

Eluru Jute Mills Private Limited

January 06, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	93.25	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Long Term / Short Term Bank Facilities	8.20	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable / A Four)	Revised from CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four)
Total Facilities	101.45 (₹ One Hundred One Crore and Forty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of Eluru Jute Mills Private Limited (EJMPL) is on account of continuous losses since FY20, deteriorating and weak solvency metrics, working capital-intensive business, stiff competition from other Jute and synthetic players. The rating continues to remain constrained by unrelated diversification in real estate business with high reliance on the customer advances. The ratings however remain underpinned by resourceful promoters, experienced and qualified management team, satisfactory total operating income albeit operating losses and government support to the jute industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Improvement in overall financial risk profile
- ✓ Notable improvement in liquidity and profits.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Significant erosion of net worth due to net losses, impacting the solvency position
- ✗ Delay in the collection of advances from the customer (for real estate project)

Detailed description of the key rating drivers

Key Rating Weaknesses

Improved total operating income (TOI) albeit continued losses during FY22

The Total operating income of the company has marginally improved by 13% to Rs. 337 crore in FY22 from Rs 298 crore in FY21, majorly due to increase in demand from the export and domestic market, at the back of easing Covid related restriction. Despite increase in TOI, the company has incurred operating loss at Rs 5.62 crore in FY22 from operating profit of Rs 2.77 crore in FY21, due to increase in raw material prices coupled with increase in freight charges for transportation of raw jute from eastern part of India. The increase in raw material prices was not fully passed on to the customer due to stiff competition from the cheaper synthetics from Bangladesh. The company has continued to incur net losses in FY22, and the same was widened to Rs 14.17 crore, due to interest and depreciation charges. And due to the above-mentioned factors, the company has incurred cash losses in FY22.

In the current year till H1FY23 the company has achieved a TOI of Rs 64.79 crore with a negative PBT of Rs 7.36 crore.

Leveraged capital structure:

The capital structure has continued to deteriorate and stands leveraged marked by overall gearing at 4.88x as on March 31, 2022 compared to 3.37x as on March 31, 2021, due to reporting net loss during FY22, which has resulted erosion of net worth from Rs 36.40 crore in FY21 to Rs 22.24 crore in FY22. The debt coverage indicators were weak due to operating and cash loss in FY22.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Elongated inventory holding

The major raw material using by the company is raw jute whose production is seasonal in nature. Furthermore, being an agro commodity, the production of jute is governed by various factors such as area under cultivation, monsoon and government regulation. This makes Jute based industries to store sufficient amount of raw material for uninterrupted production. The collection period has improved and remained stable at 25 days in FY22, as compared to 30 days in FY21. The average credit period was 47 days in FY22, as compared to 64 days in FY21. However, inventory period increased to 132 days in FY22 from 127 days in FY21, resulting in an increase in operating cycle period from 92 days in FY21 to 111 days in FY22. The operating cycle is expected to improve in current year on account of better inventory management.

Stiff competition from Bangladesh

The industry faces stiff competition from Bangladesh on account of relatively better quality of jute, lower wages & power cost and substantial government assistance. It is also facing competition from cheaper synthetics. Bangladesh Government provides 10% export subsidy and 7.5% on yarn. Whereas, India allows only 3.92% benefit on export. However, Government imposed anti-dumping duty ranging from USD 6.30 to USD 351.72 per tonne on imports of jute and its products from Bangladesh and Nepal which has provided scope for additional demand of 2 lakh MT of jute goods in the domestic market for the Indian jute industry.

Unrelated diversification

EJMPL has ventured into real estate residential development (land completely owned by company) namely "Green grace" at Guntur, Andhra Pradesh. The residential complex is being built in phases with an area of 5.28 acres having 510 flats in 3 towers namely Rose, Jasmine, Lotus and one amenities block. The total built up area of the 3 blocks would be around 1,52,191 sq.m with saleable area of 88,697.13 sq.m. A total of 510 flats are expected to be constructed with 210 flats in the Rose tower, 225 flats in Jasmine tower and remaining 75 flats in Lotus tower. The company has received bookings for 102 flats in Rose tower and 71 flats in Jasmine tower with aggregate of 173 flats (about 34% flats booked) and aggregate advances received of Rs.44.91 crore (price:4000/ Sq. ft.). The project is registered with RERA and all the three towers are expected to complete by December 2024. The estimated cost of the project is Rs 345 crore which is funded with the help of term loan worth Rs 30.00 crore (8.70%), promoter infusion in the form of USL of Rs 26.50 crore (7.70%) with transfer of land from promoters valued at Rs 78 crore (22.6%) and customer advances of Rs 210.5 crore (61%). Till September 30, 2022, 48% of the project is completed and financed through customer advances, promoter funds, transfer of lands, and term loan. The construction of the apartments is proposed to be done in a phased manner and the entire project is expected to be completed by 2025. The company has got the term loan sanctioned. Further, timely completion of the project without incurring any cost overrun, ability of the company to sell all the units as envisaged and ability to achieve the projected cash flows from this venture remain critical from credit rating perspective

