

# Ratings

## Rating Rationale

November 04, 2019 | Mumbai

### RSPL LIMITED

*Rating outlook revised to 'Stable'; ratings reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.2654 Crore
Long Term Rating	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.100 Crore Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Rs.200 Crore Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Rs.400 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has revised its outlook on the long term bank facilities and non convertible debentures of RSPL Limited (RSPL) to 'Stable' from 'Positive' and reaffirmed the rating at 'CRISIL AA-'. The rating on the short term bank facilities and commercial paper programme has been reaffirmed at 'CRISIL A1+'.

The rating action reflects continuation of moderate credit metrics, owing to delay in reduction of debt levels, which rose sharply due to the large capital spending of around Rs.4250 crore for soda ash project at Dwarka, Gujarat. RSPL had planned to raise equity through an initial public offering (IPO) in the second half of fiscal 2020, and proceeds of about Rs.1400-1500 crore were to be utilised to lower debt levels. The IPO, however, is likely to be delayed by at least a year, due to tepid market conditions for the fast moving consumer goods sector, and is expected to happen in the second half of fiscal 2021.

Debt levels rose sharply over the past three years and were at Rs.2963 crore at March 31, 2019. Debt is expected to peak at Rs.3300-3400 crores in fiscal 2020, as RSPL completes other phases of its soda ash project, which has already commenced soda ash manufacturing recently. After initial teething issues, the operations have stabilised in 2<sup>nd</sup> quarter of fiscal 2020.

Owing to the large debt stock, RSPL's debt metrics such as total debt to earnings before interest, tax, depreciation and amortisation (EBIDTA) was at elevated levels at 5.7 times in fiscal 2019. Also as fiscal 2020 will be the first year of full interest cost of the project to be expensed, the interest cover is expected to moderate around 2.8-3 times in fiscal 2020 from 7.4 times in fiscal 2019. With benefits of backward integration (soda ash being a key ingredient in production of detergent) kicking in resulting into better operating profitability, the company's Debt to EBIDTA is expected to gradually correct to 5.2 times in 2020 and below 4.5 times in fiscal 2021 (without factoring in effect of debt reduction due to proposed IPO). Debt metrics will still remain moderate for the rating category; raising equity therefore is critical and the time and extent of debt reduction via IPO remains a key sensitivity factor.

In first half of fiscal 2020, the company posted revenue of around Rs 2300 crore, while the operating margin improved to 13.4% from 11.0% in similar period last fiscal owing to backward integration benefits from Soda Ash project. The margin improvement was in spite of the initial teething issues faced in the project and constrained availability of linear alkyl benzene (LAB, a raw material for detergent) due to maintenance and fire incident at one of the principal suppliers during first quarter of fiscal 2020. Going forward, revenue growth is expected at around 5% per annum and with the ramping up of soda ash manufacturing unit and operating margins are expected to improve to 13.5-14% over medium term.

CRISIL's ratings on RSPL continue to reflect the company's strong market position with leadership of its 'Ghari' brand in detergent industry and healthy financial flexibility of the company. These rating strengths are partially offset by moderating financial risk profile and high dependence on Ghari brand and exposure to competitive nature of the industry.

#### Key Rating Drivers & Detailed Description

##### **\* Leadership position in the economy segment of detergent industry, especially in North and Central India**

RSPL has a leadership position in the economy detergent segment through its flagship brand, Ghari, especially in North and Central India. RSPL has established a strong network of distributors and dealers. It registered healthy growth in revenue with a compound annual growth rate of around 9% over the six fiscals through fiscal 2019. CRISIL believes that RSPL will continue to benefit from the strong brand equity of its flagship brand, Ghari, and focus on penetrating into new geographies gradually over the medium term.

Operating efficiencies are expected to improve over the medium term, on account of healthy demand growth, and captive

sourcing of soda ash. The induction of experienced management has helped RSPL for faster execution of the greenfield plant and will benefit for ramp-up of operations. The captive consumption of soda ash for detergent manufacturing results in low demand risk for the new plant. Once full capacity utilization is achieved by fiscal 2021, the project is expected to generate incremental EBIDTA of Rs 200-250 crore per annum due to backward integration.

