AI Champadany Industries Limited

April 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	33.98	**CARE D**	**Revised from CARE C; Stable (C; Outlook: Stable)**
Short term Bank Facilities	32.00	**CARE D**	**Revised from CARE A4 (A Four)**
Total Bank Facilities	**65.98 (Rs. Sixty-five Crore and ninety-eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of AI Champdany Industries Limited (AICIL) takes into account devolvement of letter of credits leading to overdrawals in cash credit account for over 30 days.

The ratings continue to be constrained by deterioration in the financial performance of the company with company incurring net loss in FY20 (refers to the period from April 01 to March 31) and 9MFY21, poor liquidity position and suspension of work at its Wellington Jute Mill, Rishra, exposure to volatility in raw-material prices, labour intensive operations coupled with labour problems associated with the industry along with stiff competition in the industry and moderate capital structure.

The ratings factor in more than four decades of experience of the promoters in the jute industry and presence in the export market, possession of large unencumbered freehold land bank by the company, favourable government policies for the jute industry.

Rating Sensitivities

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

- Default track free record of 90 days or more
- Increase in scale of operations with increase in PAT margin above 5% on a sustained basis
- Improvement in capital structure with overall gearing ratio <1.5x on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Ongoing delays in servicing of debt obligations

As confirmed by the lenders, there have been instances of devolvement of Letter of Credit (LC) resulting in over utilization of Cash Credit (CC) limits for more than 30 consecutive days.

Profitability sensitive to volatility in raw material prices

AICIL procures raw jute domestically as well as through import from Bangladesh. However, the company does not have any long-term contract with the suppliers and is exposed to raw material price fluctuations as it accounts for ~41% of cost of sales in FY20. The prices of raw jute, being an agricultural product, are volatile in nature due to heavy dependency on the vagaries of nature and crop economics.

Labour intensive operations vis-a-vis labour problems associated with the industry

The jute industry is highly labour-intensive entailing high employee expenses accounting for around 35.0% of cost of sales in FY20. The domestic jute industry has been plagued by labour related problems in the last few decades and AICIL has also suffered accordingly in the past.

Deterioration in financial performance in FY20 and 9MFY21

Although AICL's revenue from sale of product & services has remained stable in FY20, the company suffered a net loss of Rs.0.28 crore vis-à-vis a PAT of Rs.1.71 crore in FY19.

In 9MFY21, the total operating income witnessed a de-growth of ~48% vis-à-vis 9MFY20 on account of subdued economic activity due to COVID induced lockdown. The company reported an operating loss and cash loss of Rs.2.96 crore and Rs.5.32 crore respectively during 9MFY21 vis-à-vis operating profit and cash profit of Rs.8.18 crore and Rs.2.79 crore respectively during 9MFY20.

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

The profitability of the company was impacted on account of increase in cost of raw materials (raw jute). Due to the cyclone, *Amphan* in the month of May, 2020, the jute crops were adversely damaged which led to a steep rise in the cost of raw materials.

Moderate Capital Structure
The capital structure remained moderate with overall gearing ratio of 3.01x as on March 31, 2020 vis-à-vis 2.75x as on March 31, 2019 on account of increase in total debt (preference shares worth Rs. 13.26 crore and unsecured loans amounting to Rs. 48.91 crore). TDGCA also witnessed a deterioration from 35.04x as on March 31, 2019 to 39.35x as on March 31, 2020 on account of increase in total debt. However, the Company had prepaid its loan against property amounting to Rs.49.80 crore in November 2019 out of unsecured loans.

Key Rating Strengths
Experienced promoters and promoter support
The day-to-day affairs of the company are looked after by Mr. D.J. Wadhwa (brother of Mr. G.J. Wadhwa), aged 79 years with over four decades of experience in jute industry. He is assisted by Mr. N. Pujara (Managing Director) and a team of experienced and qualified professionals. During the last four decades, the efforts of the promoters along with the team of experienced professionals have enabled the company to emerge as one of the established players in jute industry.

