AI Champdany Industries Limited
April 07, 2020

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AI Champdany Industries Limited (AICIL) continue to be constrained by the exposure to volatility in raw-material prices, moderate capital structure, labor intensive operations and labor problems associated with the industry along with stiff competition in the industry and deterioration in financial performance in FY19 (refers to the period from April 01 to March 31).

The weaknesses are however, offset by 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, empanelment with government institutions and favorable government policies for the jute industry.

Key rating sensitivities

Positive rating sensitivities

- 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 rating sensitivities

- Decline in profitability with PBILDT margin going below 4%.
- Deterioration in capital structure with overall gearing ratio>3x.

Detailed Description of key rating drivers

Key Rating Weaknesses

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 FY19. 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 33.80% of cost of sales in FY19. The domestic jute industry has been plagued by labor related problems in the last few decades and AICIL has also suffered accordingly in the past.

Deterioration in financial performance in FY19

The total operating income of the company witnessed a decline of 2.9% y-o-y in FY19. PBILDT margin witnessed a significant deterioration from 13.02% in FY18 to 4.85% in FY19 due to increase in cost of raw materials. PAT margin however, remained stable at 1.30% in FY19 on account of reduction in capital charges in FY19. The company earned a GCA of Rs.4.47 crore vis-à-vis debt repayment obligation of Rs.3.17 crore in FY19.

In 9MFY20, the total operating income of the company witnessed a growth of 5.9% y-o-y. PBILDT margin, however, witnessed a decline from 11.97% in 9MFY19 to 8.94% in 9MFY20 on account of on account of high jute

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

price. PAT margin continued to remain low despite decline in capital charges in 9MFY20 on account of reduction in PBILDT. The company earned a GCA of Rs.2.79 crore vi-a-vis nil debt repayment obligation in 9MFY20.

Moderate capital structure

The capital structure remained moderate with overall gearing ratio deteriorating from 2.51x as on March 31, 2018 to 2.75x as on March 31, 2019 on account of increase in total debt. The TDGCA also witnessed a significant deterioration from 23.62 crore as on March 31, 2018 to 35.04 crore as on March 31, 2019 on account of increase in total debt along with decline in GCA. However, The Company has prepaid its loan against property amounting to Rs.50 crore in November 2019.

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 78 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 (FY17-FY19).

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: Adequate

The liquidity position of the company is marked by GCA of Rs.4.47 crore vis-à-vis nil debt repayment in FY19 and free cash and bank balance of Rs.0.20 crore as on March 31, 2019. The average working capital utilization of the company remained high at around 95% during the last 12 month ending December 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology- Manufacturing Companies

Rating Methodology -Short Term Instruments

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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	135.79	131.86
PBILDT	17.68	6.40
PAT	1.76	1.71
Overall gearing (times)	2.51	2.75
Interest coverage (times)	1.54	0.61

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

Annexure-1: Details of 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+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	33.98	CARE BB+; Stable	1)CARE BB+; Stable (04-Apr-19)	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)
2.	Non-fund-based - ST-BG/LC	ST	32.00	CARE A4+	1)CARE A4+ (04-Apr-19)	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)
3.	Term Loan-Long Term	LT	-	-	1)Withdrawn (04-Apr-19)	1)CARE BB+ (Under Credit watch with Developing Implications) (16-Nov-18) 2)CARE BB+; Stable	1)CARE BB-; Stable (27-Apr-	1)CARE BB (13-Jun-16)

						(05-Apr-18)	17)	

***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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