

## AI Champdany Industries Limited

March 29, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	33.98	CARE D (Single D)	Reaffirmed
Short Term Bank Facilities	32.00	CARE D (Single D)	Reaffirmed
<b>Total Bank Facilities</b>	<b>65.98</b> <b>(Rs. Sixty-Five Crore and Ninety-Eight Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AI Champdany Industries Limited (AICIL) is constrained by ongoing delays, small scale of operations along with deterioration in financial performance in FY21 (refers to the period April 01 to March 31) and 9MFY22, deterioration in capital structure, elongated working capital cycle, profitability sensitive to volatility in raw material prices, labour intensive nature of operations and regulatory nature of the industry. However, the aforesaid constraints are partially offset by experienced promoters with long track record of operations, empanelment with government institutions, presence in export markets and large unencumbered freehold land bank.

### 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

**Negative Factors- Factors that could lead to negative rating action/downgrade:** Not Applicable

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Ongoing delays

There are ongoing delays and overdues in the payment of covid loan instalments for principal and interest. Also, there are overdrawals in the cash credit account since February 28 2022.

##### Small scale of operations along with deterioration in financial performance in FY21 and 9MFY22

AICIL is a relatively small player vis-a-vis other players marked by total operating income of Rs.67.36 Crore in FY21 as against Rs.128.38 crore in FY20 amid covid-19 hit year. The company's operating margin turned negative to 18.46% in FY21 as against 7.39% in FY20 on account of higher cost of materials and employee costs. The PAT margin was negative in FY21 as well inline to the operating margin. The company has achieved operating income of Rs.30.47 crore during 9MFY22 which has been impacted due to availability and higher jute prices resulting in plant closure. The tangible net worth of the company stood at Rs.46.58 crore and the total capital employed of the company stood at Rs.237.09 crore as on March 31, 2021. The small scale restricts the financial flexibility of the company in times of stress.

##### Deterioration in capital structure

The capital structure of the company deteriorated with overall gearing at 4x (FY20: 2.98x) as on March 31, 2021 on account of increase in debt along with loss in the said financial year. The total debt to gross cash accruals was negative in FY21 due to lower cash accruals.

##### Elongated working capital cycle

The working capital cycle elongated to 626 days in FY21 vis-à-vis 398 days in FY20 primarily on account of higher inventory days. The inventory holding period increased from 468 days in FY20 to 706 days in FY21. The average collection days also deteriorated to 95 days in FY21 from 49 days in FY20 which was offset by increase in creditors period to 175 days in FY21 from 120 days in FY20.

##### 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 ~39% of cost of sales in FY21. 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.

<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

**Labour intensive nature of operations**

The jute industry is highly labour-intensive entailing high employee expenses accounting for around 38% of cost of sales in FY21. This exposes the industry to various labour related issues like absenteeism, strike etc. which impacts the production. 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.

**Regulatory nature of the industry**

Jute industry is highly regulated as government determines the minimum support prices of jute crops for each crop year, average raw material pricing for government orders and custom duty, taxes, etc. on jute and related products. Lack of control in the hands of the manufacturers exposes them to a regulatory risk. 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.

**Key Rating Strengths****Experienced promoters with long track record of operations**

The day-to-day affairs of the company are looked after by Mr. D.J. Wadhwa (brother of Mr. G.J. Wadhwa), aged 80 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-FY21).

**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.

**Liquidity: Poor**

There are ongoing delays and overdues in the payment of covid loan instalments for principal and interest. Also, there are overdrawals in the cash credit account since February 28 2022.

**Analytical approach:** Standalone**Applicable Criteria**

Policy on default recognition  
Financial Ratios – Non financial Sector  
Liquidity Analysis of Non-financial sector entities  
Policy On Curing Period  
Rating Outlook and Credit Watch  
Short Term Instruments  
Manufacturing Companies

**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. Due to improvement in market the company has reopened Jagatdal unit during Q3FY22. However, the Yarn unit and Libra Carpet unit located at Choudwar, District Cuttack, Odhisa and Weaving units at Rishra and Konnagar continue to be under suspension of work.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	128.38	67.36	30.47
PBILDT	9.49	-12.43	-5.93
PAT	-0.28	-17.49	-6.81
Overall gearing (times)	2.98	4.00	NA
Interest coverage (times)	1.44	-2.11	-1.30

A: Audited; P: Provisional; NA: Not 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 for this company:** Annexure 4

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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 D (22-Apr-21)	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 D (22-Apr-21)	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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	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 instrument:** CARE Ratings Ltd. 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.

**Contact us****Media Contact**

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact**

Name: Punit Singhania  
Contact no.: +91 98743 41122  
Email ID: [punit.singhania@careedge.in](mailto:punit.singhania@careedge.in)

**Relationship Contact**

Name: Lalit Sikaria  
Contact no.: +91-33-4018 1600  
Email ID: [lalit.sikaria@careedge.in](mailto:lalit.sikaria@careedge.in)

**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

**Disclaimer**

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**