No. CARE/KRO/RR/2021-22/1200

Shri Rajesh Gupta
Chief Financial Officer
Ludlow Jute & Specialities Limited
23C, Ashutosh Chowdhury Avenue
KCI Plaza, 4th Floor
Kolkata
West Bengal 700019

February 25, 2022

Dear Sir,

Credit rating of bank facilities for Rs.136.23 crore

Please refer to our letter dated, February 24, 2022 on the above subject.

2. The rationale for the ratings is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 26, 2022, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Richa Bagaria
Assistant Director

Encl.: As above

Rating Rationale
Ludlow Jute & Specialities Ltd.

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	26.23 (Enhanced from 16.23)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term / Short Term Bank Facilities	65.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Short-term Bank Facilities	45.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**136.23 (Rs. One hundred thirty-six crore and twenty-three lakh Only)**		

Details of instruments/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 the experienced promoters having a long and satisfactory track record, development of innovative products for exports, low counterparty payment risk, moderate financial performance in FY21 (refers to the period April 1 to March 31) with significant improvement witnessed in 9MFY22 and moderate capacity utilisation in FY21 with improvement witnessed in H1FY22.

The ratings, however, remain constrained by moderation in debt protection metrics, risk of raw jute price volatility, foreign exchange fluctuation risk, labour intensive nature of operation, working capital intensive nature of operation, regulatory nature of the industry and stiff competition.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

- PBILDT margin below 3% on a sustained basis 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 and satisfactory track record

LJSL, incorporated in 1921, was taken over by the current promoter, Mr. S.S. Kanoria of Kolkata, in 1977. During the past 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), the flagship company of the group, is engaged in the manufacturing of chemicals and is rated CARE A-; Stable/ CARE A2+.

Development of innovative products for exports

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 the US and Germany. It enjoys an

1Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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established position in the export market driven by product innovativeness and quality. The exports account for roughly 20% of the sales.

Relatively low counter-party payment risk

LJSL's major customers in the domestic market include the Director General of Supplies & Disposals, the Food Corporation of India, among others.; this, assures a steady stream of revenue. Supplies to government institutions have accounted for roughly 55-65% of net sales over the last three-and-a-half years (FY19-9MFY22). Government orders provide demand and price visibility as jute bag prices in India are fixed on a price formula of the Tariff Commission of 2001, wherein any sudden increase in variable costs (i.e. raw-material, labour and power) may be passed-on to the government institutions with a lag. Furthermore, it also ensures a steady stream of revenue to LJSL. The company has sufficient orders at hand for sales in the future.

Moderate financial performance in FY21 with improvement in 9MFY22

LJSL's income from operations remained steady at Rs.419.25 crore in FY21, as compared to Rs.415.70 crore in FY20, despite setback faced by the company on account of COVID-19. Income from domestic sales grew by 42%, due to higher volume as well as realisation.

During FY21, the company's margins suffered due to the lockdown imposed to curb the spread of COVID-19, due to which inventory was piled up with the company in Q1FY21. Also, there was an increase in wages/MT on account of lower production, thereby resulting in lower absorption of fixed wages. PBDILT margin reduced to 3.54% in FY21 from 4.86% in FY20. Consequently, the company reported PAT of Rs.0.03 crore in FY21 vis-à-vis Rs.5.01 crore in FY20.

In 9MFY22, the company reported substantial growth in revenue of 60% to Rs.434.68 crore from Rs.272.14 crore in 9MFY21. Sales during H1FY21 were muted on account of sales of only Rs.47.69 crore in Q1FY21 which was due to the nation-wide lockdown imposed by the government on March 23, 2020, to contain the spread of COVID-19. Consequently, the company reported PBDILT and PAT of Rs.26.10 crore and Rs.11.83 crore respectively in 9MFY22 vis-à-vis Rs.8.68 crore and (Rs.2.58) crore in 9MFY21.

Key Rating Weaknesses

Moderation in debt protection metrics

The debt-equity and overall gearing of LJSL stood at 0.19x and 0.61x, respectively, as on March 31, 2021 vis-à-vis 0.14x and 0.59x as on March 31, 2020 vis-à-vis 0.12x and 0.47x as on March 31, 2019. The debt-equity and overall gearing of LJSL deteriorated marginally on account of the term loan availed for capital expenditure along with availment of inter-corporate deposit of Rs.10.00 crore. The said ICD is short-term in nature and was taken to meet the credit requirement of the company in FY21 to purchase stocks. The term debt/GCA and total debt/GCA deteriorated to 4.18x and 13.10x, respectively, as on March 31, 2021, as compared to 1.96x and 8.15x as on March 31, 2020, due to lower accretion of GCA on account of lower PAT (Rs. 0.03 crore) as the company was adversely affected in Q1FY21 on account of restrictions imposed due to the spread of the COVID-19 pandemic.

As on September 30, 2021, the overall gearing ratio of the company improved to 0.41x by repayment of inter corporate deposit. The payment of the same was made through realisation from debtors. The debt repayment cycle of the company is well spaced out, providing them enough time to realise income and meet the obligation. Going forward, the capital structure is expected to improve with repayment of debt obligations and no major debt-funded capex.