Liquidity analysis – Stretched

The liquidity position of the company is stretched characterized by high repayment with negative CFO as on March 31, 2022. The company is further expecting to incur losses in FY23 as well, which would be absorbed from the cash flows of the real estate business activity. The current ratio has improved and stood above unity at 1.27x as on March 31, 2022 (PY: 0.87x), further the promoters are resourceful and can infuse funds as and when required. The WC utilization has come down due to shut down of its 2 of 3 units from February 2022, therefore, the WC for these 2 units completely remains un-utilized, and as a result at a consolidated level, the WC utilization has come down to 50% for the last 12 months ended November 2022.

Key Rating Strengths**Experienced promoters with established track record**

EJMPL is managed by Mr. Brij Gopal Lunani, his sons, Mr. Sivasankar Lunani and Mr. Manohar Gopal Lunani. Mr. Brij Gopal Lunani, Managing Director of the company has over five decades of experience in the jute industry. He took over the Guntur unit of SBJMPL, through BIFR in 1994 and turned it around; which came out of purview of BIFR in 2002. Mr. Sivasankar Lunani, Executive Director of the company has over two decades of experience in jute industry currently looks after Krishna Hessians, an export-oriented unit of the company engaged in manufacturing of Hessians. Mr. Manohar Gopal Lunani, another key promoter of the company has over four decades of experience in Jute industry. The promoters look after day-to-day operations of the company and they are assisted by a team of experienced professionals. Promoters of the company have been infusing the capital in the form of unsecured loans to support the operation as and when required.

Government Support to the Jute Industry

The jute sector occupies an important place in the Indian economy (particularly Eastern India) in terms of providing employment opportunities to large labor force and export revenue generation. The industry faces stiff competition from Bangladesh on account of relatively better quality of raw jute, lower wages and substantial government assistance in terms of subsidy. It is also facing competition from cheaper plastics. Jute industry is highly regulated in nature as government determines the minimum support prices of jute crops for each crop year and custom duty, taxes, etc. on jute and related products. Government has extended the mandatory packaging of food grains and sugar products in jute bags during every jute year (pertains to period from July 1 to June 31); which will help sustain the core demand for the jute sector. Additionally, with the view to demand for domestic jute products, the government has imposed Anti-Dumping Duty on import of jute goods from Bangladesh and Nepal. Jute, being a strong, versatile, eco-friendly & highly spin able fiber, is likely to attract more attention of the user industries in the long-term due to concerns over usage of synthetic products

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Rating methodology for Real estate sector](#)

About the company

Eluru Jute Mills Private Limited (EJMPL) previously known as Sri Bajrang Jute Mills Private Limited (SBJMPL), a part of East India Commercial group was established during 1957. During 2016, the management proposed merger of the two group companies; i.e. East India Commercial Company Ltd (EICCL) and SBJML, which was approved by NCLT during May, 2018 (merger effective April 01, 2016) and subsequently, the name has been changed to Eluru Jute Mills Private Limited vide Certificate of Incorporation dated September 06, 2018. The company is engaged in manufacturing of jute bags, hessians and other jute products at its three manufacturing units located in Andhra Pradesh and Chhattisgarh. EJMPL has recently ventured into real estate business and is constructing residential apartments in Guntur, AP spread across an area of 5.28 acres.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	298.40	336.66	64.79
PBILDT	2.77	-5.62	-
PAT	-2.82	-14.17	-
Overall gearing (times)	3.37	4.88	-
Interest coverage (times)	0.39	-0.92	-

*Audited, UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	57.50	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	31/12/2024	35.75	CARE BB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	8.20	CARE BB-; Stable / CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	35.75	CARE BB-; Stable	1)CARE BB; Stable (29-Jun-22)	1)CARE BB; Stable (24-Nov-21)	1)CARE BB; Stable (24-Nov-20)	1)CARE BB+; Stable (09-Oct-19)
2	Fund-based - LT-Cash Credit	LT	57.50	CARE BB-; Stable	1)CARE BB; Stable (29-Jun-22)	1)CARE BB; Stable (24-Nov-21)	1)CARE BB; Stable (24-Nov-20)	1)CARE BB+; Stable (09-Oct-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	8.20	CARE BB-; Stable / CARE A4	1)CARE BB; Stable / CARE A4 (29-Jun-22)	1)CARE BB; Stable / CARE A4 (24-Nov-21)	1)CARE BB; Stable / CARE A4 (24-Nov-20)	1)CARE BB+; Stable / CARE A4+ (09-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure 4: Complexity level of various instruments rated for this company:**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company:To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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