

## Ludlow Jute & Specialities Limited

March 06, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	34.49 (enhanced from 20.0)	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long /Short-term Bank Facilities	65.00 (enhanced from 60.00)	<b>CARE A-; Stable/CARE A2+</b> <b>(Single A Minus; Outlook: Stable/ A Two Plus)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	45.00	<b>CARE A2+</b> <b>(A Two Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>144.49</b> <b>(Rs. One Hundred and Forty Four crore and Forty Nine lakhs only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Ludlow Jute & Specialities Ltd (LJSL) continue to derive strength from experienced promoters with long & satisfactory track record, moderate financial performance in FY19 (refers to the period April 1 to March 31) with improvement in 9MFY20 and satisfactory capital structure albeit moderation in debt protection metrics in FY19 and 9MFY20, development of innovative products for export, empanelment with government institutions and government support to the sector.

The ratings, however, remain constrained by moderate capacity utilization, risk of raw material price volatility coupled with inventory risk, foreign exchange fluctuation risk, labour intensive nature of operations and stiff competition.

### Key Rating Sensitivities

#### Positive factors

- Increase in sale of value added products leading to sustained improvement in PBILDT margin above 8% and PAT Margin above 4%

#### Negative factors

- PBILDT margin below 3% and GCA below Rs.6 crore
- Further deterioration in operating cycle above 90 days

### 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 current promoter, Shri S.S. Kanoria of Kolkata, in 1977. During the last four decades, he, along with his son and a team of experienced professionals, has been successful in making the company profitable. Kanoria Chemical Industries Ltd (KCIL; rated CARE A+; Stable/CARE A1+), the flagship company of the group, is engaged in the manufacturing of chemicals.

##### ***Development of innovative products for export***

LJSL with its R&D team has developed innovative jute products such as cotton bagging, soil saver, webbing, jute mesh/scrim, jute felt, horticultural range, carpet backing etc. LJSL continues to export yarn, webbing, scrim and other value added products to Italy, Turkey, Belgium, Saudi Arabia, Canada, some states in US and Germany. The exports account for roughly 15-20% of the sales.

##### ***Empanelment with govt. institutions***

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 have accounted for roughly 60%-70% of net sales over the last three years (FY17-FY19). Government orders provide demand and price visibility as jute sack prices in India are fixed on a price formula of the Tariff Commission of 2001.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Moderate financial improvement in FY19 albeit improvement in 9MFY20**

LJSL's income from operations grew by 10.4%, despite decline in export from Rs.75.74 crore in FY18 to Rs.59.78 crore in FY19. The profitability margin remained under pressure since the raw jute price was high during the first 9 months in FY19 and softened only during Q4FY19, and increase in wages. The PAT level and margin of the company deteriorated on account of marginally higher capital charge as the PBILT remained around the similar level at Rs.12.65 crore in FY19 vis-à-vis Rs.12.26 in FY18. The interest cost continued to increase as the total debt increased from Rs.63.36 crore in FY18 to Rs.74.52 crore in FY19 for its capex and increase in working capital requirement. Interest coverage ratio deteriorated marginally to 2.25x in FY19 from 2.93x in FY18.

In 9MFY20 (unaudited), LJSL reported significant growth in PBILDT at Rs.16.22 crore vis-à-vis Rs.6.01 crore in 9MFY19, PAT of Rs.5.70 crore vis-à-vis Rs.0.68 crore in 9MFY19 on a total operating income of Rs.309.28 crore vis-à-vis Rs.266.12 crore in 9MFY19. LJSL earned a GCA of Rs.9.85 crore in 9MFY20.

**Satisfactory capital structure albeit moderation in debt protection metrics in FY19 and 9MFY20**

The capital structure of LJSL was comfortable with debt equity and overall gearing at 0.12x and 0.47x respectively as on March 31, 2019. Total debt/GCA deteriorated from 9.00x in FY18 to 10.49x in FY19 due to increase in total debt and marginal increase in GCA to Rs.7.11 crore in FY19 vis-à-vis Rs.7.04 crore in FY18. As on December 31, 2019 the debt-equity ratio of the company was comfortable at 0.13x and overall gearing at 0.48x.