Risk of raw jute price volatility

LJSL procures raw jute domestically and imports from Bangladesh. The company is exposed to raw material price fluctuations and it accounted for around 63% of cost of sales in FY21 (around 62% of cost of sales in FY20). 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 the government considers 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 sizeable quantity; and revenue from exports has been in the range of around 18-22% of the total revenue. However, the company enters into forward contracts with its customers, thereby mitigating the risk. In the past three years, the company has not recorded losses due to forex price volatility risk, as INR has mostly depreciated during the period.

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Labour intensive nature of operations
The jute industry is highly labour-intensive, entailing high employee expenses. LJSL's employee expense continued to account for around 22-25% of the cost of sales during FY19-FY21. Although the industry faces production issues due to absenteeism, LJSL has managed to keep it under control. LJSL is strategically trying to reduce its dependency on the existing labour requirement per tonne of finished jute products by installing modernised looms and spinning mills. During FY21, the wages per MT of the company has increased to Rs.20,385 per MT from Rs.18,908 per MT in FY20, on account of lower production, thereby resulting in lower absorption of fixed wages. The company had also not done any salary cuts during closure of production due to COVID-19.
However, in H1FY22, the wages per MT decreased to Rs. 19,712 on account of higher production resulting from relaxations in restrictions imposed due to the spread of COVID-19 pandemic.

Working capital intensive nature of operation
LJSL's operation is working capital intensive in nature due to the seasonal nature of the product. During the harvesting season, the company needs to have ample stock of raw materials. Once harvested, the raw materials are stored for later use, increasing the inventory period. A standard credit period needs to be provided to its customers in view of the general practice in the industry, but labour needs to be paid immediately (which is a high-cost component in jute manufacturing companies), thereby increasing working capital needs. The collection period remained stable at 30 days in FY21, as compared to 28 days in FY20. The average credit period was 47 days in FY21, as compared to 40 days in FY20. However, inventory period increased to 106 days in FY21 from 94 days in FY20, resulting in an increase in operating cycle period from 82 days in FY20 to 89 days in FY21.
The operating cycle improved during H1FY22 to 87 days as inventory period decreased to 91 days from 106 days in FY21.

Regulatory nature of the industry
The regulatory nature of the industry does not allow the manufacturers to control the pricing as per the demand and supply. The jute industry is highly regulated in nature as the government determines the minimum support prices of jute crops for each crop year and custom duty, taxes, etc., on jute and related products. They are completely dependent on the government, who undertakes the pricing for the raw materials (in case of supply to government institutions). The lack of control in the hands of the manufacturers exposes them to a regulatory risk.

Stiff competition from Bangladesh
The industry faces stiff competition from Bangladesh on account of relatively better quality of jute, lower wages and power cost, and substantial government assistance. It is also facing competition from cheaper synthetics. The Bangladesh Government provides 10% export subsidy and 7.5% on yarn.; whereas India allows only 3.92% benefit on export. However, the government imposed anti-dumping duty ranging from US$ 6.30 to US$ 351.72 per tonne on imports of jute and its products from Bangladesh and Nepal which has provided scope for additional demand of 2 lakh MT of jute goods in the domestic market for the Indian jute industry.

Outlook on the jute industry
In October 2020, to give an impetus to diversification of the jute industry in the country, the Cabinet Committee on Economic Affairs has approved that 100 per cent of the food grains and 20 per cent of sugar, shall be mandatorily packed in diversified jute bags. The scope under the Jute Packaging Material (JPM) Act, 1987 has been expanded. Considering that nearly 3.70 lakh workers and several lakh farm families are dependent on jute for their livelihood, the government has been making concerted efforts for the development of jute sector; increasing the quality and productivity of raw jute, diversification of the jute sector and also boosting and sustaining demand for jute products. This is expected to have a positive effect on this industry.
Jute is an annually renewable natural fibre and the jute industry can well be defined as one of the least polluting. In the present context of increasing need to be conscious of ecological and environmental interests, the jute sector in India is likely to play an important role in India's commitment to mitigating climate change.
The global jute bag industry has encouraging growth aspects. The demand for jute bags has witnessed a surge over the past few years, particularly in the European Union. This can be attributed to the growing environment consciousness in the region. Research and development in these fields is continuing as also use of jute for other industrial projects is being taken up. This augurs well for the future of the industry.

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Liquidity: Adequate
LJSL earned GCA of Rs. 7.57 crore in FY21 and Rs.17.97 crore as on December 31, 2021, vis-a-vis a debt obligation of Rs. 4.35 crore in FY21 and Rs.10.44 crore in FY22. Furthermore, the company has also paid off Rs.10.00 crore of inter corporate deposit in H1FY22, which has been met by way of realisation from debtors. Moreover, the average bank limits utilisation for the 12- months ended October 31, 2021 stood at around 85%. The operating cycle of the company deteriorated to 89 days in FY21 vis-à-vis 82 days in FY20, with improvement to 87 days in H1FY22. Besides, the company opted for moratorium on its term loan repayments which was duly approved by the bankers.

