

Ludlow Jute & Specialities Limited

January 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	20.00	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE A; Negative [Single A; Outlook:Negative]
Long Term/Short Term Bank Facilities	60.00	CARE A-; Stable/CARE A2+ [Single A Minus; Outlook: Stable/ A Two Plus]	Revised from CARE A; Negative/CARE A2+ [Single A ; Outlook: Negative/ A Two Plus]
Short-term Bank Facilities	45.00	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	125.00 (Rs. One hundred and twenty five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Ludlow Jute & Specialities Ltd (LJSL) takes into account the significant decline in profitability in FY18 (refers to the period April 1 to March 31) which continued in H1FY19.

However, the ratings continue to draw strength from the experience of the promoters with long & satisfactory track record, presence in the export market and government support to the sector. The ratings also factor in the moderate capital structure and debt coverage indicators.

The ratings are constrained by the relatively low operating margin, stiff competition from Bangladesh in the export market and volatility associated with the raw jute prices.

Improving margins by introducing value-added jute products, securing government and export orders, deriving benefits from the modernization project and central government's stance on dilution of the Jute Packaging Material Act are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long & satisfactory track record: LJSL, incorporated in 1921, was taken over by the Kanoria family of Kolkata in 1977. During the last three decades, the promoters with a team of experienced professionals, successfully handled labor related problems and raw material price volatility, which has enabled the company to emerge as one of the few profitable jute manufacturing companies in India.

Development of innovative products to command higher premium in export market: LJSL has a strong R&D team and it has been a pioneer in developing innovative jute products. It enjoys an established position in the export market driven by product innovativeness and quality. The major export destinations are Italy, Turkey, Belgium, Saudi Arabia, Canada and Germany with major product being yarn, webbing, scrim and other value added products.

Empanelment with govt. institutions and government support to the sector: LJSL's major customers in the domestic market are Director General of Supplies & Disposals and Food Corporation of India, etc., which assure steady stream of revenue. Supplies to government institutions account for roughly 60%-70% of total net sales value during the last three years (FY16-FY18).

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.

Moderate capital structure: The capital structure of LJSL stood moderate with debt equity and overall gearing at 0.06x and 0.40x as on March 31, 2018 vis-à-vis 0.02x and 0.29x as on March 31, 2017. Interest coverage ratio, though deteriorated to 2.93x in FY18 as against 6.36x in FY17, remained comfortable. However, going forward, leverage ratios are

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

expected to deteriorate due to expected increase in debt availed for a modernisation project. Currently, the company is modernising the existing machineries and plant at a cost of Rs.23 crore, funded through term debt of Rs.20 crore and balance through internal accruals.

Key Rating Weaknesses

Decline in profitability margin during FY18 & H1FY19: Operating income of LJSL was lower at Rs.336.54 crore in FY18 as against Rs.357.42 crore in FY17 inspite of increase in sales volume, on account of decline of average gross realisation during FY18. PBILDT level and margin also reduced in FY18 mainly on account of higher labour cost and lower net realisation amidst high cost inventory carried by the company. The PAT margin also deteriorated on account of lower PBILDT level along with increase in the interest cost. The interest cost was higher in FY18 on account of increase of working capital borrowings.

In H1FY19, the company reported PAT of Rs.0.44 crore on total operating income of Rs.170.27 crore vis-à-vis PAT of Rs.1 crore on a total operating income of Rs.162.52 crore in H1FY18. The profitability is expected to improve going forward due to the modernisation capex being undertaken by the company and the same remains a key rating monitorable.

Raw material price volatility risk due to dependence on vagaries of nature: 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. However, the impact of raw-material price fluctuation on profitability is limited to an extent of three months (from the date of order) as Government takes into account three months weighted average prices of raw jute while calculating the rate for procuring jute bags.

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.

Liquidity: The liquidity position of the company is moderate with average utilisation of about 68% of fund based working capital limits through the 12 month period ended Nov 30, 2018. The company has negligible term debt repayment obligation in FY19 and the interest coverage is comfortable.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

About the Company

LJSL, incorporated in 1921, is engaged in manufacturing and selling of jute products, with an aggregate installed capacity of 67,500 MTPA at its unit in Howrah, West Bengal. In 1977, LJSL was taken over by the Kolkata-based Kanoria group, having major interest in chemicals, textiles and jute.

Brief Financials (Rs. crore)- Standalone (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	357.42	336.54
PBILDT	18.10	12.26
PAT	6.75	1.79
Overall gearing (times)	0.29	0.40
Interest coverage (times)	6.36	2.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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.

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/ ST-CC/Packing Credit	-	-	-	60.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	15.00	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	25.00	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	CARE A2+
Term Loan-Long Term	-	-	May-2023	20.00	CARE A-; 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 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/ ST-CC/Packing Credit	LT/ST	60.00	CARE A-; Stable / CARE A2+	1)CARE A; Negative / CARE A2+ (04-Apr-18)	1)CARE A; Stable / CARE A2+ (02-May-17)	-	1)CARE A / CARE A2+ (22-Feb-16)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	15.00	CARE A2+	1)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)	-	1)CARE A2+ (22-Feb-16)
3.	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A2+	1)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)	-	1)CARE A2+ (22-Feb-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A2+	1)CARE A2+ (04-Apr-18)	1)CARE A2+ (02-May-17)	-	1)CARE A2+ (22-Feb-16)
5.	Term Loan-Long Term	LT	20.00	CARE A-; Stable	1)CARE A; Negative (04-Apr-18)	1)CARE A; Stable (02-May-17)	-	1)CARE A (22-Feb-16)

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