AI Champdany Industries Limited

April 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	105.07 (reduced from 106.32)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Revised from CARE BB (Double B)**
Short-term Bank Facilities	59.84	**CARE A4 (A Four)**	**Reaffirmed**
Total	**164.91 (Rs One hundred sixty four crore and ninety one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facilities of AI Champdany Industries Limited (AICIL) takes into account the deterioration in financial risk profile in FY16 (refers to the period April 1 to March 31) and 9MFY17 with cash loss incurred by the company. 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, low capacity utilization & operating margin and stiff competition in the industry. 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, presence in the export market and empanelment with government institutions. The ratings also factor in the support extended by the promoters in the form of unsecured loans to meet the debt servicing obligation and liquidity support during 9MFY17 arising from consideration received for sale of the loss making "Middle Mill" unit of Anglo India Jute Mill of the company. 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

Deterioration in financial risk profile in FY16 and 9MFY17: AICIL's net sales declined y-o-y by about 28% in FY16 primarily on account of curtailment of production due to acute shortage of raw jute which led to abnormally high raw jute prices. PBILDT margin remained similar at 4.09% in FY16 in comparison with FY15. The lower level of PBILDT along with an increase in interest expense due to availment of term loan for financing long term working capital led to net loss in FY16. Interest coverage was below unity and the company incurred cash loss of Rs.4.79 crore. Overall gearing remained high at 2.33x as on Mar.31, 2016. Further, due to accumulation in inventory, the operating cycle increased significantly to 230 days in FY16 from 172 days in FY15.

The company declared temporary suspension of work at its major manufacturing unit – Wellington Jute Mill in West Bengal with effect from March 26, 2016 due to shortage of raw material and low productivity at the unit. This mill was the major contributor to revenue and the suspension impacted the sales in 9MFY17. The suspension was lifted in August 2016 and production started from September 2016. However, the productivity was low due to non-availability of labor.

In 9MFY17, net sales declined by approximately 54% vis-a-vis 9MFY16 due to suspension of works at major units. Middle mill unit was hived off in May 2016 and there was negligible production in Wellington Jute mill.

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 29% of cost of sales in FY16. 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. The massive increase in wage costs due to steep increases in Dearness Allowance in FY16 continued to hugely impact the jute Industry.

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

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

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 major players and the promoters have supported the operations by regular infusion of funds. Unsecured loans of about Rs.26 crore were infused in 9MFY17 to meet the debt repayment obligations and support operation.

Sale of Anglo India "Middle Mill" division: The Middle mill (contributed 40% of the total revenue of AICIL) was highly labor intensive in nature and manufactured lower margin traditional jute products. The unit was loss making and hence AICIL sold the unit on May 04, 2016 for Rs.16 crore and the company has received the entire sale proceeds. The cash flow from sale of the mill aided the liquidity of the company.

Empanelment with government institutions, however, lower orders impacted sale: Supplies to government institutions account for roughly 75-80% of the total sales volumes. The company generally receives around 4% of government orders announced based on its production capacity in the industry. However, there was a decline in orders received from Government agencies in FY16 which resulted in decline in sales and profitability of AICIL.

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. Over the years, AICIL has expanded its capacity through organic and inorganic route.
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.
During FY16, AICIL reported net loss of Rs.5.43 crore on total operating income of Rs.218.95 crore against net loss of Rs 4.13 crore on total operating income of Rs.305.38 crore in FY15. During 9MFY17, AICIL reported total operating income of Rs 68.28 crore and net loss of Rs 6.39 crore.

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 nearly 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	-	-	-	91.32	CARE BB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	59.84	CARE A4
Term Loan-Long Term	-	-	July 2022	13.75	CARE BB-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	91.32	CARE BB-; Stable	-	1)CARE BB (13-Jun-16)	1)CARE BBB- (22-Dec-15)	1)CARE BBB (08-Jan-15)
2.	Non-fund-based - ST-BG/LC	ST	59.84	CARE A4	-	1)CARE A4 (13-Jun-16)	1)CARE A3 (22-Dec-15)	1)CARE A3+ (08-Jan-15)
3.	Term Loan-Long Term	LT	13.75	CARE BB-; Stable	-	1)CARE BB (13-Jun-16)	-	-

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