Empanelment with government institutions
AICIL's major customers in the domestic market are Director General of Supplies & Disposals and Food Corporation of India, etc., which assured steady stream of revenue. Supplies to government institutions account for roughly (75%-80%) of total net sales value during the last three years (FY18-FY20).

Presence in export markets
The company continues to remain one of the major exporters of jute products from India. AICIL has a good international market on account of better-quality innovative products.

Large unencumbered freehold land bank
AICIL has investment property (freehold land) of 50 acres in and around Kolkata which had an estimated value of Rs.364 crore as per the last valuation report (July 2012). The company uses these properties by way of renting it out to reputed corporates on short term lease basis for warehousing purposes.

Favourable government policies for jute industry
The jute sector occupies an important place in the Indian economy (particularly Eastern India) in terms of providing employment opportunities to large labour force and export revenue generation. 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. Jute industry is highly regulated in nature as government determines the minimum support prices of jute crops for each crop year on jute and related products. Moreover, jute bag prices in India are fixed on a price formula of the Tariff Commission of 2001 and procured by Directorate General of Supplies and Disposal or through National Competitive Bidding.

Liquidity: Poor
The liquidity position of the company remained poor with deterioration in GCA from Rs.4.25 crore in FY20 to a cash loss of Rs.5.32 crore in 9MFY21. The working capital utilization of the company remained almost full. Further, the cash credit account is overdrawn due to devolvement of LC. Although, the operating cycle has been improving gradually y-o-y from 434 days in FY18 to 404 days in FY19 and further to 398 days in FY20, it still remains high on account of high inventory holding period (468 days in FY20 as against 453 days in FY19). The inventory period remains high on account of stocking of raw jute to meet orders in time and also due to maintaining finished stock for export market and government supplies. Furthermore, the temporary suspension of operations at the Wellington jute mill, Rishra, may cause additional pressure on the liquidity of the company.
The company availed moratorium under the RBI COVID-19 package scheme for its interest obligations for a period of six months from March 2020 to August 2020.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Curing period

Financial ratios – Non-Financial Sector
Rating Methodology- Manufacturing Companies
Rating Methodology -Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company

AICIL, incorporated in 1873, was taken over by Kolkata-based Wadhwa group from James Finlay & Co., U.K in 1967. The company is engaged in manufacturing and selling of jute products (sacking bags, hessian cloth, furnishing items, etc) used in packaging of food grains, carpet industry, furniture, etc., at its units in West Bengal. The company exports a wide range of value-added products (geo textile, webbing, yarn and flax fibre) which commands premium in the international market.
Work at Wellington Jute Mill, Rishra was temporarily suspended w.e.f February 27, 2021 (10 p.m.) due to shortage of raw jute. There was a corporate announcement regarding the closure of the Wellington jute mill on the B.S.E website on March 04, 2021.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	131.86	127.24
PBILDT	6.40	8.34
PAT	1.71	-0.28
Overall gearing (times)	2.75	3.01
Interest coverage (times)	0.61	1.27

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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	33.98	CARE D
Non-fund-based - ST-BG/LC	-	-	-	32.00	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	33.98	CARE D	-	1)CARE C; Stable (15-Mar-21) 2)CARE BB+; Stable (07-Apr-20)	1)CARE BB+; Stable (04-Apr-19)	1)CARE BB+ (CWD) (16-Nov-18) 2)CARE BB+; Stable (05-Apr-18)
2.	Non-fund-based - ST-BG/LC	ST	32.00	CARE D	-	1)CARE A4 (15-Mar-21) 2)CARE A4+ (07-Apr-20)	1)CARE A4+ (04-Apr-19)	1)CARE A4+ (CWD) (16-Nov-18) 2)CARE A4+ (05-Apr-18)
3.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE BB+ (CWD) (16-Nov-18) 2)CARE BB+; Stable (05-Apr-18)

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	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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About CARE Ratings:
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