

Ludlow Jute & Specialities Limited

January 06, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	30.55 (Enhanced from 26.23)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	65.00	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	45.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	140.55 (₹ One Hundred Forty Crore and Fifty-Five Lakhs Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Ludlow Jute & Specialities Ltd. (LJSL) continue to derive strength from the experienced promoters with long and satisfactory track record, development of innovative products for exports, low counterparty payment risk, improvement in financial performance in FY22 (refers to the period April 1 to March 31) albeit moderation witnessed in H1FY23.

The ratings, however, remain constrained by LJSL's moderate debt protection metrics, relatively low operating margin, exposure to risk of raw jute price volatility, foreign exchange fluctuation risk, labour-intensive nature of operation, working capital-intensive nature of operation, regulatory nature of the industry.

Rating sensitivities

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

- Increase in sale of value-added products leading to sustained improvement in PBILDT margin above 8% and PAT margin above 4%.

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

- Substantial decline in revenue with PBILDT margin below 3% on a sustained basis.
- Further deterioration in operating cycle above 90 days.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long and satisfactory track record

LJSL, incorporated in 1921, was taken over by the current promoter, Mr. S.S. Kanoria of Kolkata, in 1977. During the past four decades, he, along with his son and a team of experienced professionals, has been successful in making the company profitable. Kanoria Chemical Industries Ltd (KCIL), the flagship company of the group, is engaged in the manufacturing of chemicals and is rated CARE A-; Stable/ CARE A2+.

Development of innovative products for exports

LJSL with its R&D team has developed innovative jute products such as cotton bagging, soil saver, webbing, jute mesh/scrim, jute felt, horticultural range, carpet backing etc. LJSL continues to export yarn, webbing, scrim and other value-added products to Italy, Turkey, Belgium, Saudi Arabia, Canada, some states in the US and Germany. It enjoys an established position in the export market driven by product innovativeness and quality. The exports account for roughly 21% of the sales.

Relatively low counter-party payment risk

LJSL's major customers in the domestic market include the Director General of Supplies & Disposals, the Food Corporation of India, among others.; this, assures a steady stream of revenue. Supplies to government institutions have accounted for roughly 55-65% of net sales over the last three-and-a-half years (FY20-H1FY23). Government orders provide revenue and price visibility as jute bag prices in India are fixed on a price formula of the Tariff Commission of 2001, wherein any sudden increase in variable costs (i.e. raw-material, labour and power) may be passed-on to the government institutions with a lag. Furthermore,

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

part of the export sales is backed by letter of credit and advance payments resulting in mitigation of counter party payment risk to an extent. The company has sufficient orders at hand for sales in the future.

Improvement in financial performance in FY22 with moderation witnessed in H1FY23

LJSL's income from operations improved to Rs.572 crore in FY22 from Rs.419 crore in FY21. Income from domestic sales grew by 37% due to higher volume as well as realisation. The sales volume increased from 40,063MT in FY21 to 46,374MT in FY22. The government had fixed the selling price of jute at Rs.65,000/MT from October 2021 until May 2022 resulting in adverse impact on the profitability margin for the company from H2FY22 upto Q1FY23. However, on an overall level the operating margin of the company improved during FY22 to 4.85% vis-à-vis 3.38% in FY21 on the back of increased absorption of fixed costs and wages on increased volume and turnover witnessed in FY22. Consequently, the company earned a PAT Rs.11.67 crore in FY22 as compared with Rs.0.03 crore in FY21.

In H1FY23, the company has reported stable turnover at Rs.278 crore as compared with Rs.286 crore in H1FY22. However, a sharp dip in the operating margin was witnessed in H1FY23 to 3.22% as compared with 7.43% for H1FY22 due to the fixing of selling price of jute as explained above. The profitability has started improving from Q2FY23 as the price cap has been lifted.

Key rating weaknesses

Moderate debt protection metrics

The debt equity and overall gearing of LJSL stood at 0.14x and 0.56x, respectively, as on March 31, 2022, vis-à-vis 0.19x and 0.61x, as on March 31, 2021. The debt equity and overall gearing of LJSL improved marginally on account of accretion of profits to reserves. The term debt/GCA and total debt/GCA improved significantly to 1.28x and 4.92x, respectively, as on March 31, 2022, as compared with 4.18x and 13.10x, as on March 31, 2021, due to significant increase in GCA.

As on September 30, 2022, the overall gearing ratio of the company increased to 0.65x due to increase in term loans to fund replacement capex. The debt repayment cycle of the company is well spaced out providing them enough time to realise income and meet the obligation. Going forward, the capital structure is expected to improve with repayment of debt obligations and no major debt funded capex.

