Ludlow Jute & Specialities Limited

August 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	23.44	CARE BB+ (RWD)	Placed on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	65.00	CARE BB+ / CARE A4+ (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	45.00	CARE A4+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Ludlow Jute & Specialities Limited (LJSL) has been placed on credit watch with developing implication following the announcement by the company on the stock exchange stating that the current promoter of LJSL has entered into an agreement with Panchjanya Distributors Private Limited (part of Kolkata based Kankaria group) to sell its entire stake of 67.20% in LJSL. CARE Ratings Limited (CARE Ratings) would continue to monitor the developments in this regard and will take a view on the rating once the impact of the same on the credit profile of LJSL is clear.

The rating continues to remain constrained by moderate financial performance in FY24 (refers to period April 01 to March 31) and Q1FY25, with company incurring cash losses in FY24 (refers to the period April 1 to March 31), moderate capital structure, 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, however, derive comfort from its experienced promoters with long and satisfactory track record of operations, development of innovative products for export market and low counterparty payment risk.

The ratings, further, take note of the capex plan being put on hold in relation to the modernisation project which was planned to be undertaken by the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining revenue from operations above Rs.400 crore and PBILDT margin above 4%.
- Improving capital structure with overall gearing below 0.60x on a sustained basis.

Negative factors

- Declining scale of operation below Rs.300 crore with continuing cash losses.
- Declining capital structure with overall gearing above unity on a sustained basis.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key weaknesses

Moderation in financial performance in FY24 and Q1FY25

The total operating income (TOI) of the company witnessed a de-growth of 13% in FY24 compared with FY23 due to lower orders from Government in FY24 leading to lower sales volume. Also, export demand remained muted in FY24. The PBILDT margin declined in FY24 to 0.05% on account of significant increase in other expenses. The company incurred cash loss of Rs.8.98 crore vis-à-vis debt repayment obligation of around Rs.7.4 crore in FY24. The cash loss and debt repayment obligation was met out of stretching of creditors by the company.

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

In Q1FY25, the company reported TOI of Rs.74.58 crore which witnessed significant de-growth both y-o-y and q-o-q. The decline in revenue is on account of lower orders from Government. Decline in revenue coupled with increase in raw jute prices led to company incurring operating loss of Rs.4.23 crore in Q1FY25. Accordingly, the company incurred cash loss of Rs.6.81 crore vis-à-vis debt repayment obligation of around Rs.2 crore in Q1FY25. The shortfall was met out of stretching of creditors, as maintained by the management.

Moderate capital structure and debt protection metrics

The capital structure of the company witnessed moderation with overall gearing deteriorating from 0.68x as on March 31, 2023, to 0.73x as on March 31, 2024. Moderation in overall gearing has been on account of reduction in net worth due to incurring of losses, while debt levels remained stable. The interest coverage has also deteriorated from 2.30x in FY23 to 0.03x in FY24, due to decline in operating profit.

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 ~58% of cost of sales in FY24 (~62% of cost of sales in FY23). 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 21% of cost of sales during FY21-FY24. 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.

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 increased from 20 days in FY23 to 22 days in FY24 while inventory period has increased from 82 days in FY23 to 97 days. The average creditors period also increased from 27 days in FY23 to 40 days in FY24 due to stretching of creditors. Consequently, the operating cycle of the company increased from 75 days in FY23 to 79 days in FY24.

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.

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 A3+.

Development of innovative products for export market
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.

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.

Liquidity: Stretched
The company incurred cash loss of Rs.8.98 crore in FY24 and further, Rs.6.81 crore in Q1FY25. The cash loss was funded out of stretching of creditors and increase in working capital limit utilisation. The average utilisation of fund-based limits stood at around 95% during the last 12 months as confirmed by the lenders. In FY25, the company has debt repayment obligation of around Rs.9.41 crore and the same is expected to be met out of ICDs to be received from group entities/ promoters in the current year.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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 engaged in the 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	546.57	475.52	74.58
PBILDT	16.99	0.25	-4.23
PAT	1.34	-12.54	-6.98
Overall gearing (times)	0.68	0.73	NA
Interest coverage (times)	2.30	0.03	NM

A: Audited; UA: Unaudited; NA: Not Available; NM: Not Meaningful; 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 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/ ST-CC/Packing Credit		-	-	-	65.00	CARE BB+ / CARE A4+ (RWD)
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A4+ (RWD)
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A4+ (RWD)
Non-fund-based - ST-Letter of credit		-	-	-	27.50	CARE A4+ (RWD)
Term Loan-Long Term		-	-	March 2028	23.44	CARE BB+ (RWD)

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 2024-2025	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
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE BB+ / CARE A4+ (RWD)	1)CARE BB+; Stable / CARE A4+ (16-Aug-24)	1)CARE BBB; Stable / CARE A3+ (07-Feb-24)	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)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A4+ (RWD)	1)CARE A4+ (16-Aug-24)	1)CARE A3+ (07-Feb-24)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)
3	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A4+ (RWD)	1)CARE A4+ (16-Aug-24)	1)CARE A3+ (07-Feb-24)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)
4	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A4+ (RWD)	1)CARE A4+ (16-Aug-24)	1)CARE A3+ (07-Feb-24)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (25-Feb-22) 2)CARE A2+ (07-Feb-22)
5	Term Loan-Long Term	LT	23.44	CARE BB+ (RWD)	1)CARE BB+; Stable (16-Aug-24)	1)CARE BBB; Stable (07-Feb-24)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (25-Feb-22) 2)CARE A-; Stable (07-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated 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 for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Kamal Mahipal Assistant Director **CARE Ratings Limited** Phone: +91-033- 40181628 E-mail: kamal.mahipal@careedge.in Tridib Kundu Analyst **CARE Ratings Limited** E-mail: Tridib.Kundu@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in