**Government support to the sector**

Jute industry is highly regulated as government determines the:

- 1) Minimum support prices of jute crops for each crop year
- 2) Average raw material pricing for government orders and
- 3) Custom duty, taxes, etc. on jute and related products.

The government also decides the MSP (minimum support price) of jute each year. Whenever the market price of raw jute falls below a certain level, the Jute Corporation of India (JCI) procures raw jute at MSP, fixed on the basis of recommendation of the Commission for Agricultural Cost and Prices (CACAP), from jute growers to safeguard their interest. It has also been directed by the government that food grains to the extent of 100% of production and sugar to the extent of 20% shall be packed in jute packaging material.

**Key Rating Weaknesses****Moderate Capacity Utilization (CU)**

During FY19 the company produced 44,796 MT vis-a-vis 41,968 MT in FY18 on an installed capacity of 67,500 MTPA, at a capacity utilisation of 66% during the period. The overall CU has remained moderate, despite regular orders from Government, due to loss of production due to absenteeism as it is a labour intensive industry.

**Risk of raw material price volatility coupled with inventory risk**

LJSL procures raw jute domestically and also imports from Bangladesh. The company is exposed to raw material price fluctuations and it accounted for ~60% of cost of sales in FY19 (~57% in FY18). The price of raw jute, being an agricultural product, is volatile since it depends 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 for Government sales (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.

**Foreign exchange fluctuation risk**

LJSL is moderately exposed to foreign exchange fluctuation risk since it also exports a sizable quantity and revenue from exports has been in the range of ~25%-30% of the total revenue. However, the company enters into forward contracts with its customers, thereby mitigating the risk. In the last three years, the company has not recorded losses due to forex price volatility risk, as INR has mostly depreciated during the period.

**Labour intensive nature of operations**

Jute industry is highly labour intensive, entailing high employee expenses. LJSL's employee expense continued to account for ~24% to 25% of cost of sales during FY17-FY19. Although, the industry faces production issues due to absenteeism, LJSL has managed to keep it under control.

### 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 Analysis: Adequate

LJSL earned a GCA of Rs.7.1 crore in FY19 and Rs.9.85 crore as on Dec. 31, 2019 vis-a-vis a debt obligation of Rs.5.49 crore in FY20. The company has adequate funds to meet its debt obligations. Its bank limits are utilized to the extent of 91% although supported by above unity current ratio. The operating cycle of the company continues to remain moderate at 78 days in FY19.

**Analytical approach:** Standalone factoring group support

### Applicable criteria

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

### 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)	FY18 (A)	FY19 (A)
Total operating income	336.54	369.95
PBILDT	12.26	12.65
PAT	1.79	1.55
Overall gearing (times)	0.40	0.47
Interest coverage (times)	2.93	2.25

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

### Annexure-1: Details of Facilities

Name of the Facilities	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	-	-	-	65.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	27.50	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	7.50	CARE A2+
Term Loan-Long Term	-	-	Sept. 2025	34.48	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 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/ST-CC/Packing Credit	LT/ST	65.00	CARE A-; Stable / CARE A2+	-	CARE A-; Stable / CARE A2+ (04-Jan-19) CARE A; Negative / CARE A2+ (04-Apr-18)	CARE A; Stable / CARE A2+ (02-May-17)	-
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A2+	-	CARE A2+ (04-Jan-19) CARE A2+ (04-Apr-18)	CARE A2+ (02-May-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A2+	-	CARE A2+ (04-Jan-19) CARE A2+ (04-Apr-18)	CARE A2+ (02-May-17)	-
4.	Non-fund-based - ST-Bank Guarantees	ST	7.50	CARE A2+	-	CARE A2+ (04-Jan-19) CARE A2+ (04-Apr-18)	CARE A2+ (02-May-17)	-
5.	Term Loan-Long Term	LT	34.48	CARE A-; Stable	-	CARE A-; Stable (04-Jan-19) CARE A; Negative (04-Apr-18)	CARE A; Stable (02-May-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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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