Risk of raw jute price volatility

LJSL procures raw jute domestically and imports from Bangladesh. The company is exposed to raw material price fluctuation and it accounted for around 64% of cost of sales in FY22 (around 62% of cost of sales in FY21). The price of raw jute, being an agricultural product, is volatile, since it depends on the vagaries of nature and crop economics. However, the impact of raw-material price fluctuation on profitability is limited to an extent of three months for government sales (from the date of order), as the government considers three months weighted average prices of raw jute while calculating the rate for procuring jute bags.

Foreign exchange fluctuation risk

LJSL is moderately exposed to foreign exchange fluctuation risk since it also exports a sizeable quantity; and revenue from exports has been in the range of around 18-22% of the total revenue. However, the company enters into forward contracts for the foreign exchange exposure, thereby mitigating the foreign exchange fluctuation risk to an extent. In the past three years, the company has not recorded losses due to forex price volatility risk, as INR has mostly depreciated during the period.

Labour intensive nature of operations

The jute industry is highly labour-intensive, entailing high employee expenses. LJSL's employee expense continued to account for around 18-22% of the cost of sales during FY20-FY22. Although the industry faces production issues due to absenteeism, LJSL has managed to keep it under control. LJSL is strategically trying to reduce its dependency on the existing labour requirement per tonne of finished jute products by installing modernised looms and spinning mills. During FY22, the wages/MT of the company has decreased slightly to Rs.19,600/MT from Rs.20,385/MT in FY21, on account of higher production resulting in higher absorption of fixed wages.

Working capital intensive nature of operation

LJSL's operation is working capital intensive in nature due to the seasonal nature of the product. During the harvesting season the company needs to have an ample stock of raw materials. Once harvested, the raw materials are stored for later use resulting in an increase in the inventory holding period. A standard credit period needs to be provided to its customers in view of the general practice in the jute industry. However, the labour needs to be paid immediately (which is a high-cost component in jute manufacturing companies) thereby increasing working capital needs. The collection period reduced from 30 days in FY21 to 23 days in FY22 on account of lower level of debtors despite the increase in sales in FY22. The average credit period also reduced from 47 days in FY21 to 30 days in FY22. The inventory period also reduced from 106 days in FY21 to 73 days in FY22.

on account lower levels of inventory in FY22. Consequently, the operating cycle of the company reduced from 89 days in FY21 to 67 days in FY22.

Regulatory nature of the industry

The regulatory nature of the industry does not allow the manufacturers to control the pricing as per the demand and supply. The jute industry is highly regulated in nature as the government determines the minimum support prices of jute crops for each crop year and custom duty, taxes, etc., on jute and related products. They are completely dependent on the government, who undertakes the pricing for the raw materials (in case of supply to government institutions). The lack of control in the hands of the manufacturers exposes them to a regulatory risk.

Liquidity: Adequate

LJSL earned a GCA of Rs.19.89 crore in FY22 and Rs.4.86 crore as on September 30, 2022, vis-a-vis a debt obligation of Rs.10.44 crore FY22 and Rs.4.84 crore in H1FY23. Further, the average bank limits utilization for the 12 months ended October 31, 2022, stood at around 96%. The inventory period also reduced from 106 days in FY21 to 73 days in FY22 on account lower levels of inventory as on March 31, 2022. Consequently, the operating cycle of the company reduced from 89 days in FY21 to 67 days in FY22.

Analytical approach

Standalone factoring Kanoria group support.

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](#)

About the company

LJSL, incorporated in 1921, is the engaged in manufacturing and selling of jute products, with an aggregate installed capacity of 67,500 MTPA at its unit in Howrah, West Bengal. In 1977, LJSL was taken over by the Kolkata-based Kanoria group, having major interest in chemicals, textiles and jute.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	418.56	572.01	277.57
PBILDT	14.15	27.75	8.96
PAT	0.03	11.67	0.78
Overall gearing (times)	0.61	0.56	0.65
Interest coverage (times)	1.93	4.31	2.35

A: Audited; UA: Unaudited.

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

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	65.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	27.50	CARE A2+
Term Loan-Long Term		-	-	March 2028	30.55	CARE A-; Stable

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/ ST-CC/Packing Credit	LT/ST*	65.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (25-Feb-22) 2)CARE A-; Stable / CARE A2+ (07-Feb-22)	1)CARE A-; Stable / CARE A2+ (07-Jan-21)	1)CARE A-; Stable / CARE A2+ (06-Mar-20)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A2+	-	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)
3	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A2+	-	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)
4	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A2+	-	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)
5	Term Loan-Long Term	LT	30.55	CARE A-; Stable	-	1)CARE A-; Stable (25-Feb-22) 2)CARE A-; Stable (07-Feb-22)	1)CARE A-; Stable (07-Jan-21)	1)CARE A-; Stable (06-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated 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/ ST-CC/Packing Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple
5	Term Loan-Long Term	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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