AI Champdany Industries Limited

April 05, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	90.07 (reduced from 105.07)	**CARE BB+; Stable [Double B Plus; Outlook: Stable]**	**Revised from CARE BB-; Stable [Double B Minus; Outlook: Stable]**
Short-term Bank Facilities	59.84	**CARE A4+ [A Four Plus]**	**Revised from CARE A4 [A Four]**
Total Facilities	**149.91 (Rupees One hundred forty nine crore and ninety one 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 the improvement in profitability in 9MFY18 (refers to the period April 1 to December 31) and support extended by the promoters in the form of equity and unsecured loans to meet the debt servicing obligations and incremental working capital requirement.

However, 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 and stiff competition in the industry.

The ratings 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, 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 increased to 2.44x as on March 31, 2017 as against 2.33x as on March 31, 2016 and continued to remain high. However, debt also comprises 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 import from Bangladesh. 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 34% of cost of sales of AICIL in FY17. 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.

Key Rating Strengths

Improvement in profitability in 9MFY18: AICIL's net sales declined y-o-y by about 50% in FY17 primarily on account of sale of Anglo-India Jute Mill (Middle Mill) in May 2016. PBILDT margin continued to remain low at 5.25% in FY17 as

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

against 4.09% in FY16. The lower level of PBILDT along with higher interest expense led to net loss in FY17. The company incurred cash loss of Rs.5.14 crore.
In 9MFY18, however, the performance improved. Net sales increased by about 36% vis-a-vis 9MFY17 due to availability of raw jute and absence of any suspension of works at major units during that period. AICIL reported profit of Rs1.50 crore in 9MFY18 loss as against net loss of Rs.6.39 crore in 9MFY17.

Infusion of funds by promoters: To fund the losses and improve liquidity, the promoters infused interest free unsecured loans of Rs.14.75 crore in FY17. Further, the promoters infused equity of Rs.7 crore during FY18. The said funds have supported the liquidity of the company and incremental working capital requirement.

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 largest jute manufacturing companies in India. AICIL is one of the established players.

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. Supplies to government institutions account for roughly 70%-80% of total net sales value during the last three years (FY15-FY17). 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 unencumbered freehold land bank of 50 acres in and around Kolkata (apart from land in its operating units). The company uses these properties by way of renting it out to reputed corporates on short term lease basis for warehousing purposes. As per the valuation of Government Registration Authority done in June-July 2012, the market value of these lands was estimated to be around Rs.250 crore as against the book value of Rs.15 crore.

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

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)	FY16 (A)	FY17 (A)
Total operating income	218.95	109.87
PBILDT	8.95	5.77
PAT	-5.43	-5.77
Overall gearing (times)	2.33	2.44
Interest coverage (times)	0.64	0.46

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	-	-	-	78.82	CARE BB+; Stable
Term Loan-Long Term	-	-	July-2022	11.25	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	59.84	CARE A4+

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	78.82	CARE BB+; Stable	-	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	59.84	CARE A4+	-	1)CARE A4 (27-Apr-17)	1)CARE A4 (13-Jun-16)	1)CARE A3 (22-Dec-15)
3.	Term Loan-Long Term	LT	11.25	CARE BB+; Stable	-	1)CARE BB-; Stable (27-Apr-17)	1)CARE BB (13-Jun-16)	-

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