AI Champdany Industries Limited

April 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	33.98 (reduced from 90.07)	**CARE BB+; Stable [Double B Plus; Stable]**	**Reaffirmed, removed from credit watch**
Short-term Bank Facilities	32.00 (reduced from 59.84)	**CARE A4+ [A Four Plus]**	**Reaffirmed, removed from credit watch**
Total Facilities	**65.98 (Rs Sixty five crore and ninety eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had placed the ratings assigned to the bank facilities of AI Champdany Industries Limited (AICIL) on credit watch with developing implications following the execution of a Memorandum of Understanding by AICIL with Complement Blends Private Ltd for the sale and disposal of the Wellington Jute Mill, Wellington Yarn Unit and the Wellington Weaving unit, on a slump sale basis for a consideration of Rs.62.51 crore. However, the agreement has been terminated due to non-receipt of the contracted earnest money deposit as per the defined timelines by AICIL. The credit watch has been removed following the termination of the agreement.

The ratings continue to be constrained by the exposure to volatility in raw-material prices, high overall gearing ratio, labor intensive operations and labor problems associated with the industry along with stiff competition in the industry. The ratings also factor in the decline in operating income and profitability in 9MFY19 (refers to the period April 1 to December 31), though the same had witnessed improvement in FY18.

The ratings, however, continue to draw strength from the long track record of AICIL and more than four decades of experience of the promoters in the jute industry, possession of large unencumbered freehold land bank by the company, significant infusion of funds by the promoters in the form of unsecured loans, presence in the export market and empanelment with government institutions.

The ability to improve capacity utilization & profitability margins, maintain cordial labor relations and effective working capital management are the key rating sensitivities.

Detailed Description of key rating drivers

Key Rating Weaknesses

High overall gearing ratio: The overall gearing of the company remained high as on March 31, 2018 at 2.53x to finance the high operating cycle of the company which was 434 days in FY18. High operating cycle is mainly on account of high inventory period. However, debt also comprises significant amount of interest free unsecured loan from promoters to support the liquidity of the company.

Profitability sensitive to volatility in raw material prices: AICIL procures raw jute domestically as well as through imports. 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. The domestic jute industry has been plagued by labor related problems in the last few decades and AICIL had also suffered accordingly in the past.

Stiff competition: The industry faces stiff competition from Bangladesh on account of relatively better quality of raw jute, lower wages and substantial government assistance in terms of subsidy. It is also facing competition from cheaper plastics.

Moderation in profitability in 9MFY19: AICIL's operating income increased by about 24% in FY18 with improvement in sales realisation and volume growth. PBILDT margin also improved, resulting in improvement in interest coverage.

However, due to lower profitability from export sales, the company reported nominal profit of Rs.0.01 crore in 9MFY19 as against profit of Rs.1.92 crore in 9MFY18. GCA, however, continued to remain positive at Rs.2.63 crore.

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

Key Rating Strengths

Infusion of funds by promoters: To fund the losses and improve liquidity, the promoters have continuously infused interest free unsecured loans. The said funds have supported the liquidity of the company and incremental working capital requirement. Outstanding of such loans was Rs.58.77 crore as on Mar.31, 2018 as against Rs.38.75 crore as on Mar.31, 2017.

Experienced promoters and promoter support: During the last four decades, the efforts of the promoters and a team of experienced professionals have enabled the company to emerge as one of the established players in jute industry.

Empanelment with govt. institutions and government support to the sector: 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. 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. Jute industry is highly regulated in nature as government determines the minimum support prices of jute crops for each crop year and taxes, etc. 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.

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 (free hold land) which had an estimated value of Rs.364.2 crore as per the last valuation report. The company uses these properties by way of renting it out to corporates on short term lease basis for warehousing purposes.

Liquidity: The company has no term debt repayment due in FY19 as it has refinanced all term loans outstanding as on March 31, 2018 with a longer tenure term loan in June 2018 which is due in June 2021. This loan is also backed by 100% margin in the form of liquid investments (listed securities) owned by promoter group entities, viz. Shibir India Ltd, Rishra Investments Ltd and Amar Investments Ltd. The average utilisation of working capital limits remained high at about 97% due to high inventory period.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
CARE's Policy On Assigning Outlook
Rating Methodology- Manufacturing Companies
Rating Methodology- Placing ratings under credit watch

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.

Brief Financials- Standalone (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	110.30	135.79
PBILDT	5.24	17.68
PAT	-8.04	1.76
Overall gearing (times)	3.06	2.53
Interest coverage (times)	0.40	1.54

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	32.00	CARE A4+
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	33.98	CARE BB+; Stable	1)CARE BB+ (Under Credit watch with Developing Implications) (16-Nov-18) 2)CARE BB+; Stable (05-Apr-18)	1)CARE BB-; Stable (27-Apr-17)	1)CARE BB (13-Jun-16)	1)CARE BBB- (22-Dec-15)
2.	Non-fund-based - ST-BG/LC	ST	32.00	CARE A4+	1)CARE A4+ (Under Credit watch with Developing Implications) (16-Nov-18) 2)CARE A4+ (05-Apr-18)	1)CARE A4 (27-Apr-17)	1)CARE A4 (13-Jun-16)	1)CARE A3 (22-Dec-15)
3.	Term Loan-Long Term	LT	-	-	1)CARE BB+ (Under Credit watch with Developing Implications) (16-Nov-18) 2)CARE BB+; Stable (05-Apr-18)	1)CARE BB-; Stable (27-Apr-17)	1)CARE BB (13-Jun-16)	-

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