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL in its press release dated October 26, 2020 has informed that CRISIL has migrated the rating of Raja Industries to "Issuer Not Cooperating" category due to unavailability of adequate information.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facilities – Cash Credit	Long Term	50.00	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implications)	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Mr. Deepak Kumar

Tel: (011) 24601142

Email: deepak.kumar@infomerics.com



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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 I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long term Bank Facilities – Cash Credit	--	-	-	50.00	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implications)

Annexure II: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Raja-Industries-lenders-27may21.pdf>



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Annexure III: List of entities considered for consolidated analysis

Group Companies	Extent of Consolidation (%)
1. Raja Industries	100%
2. Raja Spintex LLP	100%
3. Raja Texspin LLP	100%
4. D. Raja Cotton Private Limited	100%