Analytical approach: Standalone factoring Kanoria group support.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Ludlow Jute & Specialities Ltd (LJSL), incorporated in 1921, is the 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.

Financial Performance: (Rs. crore)

For the period ended/as at March 31,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net Sales	362.18	409.58	414.35
Total Operating income	369.95	415.70	419.25
PBILDT	12.65	20.19	14.84
Interest	5.61	7.21	7.32
Depreciation	5.62	7.07	7.55
PBT	2.13	5.92	0.01
PAT (after deferred tax)	1.55	5.01	0.03
Gross Cash Accruals	7.11	11.83	7.57
Financial Position			
Equity Capital	10.80	10.80	10.80
Networth	158.44	162.03	162.55
Total capital employed	234.90	260.30	263.59
Key Ratios			
Growth			
Growth in Total income (%)	9.93	12.37	0.85
Growth in PAT (after deferred tax) (%)	-13.33	222.03	-99.38
Profitability			
PBILDT/Total Op. income (%)	3.42	4.86	3.54
PAT (after deferred tax)/ Total income (%)	0.42	1.20	0.01
ROCE (%)	3.77	5.52	2.99
Solvency			
Debt Equity ratio (times)	0.12	0.14	0.19
Overall gearing ratio(times)	0.47	0.59	0.61
Interest coverage(times)	2.25	2.80	2.03

Term debt/Gross cash accruals (years)	2.77	1.96	4.18
Total debt/Gross cash accruals (years)	10.49	8.15	13.10
Liquidity			
Current ratio (times)	1.21	1.10	1.13
Quick ratio (times)	0.39	0.30	0.37
Turnover			
Average collection period (days)	28	28	30
Average inventory (days)	77	94	106
Average creditors (days)	27	40	47
Operating cycle (days)	78	82	89

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

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	27.50	CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A2+
Term Loan-Long Term		-	-	November 2028	26.23	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	65.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (07-Feb-22)	1)CARE A-; Stable / CARE A2+ (07-Jan-21)	1)CARE A-; Stable / CARE A2+ (06-Mar-20)	1)CARE A-; Stable / CARE A2+ (04-Jan-19)

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								2)CARE A; Negative / CARE A2+ (04-Apr-18)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A2+	1)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)
3	Non-fund-based - ST-Letter of credit	ST	27.50	CARE A2+	1)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)
4	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A2+	1)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21)	1)CARE A2+ (06-Mar-20)	1)CARE A2+ (04-Jan-19) 2)CARE A2+ (04-Apr-18)
5	Term Loan-Long Term	LT	26.23	CARE A-; Stable	1)CARE A-; Stable (07-Feb-22)	1)CARE A-; Stable (07-Jan-21)	1)CARE A-; Stable (06-Mar-20)	1)CARE A-; Stable (04-Jan-19) 2)CARE A; Negative (04-Apr-18)

Annexure-3: Details of Rated Facilities
1.Long-term facilities
1.A. Term Loans

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks
1.	Yes Bank Ltd.	11.96	Repayment in 19 quarterly instalments of Rs.0.92 crore each, starting from February 2020.
2.	State Bank of India	3.73	Repayment in 20 quarterly instalments of Rs.0.75 crore each, ending in March 2023.
3.	State Bank of India	10.00	Repayment in 72 monthly instalments of Rs.0.14 crore each, starting from December 2022.
4.	Yes Bank Ltd.	0.54	Repayment in 13 quarterly instalments of Rs.0.0775 crore each, starting from August 2018.
	TOTAL	**26.23**	

Total Long Term Facilities (1.A.): Rs.26.23 crore

2.Short-term facilities
2.A. Fund-based Limits

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks
1.	Central Bank of India	10.00	Export Bill Purchase; Export Bill Discounting; Export Bill Negotiation
	TOTAL	**10.00**	

2.B. Non-Fund-based Limits

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks
1.	Central Bank of India	16.50	Letter of Credit
2.	State Bank of India	11.00	Letter of Credit
	TOTAL	**27.50**	

2.C. Non-Fund-based Limits

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks
1.	Central Bank of India	3.50	Bank Guarantee
2.	State Bank of India	4.00	
	TOTAL	**7.50**	

Total Short-term Facilities (2.A.+2.B.+2.C.): Rs.45.00 crore

3. Long-term/Short-term Facilities

3.A. Fund Based Limits

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks
1.	Axis Bank	20.00	WCDL/Cash Credit/EPC/PCFC
2.	Central Bank of India	20.00	Cash Credit/PC/PCFC
3.	State Bank of India	15.00	Cash Credit/EPC/PCFC
4.	Yes Bank Ltd.	10.00	WCDL/Cash Credit/PC
	Total	65.00	

Total Long-term/Short-term Facilities (3.A.) : Rs.65.00 crore

Total Facilities (1.A+2.A+2.B+2.C+3.A) : Rs.126.23 crore

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple
5	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Contact us

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.