

## Ludlow Jute & Specialities Limited

February 07, 2024

Facilities	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long-term bank facilities	23.44 (Reduced from 30.55)	CARE BBB; Stable	Revised from CARE A-; Stable
Long-term / Short-term bank facilities	65.00	CARE BBB; Stable / CARE A3+	Revised from CARE A-; Stable / CARE A2+
Short-term bank facilities	45.00	CARE A3+	Revised from CARE A2+

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Ludlow Jute & Specialities Limited (LJSL) is on account of moderation in financial performance of the company in FY23 (refers to the period April 1 to March 31) along with cash losses in 9MFY24 and significant compression in profitability margin. The deterioration in the profitability margin is primarily on account of inventory loss and subdued export demand of jute products.

The rating continues to derive strength from experienced promoters with long and satisfactory track record of operations, development of innovative products for exports and low counterparty payment risk.

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

The ratings also take note of the modernisation project being undertaken by the company by setting up additional plant and machinery at a project cost of Rs.25.67 crore, to be funded by term loan of Rs.20 crore and balance out of internal accruals. The project is expected to be completed by end of FY25.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Maintaining its scale of operation above Rs.600 crore along with PBILDT margin above 8% on a sustained basis.
- Improvement in capital structure with overall gearing below 0.50x with TD/GCA below 4x on a sustained basis.

#### Negative factors

- Substantial decline in revenue from envisaged level with PBILDT margin below 3% on a sustained basis.
- Moderation in overall gearing above 0.80x and TD/GCA beyond 13x on a sustained basis.

**Analytical approach:** Standalone factoring support from Kanoria group.

#### Outlook: Stable

Stable outlook reflects that the entity is likely to sustain its stable operating performance with better access to exports.

### Detailed description of the key rating drivers:

#### Key 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 BBB+; 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 19% of the sales in FY23.

### **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, assuring a steady stream of revenue. Supplies to government institutions have accounted for roughly 55%-70% of net sales over the last three-and-a-half years (FY21-H1FY24). 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, 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.

### **Key weaknesses**

#### **Moderation in financial performance in FY23 along with cash losses in 9MFY24**

Despite slight increase in sales volume in FY23 compared with FY22, income from operation witnessed de-growth of 4.45% to Rs.546.57 crore in FY23 as against Rs.572.01 crore in FY22 on account of decrease in realisation of jute products. The operating margin dipped to 3.11% in FY23 compared to 4.85% in FY22, primarily attributable to inventory losses. Additionally, a sluggish export market adversely affected the performance, driven by reduced demand for premium products such as leno, net cloth, scrim, and yarn.

The average sales realisation of jute products moderated from Rs.1,22,603 per MT in FY22 to Rs.1,16,215 per MT in FY23. The average sales realisation further moderated to Rs.1,03,042 per MT in H1FY24.

In 9MFY24, the company has reported dip in turnover to Rs.347.99 crore vis-à-vis Rs.404.98 crore in 9MFY23. The decline in turnover is due to lower sales realisation on back of cooling of raw jute prices. The operating margin also witnessed significant deterioration in 9MFY24 to 1.18% as compared with 3.54% for 9MFY23. Additionally, sluggish export demand for jute and lower order from govt during the first 8 months of FY24 impacted the margin.

#### **Moderate capital structure and debt protection metrics**

The capital structure of the company witnessed slight moderation with overall gearing deteriorating from 0.56x as on March 31, 2022 to 0.68x as on March 31, 2023. The moderation is on account of increase in term debt and along with infusion of unsecured loans. The total debt/GCA moderated to 11.70x as on March 31, 2023, as compared with 4.92x as on March 31, 2022, due to increase in debt along with decline in GCA.

#### **Risk of raw jute price volatility**

LJSL procures raw jute domestically and imports from Bangladesh. The company is exposed to raw material price fluctuations, and it accounted for ~62% of cost of sales in FY23 (~68% of cost of sales in FY22). 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 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 19%-23% of the total revenue over the past 3 years. However, the company enters into forward contracts for the foreign exchange exposure, thereby mitigating the foreign exchange fluctuation risk to an extent.

#### **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 17% to 19% of cost of sales during FY21-FY23. 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. The wages per MT of the company have increased from Rs.19,600/MT in FY22 to 21,329/MT in FY23 which further increased to Rs.21,415/MT in H1FY24.

#### **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 has slightly reduced from 23 days in FY22 to 20 days in FY23 inline with decline in sales in FY23. The average credit period also reduced from 30 days in FY22 to 27 days in FY23. However, the inventory period increased 73 days in FY22 to 82 days in FY23 on account higher levels of inventory in FY23. Consequently, the operating cycle of the company increased from 67 days in FY22 to 75 days in FY23.

### Regulated 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

The liquidity is marked adequate on account of GCA of Rs.10.32 crore in FY23 vis-a-vis a debt obligation of Rs.9.68 crore in FY23. Further, the average bank limits utilization for the 12 months ended December 2023, remained high at around 80%. Further, in 9MFY24, the company reported cash loss of Rs.3 crore against debt repayment obligation of around Rs.5.7 crore. The cash loss and repayment has been met primarily out of liquidation of inventory.

### Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[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 and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Jute & Jute Products

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, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	572.01	546.57	347.99
PBILDT	27.75	16.99	4.11
PAT	11.67	1.34	-7.11
Overall gearing (times)	0.56	0.68	NA
Interest coverage (times)	4.31	2.30	0.57

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/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 BBB; Stable / CARE A3+
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A3+
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	27.50	CARE A3+
Term Loan-Long Term		-	-	March 2028	23.44	CARE BBB; 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 2023-2024	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
1	Fund-based - LT/ST-CC/Packing Credit	LT/ST*	65.00	CARE BBB; Stable / CARE A3+	-	1)CARE A-; Stable / CARE A2+ (06-Jan-23)	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)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A3+	-	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)
3	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A3+	-	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)
4	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A3+	-	1)CARE A2+	1)CARE A2+	1)CARE A2+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						(06-Jan-23)	(25-Feb-22) 2)CARE A2+ (07-Feb-22)	(07-Jan-21)
5	Term Loan-Long Term	LT	23.44	CARE BBB; Stable	-	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (25-Feb-22) 2)CARE A-; Stable (07-Feb-22)	1)CARE A-; Stable (07-Jan-21)

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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