Ludlow Jute and Specialities Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	**32.41 (Reduced from 34.48)**	**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 Facilities	**142.41 (Rs. One Hundred Forty-Two Crore and Forty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Ludlow Jute & Specialities Ltd (LJSL) continue to derive strength from experienced promoters with long & satisfactory track record, satisfactory capacity utilization (CU) albeit moderation in during H1FY21, improvement in financial performance of the company in FY20 (refers to the period April 1 to March 31) albeit moderation witnessed in H1FY21, development of innovative products for export, low counterparty payment risk. Operations were affected by the lockdown imposed by the government due to COVID-19 pandemic, as the mills were shut down until mid-May, 2020. The production resumed in May 2020 and gradually ramped up to pre-lockdown levels by Q2FY21.

The ratings, however, remain constrained by moderation in debt protection metrics, risk of raw jute price volatility, foreign exchange fluctuation risk, labour intensive nature of operations, working capital intensive nature of operation, regulatory nature of the industry and stiff competition.

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:

- PBILDT margin below 3% on sustained basis and GCA below Rs.6 crore.
- Further deterioration in operating cycle above 90 days.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long & satisfactory track record

LJSL, incorporated in 1921, was taken over by the current promoter, Shri S.S. Kanoria of Kolkata, in 1977. During the last 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; rated CARE A; Negative/CARE A1), the flagship company of the group, is engaged in the manufacturing of chemicals.

Development of innovative products for export

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 US and Germany. The exports account for roughly 15-20% of the sales.

Relatively low counter-party payment risk

LJSL's major customers in the domestic market are Director General of Supplies & Disposals and Food Corporation of India, etc., which assure steady stream of revenue. Supplies to government institutions have accounted for roughly 60%-70% of net sales over the last four years (FY17-FY20). Government orders provide demand and price visibility as jute sack 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. Further it also ensures steady stream of revenue to LJSL. As on November 22, 2020, the company has order book of Rs.83.98 crore out of which Rs.44.50 (53%) is from government, Rs.29.26 crore (35%) of export order and Rs.10.21 crore (12%) of local order. Accordingly, risk of default arising on account of non-payment remains relatively low.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Satisfactory Capacity Utilization (CU) albeit moderation during H1FY21

The capacity utilisation of the company in FY20 improved to 71% as against 66% in FY19 on the back of sufficient orders. The company produced 47,784 MT in FY20 vis-a-vis 44,796 MT in FY19 on an installed capacity of 67,500 MTPA. However in H1FY21, the effective capacity utilization declined to 44% on account of muted production of 4,115 MT during Q1FY21 (~18%) due to spread of COVID-19.

In FY20, the company supplied 33,592 MT to the government for Rs.273.37 crore as against 33,665 MT in FY19 for ~Rs.254.58 crore.

Improvement in financial performance of the company in FY20 albeit moderation witnessed in H1FY21

LJSL's income from operations grew by 12%, from Rs.369.94 crore in FY19 to Rs.415.70 crore in FY20 despite setback faced by the company towards later half of March'2020 on account of COVID-19. Income from domestic sales grew by 52% due to higher volume as well as realization.

Due to better realization coupled with volume growth vis-à-vis lower increase in RM price followed by reduction in wages/MT, the PBDILT margin also improved to 4.86% in FY20 from 3.42% in FY19. Consequently, the company reported PAT of Rs.5.01 crore in FY20 vis-à-vis Rs.1.55 crore in FY19 despite increase in capital charge. GCA of the company was satisfactory and improved to Rs.11.82 crore in FY20 (Rs.7.11 crore in FY19) vis-à-vis negligible debt repayment obligation (Rs.0.30 crore).

In H1FY21, the company reported de-growth of 25% to Rs.151.83 crore from Rs.199.11 crore in H1FY20 on account of muted sales of Rs.47.69 crore in Q1FY21 which was due nation-wide lockdown imposed by the government to contain the spread of COVID-19. Further, the lack of availability of labour rendered the operations to come to a halt till May 04, 2020 when it resumed at a lower capacity and gradually ramped up by the end of June, 2020. Consequently, the company reported PBDILT and PAT of Rs.3.45 crore and (Rs.2.49 crore) respectively vis-à-vis Rs.10.83 crore and Rs.3.70 crore in H1FY20.

Key Rating Weaknesses

Moderation in debt protection metrics

The debt equity and overall gearing of LJSL stood at 0.14x and 0.59x respectively as on March 31, 2020 vis-à-vis 0.12x and 0.47x as on March 31, 2019 vis-à-vis 0.06x and 0.40x as on March 31, 2018. The debt equity and overall gearing of LJSL deteriorated marginally on account of term loan availed for capital expenditure and higher utilisation of working capital borrowing along with availment of inter-corporate deposit of Rs.10.23 crore. The said ICD is short term in nature and was taken to meet the credit requirement of the company in FY20 to purchase stocks. However, with accretion of profit, term debt/GCA and total debt/GCA improved to 1.96x and 8.15x as on March 31, 2020 as compared to 2.77x and 10.49x as on March 31, 2019.