**\* Healthy financial flexibility of the company, marked by steady cash accruals, long tenure of project debt and low working capital requirements due to cash nature of business.**

RSPL set up a 0.5 million tonne per annum (mtpa) soda ash plant to integrate backwards and secure its raw material supply. RSPL's financial risk profile moderated in fiscal 2018 and 2019 as compared to fiscal 2017 due to contraction of large project debt of Rs. 2531 crore. However financial flexibility continues to be healthy with debt repayments well-spaced out and ballooning repayment over 11 years for projects loans commencing from fiscal 2021.

The liquidity of the company is supported by cash and equivalents of over Rs 250 crore and unutilized bank lines of around Rs 200 crore as on August 31, 2019.

The company's working capital requirements are low owing to its cash nature of business. The debtor days have remained between 2-4 days over past 10 years, while inventory days are matched with payable days. RSPL had government dues of over Rs. 600 crore as on March 31, 2019, in the form of GST receivables and capital subsidy receivables, the recovery of the same will also help accelerated improvement in the financial profile and movement in the same will remain key monitorable.

**Weaknesses**

**\* Moderating financial risk profile**

The high debt raised for the debt-funded soda ash project carried out by RSPL has led to moderating financial risk profile, with debt to EBIDTA ratio deteriorating from 0.9 times in fiscal 2016 to 5.7 times in fiscal 2019. While the gross debt/EBIDTA and interest cover is expected at 5.0-5.2 times and below 3 times respectively in fiscal 2020, the same will see improvement from fiscal 2021 with backward integration benefits kicking in. Timely equity raising leading to debt reduction, and benefit of backward integration through improvement in operating profitability will remain key monitorables.

**\* High dependence on Ghari brand and competitive nature of the industry**

RSPL has high dependence on the Ghari brand, which contributes to over 90% of its revenue and profit. RSPL has expanded its product and brand portfolio with new products such as Uniwash (mid-premium category detergent), Xpert (dish washing soaps), and Venus (bathing soaps), and Pro-ease (sanitary pads). The company intends to diversify its product offerings further over the medium to long term; nevertheless, RSPL will continue to extensively depend on the Ghari brand over the near to medium term.

Also, intense competition in the economy detergent segment from other large players and unorganised players limits company's ability to pass on price hikes to its end users. There are other large players in the segment, Hindustan Unilever Ltd (HUL; rated 'CRISIL AAA/Stable'; with its brand Wheel), Procter & Gamble Hygiene & Health Care Ltd and Nirma Ltd ('CRISIL AA/Stable/CRISIL A1+'). These players are well-established in the domestic market, especially in the western and southern parts of India. The high competitive intensity is also reflected in the lower volume growth for the company over last 2 fiscals at around 1-2% per annum as against the industry volume growth of 3-4%.

**Liquidity : Strong**

RSPL has strong liquidity driven by expected cash accruals of more than Rs 280-430 crore per annum over fiscal 2020 to 2022 as against term debt repayments of Rs. 140 ' 230 crore over similar period. The liquidity is also supported by cash and cash equivalents of over Rs 250 crore as on August 31, 2019 and availability of unutilized bank lines of around Rs 200 crore. RSPL also has access to fund based limits of Rs 636 crore, utilized to the tune of 64% on an average over the 7 months ended August 2019. Post incurring Rs 500 crore capex towards completion of soda ash project in fiscal 2020 which will be partly funded out of the contracted project debt, the company will have modest capex of Rs 100-150 crore in fiscal 2021-2022. CRISIL expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations, as well as incremental capex requirements.

**Outlook: Stable**

CRISIL believes that RSPL will continue to benefit from its established market position, and improving operating efficiencies due to backward integration. Its average financial profile is also expected to benefit from proposed equity to be raised in the next 12-15 months, which will be used to lower debt levels, which have risen owing to sizeable soda ash project.

**Rating sensitivity factors**

**Upward factors:**

- \* Improvement in financial risk profile on account of sizeable equity infusion or improved operating performance leading to Debt/EBIDTA falling below 2 times
- \* Improvement in operating performance with op margin above 14%, also benefiting ROCE

**Downward factors**

- \* Weak revenue growth and lower than expected operating profitability (below 13%), including due to delayed stabilisation of soda ash plant, impacting cash generation
- \* Delay in equity infusion in fiscal 2021, leading to continuing elevated debt levels, delaying anticipated correction in credit metrics - Debt/EBITDA remaining above 4.5 times or interest cover remaining below 2.6 times in fiscal 2021.