As on September 30, 2020 the overall gearing ratio of the company improved to 0.46x by repayment of inter corporate deposit. The payment of the same was made through working capital borrowing and realisation from debtors. 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 also imports from Bangladesh. The company is exposed to raw material price fluctuations and it accounted for ~62% of cost of sales in FY20 (~60% of cost of sales in FY19). 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 Government takes into account 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 sizable quantity and revenue from exports has been in the range of ~25%-30% of the total revenue. However, the company enters into forward contracts with its customers, thereby mitigating the risk. In the last 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

Jute industry is highly labour intensive, entailing high employee expenses. LJSL's employee expense continued to account for ~22% to 25% of cost of sales during FY18-FY20. 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 existing labor requirement per ton of finished jute products by installing modernized looms & spinning mills. As a result, wages/MT of the company has reduced to Rs.18,908/MT in FY20 from Rs.19,493/MT in FY19, signifying better productivity of labourers.

Working capital intensive nature of operation

HIPL'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 increasing the inventory period. A standard credit period need to be provided to its customers in view of the general practice in the industry but labour needs to be paid immediately (which is a high cost component in jute manufacturing companies) thereby increasing working capital needs. The collection period remained stable at 28 days in FY19 and FY20. However, inventory period increased to 99 days in FY20 from 77 days in FY19, resulting in an increase in operating cycle period from 78 days in FY19 to 82 days in FY20.

The operating cycle deteriorated during H1FY21 to 100 days as inventory period increased to 118 days with a creditor period of 46 days.

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. 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. They are completely dependent on the government who undertakes the pricing for the raw materials (in case of supply to government institutions). Lack of control in the hands of the manufacturers exposes them to a regulatory risk.

The government also regulates the following:

1) Minimum support prices of jute crops for each crop year.
2) Average raw material pricing for government orders and
3) Custom duty, taxes, etc. on jute and related products.

The government also decides the MSP (minimum support price) of jute each year. Whenever the market price of raw jute falls below a certain level, the Jute Corporation of India (JCI) procures raw jute at MSP, fixed on the basis of recommendation of the Commission for Agricultural Cost and Prices (CACP), from jute growers to safeguard their interest. It has also been directed by the government that food grains to the extent of 100% of production and sugar to the extent of 20% shall be packed in jute packaging material, which was extended in November, 2020 under Jute Packaging Materials (Compulsory use in Packaging Commodities) Act (JPMA), 1987. However, it exempts consumer packs of 25 kg and below, and packaging of food grains and sugar for export.

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.

Industry Outlook

Under the Jute Packaging Materials (Compulsory use in Packing Commodities) Act, 1987, the government has mandated the compulsory use of jute packaging material in the supply and distribution of food grains and sugar in the interest of production of raw jute and jute packaging material. A ban has also been imposed on single use plastic, which has given impetus for jute packaging, though paper packaging is poised to give a stiff competition. This regulation is the key growth driver for the jute industry.

Liquidity Analysis: Adequate

LJSL earned a GCA of Rs.11.83 crore in FY20 and Rs.1.12crore as on Sep 30, 2020 vis-a-vis a debt obligation of Rs.0.30 crore FY20. Further the company has also paid off Rs.10.23 crore of inter corporate deposit in H1FY21 which has been met by way of realization from debtors. Further, as on Nov 30, 2020, the bank limits are utilized to the extent of 87% although supported by above unity current ratio. The operating cycle of the company continues to remain moderate at 82 days in FY20 vis-à-vis 78 days in FY19, further deteriorating to 100 days in H1FY21. LJSL is incurring capex towards modernization of its existing plant & machineries to improve its operational efficiency and reduce its dependency on labourers (which forms one of the major cost) with a capital outlay of approximately Rs.27 crore funded through term loan of Rs.20 crore and rest through internal accruals. Further, the company has opted for moratorium under RBI COVID-19 relief package.

Analytical approach: Standalone factoring Kanoria group support.

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities
Consolidation & Factoring Linkages in Ratings

About the Company

LJSL, incorporated in 1921, is 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 (Rs. crore)	FY19(A)	FY20(A)
Total operating income	369.95	415.70
PBILDT	12.65	20.19
PAT	1.55	5.01
Overall gearing (times)	0.47	0.59
Interest coverage (times)	2.25	2.80

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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 Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	65.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	27.50	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	7.50	CARE A2+
Term Loan-Long Term	-	-	September 2025	32.41	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Mar-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19) 2)CARE A; Negative / CARE A2+ (04-Apr-18)	1)CARE A; Stable / CARE A2+ (02-May-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A2+	-	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)

3.	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A2+	-	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	7.50	CARE A2+	-	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)
5.	Term Loan-Long Term	LT	32.41	CARE A-; Stable	-	1)CARE A-; Stable (06-Mar-20)	1)CARE A-; Stable (04-Jan-19) 2)CARE A; Negative (04-Apr-18)	1)CARE A; Stable (02-May-17)

Annexure-3: Detailed explanation of covenants of the rated facilities- Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple
5.	Term Loan-Long Term	Simple

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

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