**About the Company**

RSPL was incorporated in 1988 as a manufacturer of detergents. The company sells detergent powders and cakes through Ghari, its flagship brand. RSPL has also launched other brands such as Uniwash, Xpert, Venus and Pro-ease.

RSPL has set up 0.5 mtpa soda ash plant in Dwarka district of Gujarat. The company has commenced operations of one stream of the project in October 2018 while second stream commenced operations in March 2019. The company has also set

up a cogeneration steam and power plant to produce 300 tonne per hour of steam and 50 megawatt of power. The overall project cost is estimated at Rs. 4250 crore.

### Key Financial Indicators

Particulars for period ended March 31,	Unit	2019	2018
Revenue	Rs. Cr.	4534	4393
Profit After Tax (PAT)	Rs. Cr.	252	233
PAT Margins	%	5.6	5.3
Adjusted debt/adjusted networkth	Times	1.41	1.21
Interest coverage	Times	7.4	9.3

**Any other information:** Not applicable

### Note on complexity levels of the rated instrument:

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### Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Long Term Loan	Sept-15	NA	Sept-23	26.93	CRISIL AA-/Stable
INE816K07017	Debenture	Oct-16	NA	31-Aug-27	200	CRISIL AA-/Stable
NA	Debenture#	NA	NA	NA	100	CRISIL AA-/Stable
NA	Commercial Paper Programme	NA	NA	7-365 days	400	CRISIL A1+
NA	Cash Credit	NA	NA	NA	289.0	CRISIL AA-/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	300.0	CRISIL A1+
NA	Long Term Loan	Mar-17	NA	Jun-31	1000.0	CRISIL AA-/Stable
NA	Long Term Loan	Mar-17	NA	Jun-31	500.0	CRISIL AA-/Stable
NA	Long Term Loan	Mar-17	NA	Jun-31	300.0	CRISIL AA-/Stable
NA	Long Term Loan	Mar-17	NA	Jun-31	181.0	CRISIL AA-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	38.07	CRISIL AA-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	19	CRISIL AA-/Stable

#Yet to be issued

### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	400.00	CRISIL A1+			26-12-18	CRISIL A1+	01-12-17	CRISIL A1+	31-08-16	CRISIL A1+	CRISIL A1+
								20-03-17	CRISIL A1+			
Non Convertible Debentures	LT	300.00 04-11-19	CRISIL AA-/Stable			26-12-18	CRISIL AA-/Positive	01-12-17	CRISIL AA-/Positive	31-08-16	CRISIL AA-/Positive	CRISIL AA-/Positive
								20-03-17	CRISIL AA-/Positive			
Fund-based Bank Facilities	LT/ST	2354.00	CRISIL AA-/Stable			26-12-18	CRISIL AA-/Positive	01-12-17	CRISIL AA-/Positive	31-08-16	CRISIL AA-/Positive	CRISIL AA-/Positive
								20-03-17	CRISIL AA-/Positive			
Non Fund-based Bank Facilities	LT/ST	300.00	CRISIL A1+			26-12-18	CRISIL A1+	01-12-17	CRISIL A1+	31-08-16	CRISIL A1+	CRISIL A1+
								20-03-17	CRISIL A1+			

All amounts are in Rs.Cr.

### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	289	CRISIL AA-/Stable	Cash Credit	239	CRISIL AA-/Positive
Letter of credit & Bank Guarantee	300	CRISIL A1+	Letter of credit & Bank Guarantee	300	CRISIL A1+
Long Term Loan	2007.93	CRISIL	Long Term Loan	2066.73	CRISIL

		AA-/Stable			AA-/Positive
Proposed Fund-Based Bank Limits	38.07	CRISIL AA-/Stable	Proposed Fund-Based Bank Limits	29.27	CRISIL AA-/Positive
Proposed Working Capital Facility	19	CRISIL AA-/Stable	Proposed Working Capital Facility	19	CRISIL AA-/Positive
<b>Total</b>	<b>2654</b>	<b>--</b>	<b>Total</b>	<b>2654</b>	<b>--</b>

**Links to related criteria**

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Fast Moving Consumer Goods Industry](#)

[CRISILs Criteria for rating short term debt](#)

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