



Press Release
CALCUTTA EXPORT COMPANY
January 23, 2025
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.60	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	21.60	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the short-term rating of ‘ACUITE A3’ (read as ACUITE A three) to ‘ACUITE A4+’ (read as ACUITE A four plus) on the Rs. 21.60 Cr. bank facilities of Calcutta Export Company (CEC).

Rationale for Rating

The rating reflects the significant decline in the firm’s revenue due to the geopolitical issues leading to reduced orders and also due to labour unrest in one of the production plant leading to suspension of production in the same, resulting in a 45.24% decrease in topline. Reduced production capacity and reliance on job work have pressured profitability, as seen in the drop in EBITDA and PAT margins from 10.31% and 6.25% in FY24 against 15.14% and 9.36% in FY23, respectively. The firm’s high customer concentration, with 80- 90% of sales dependent on a single US customer, further increases risk. Additionally, the financial risk profile has weakened with a decrease in net worth, reduced cash accruals, and a longer working capital cycle albeit low gearing and absence of any long-term debt.

About the Company

CEC a Kolkata based firm was formed in 2000 by Mr. Bhagwan Das Agarwal. Currently the firm is promoted by Mr. Bhagwan Das Agarwal, Mrs. Priti Jhunjunwala and Mrs. Jyoti Gupta. The firm is engaged in manufacturing of iron casting for manhole, pipe fittings, and valve box among others with an installed capacity of 36000 MTPA in 2 plants. Since August 2023, operations in one of the plant have been suspended. The firm has its manufacturing facility located in Rabindra Sarani and Howrah, West Bengal.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of CEC while arriving at the rating.

Key Rating Drivers

Strengths

Long track record of operation and experienced management

CEC, a Kolkata based firm, was incorporated in 2000 by Mr. Bhagwan Das Agarwal. Currently the firm is managed by Mr. Bhagwan Das Agarwal, who possesses more than two decades of experience in iron casting business especially in manufacturing of manhole, pipe fittings, valve box among others. The other partners, Mrs. Priti Jhunjunwala and Mrs. Jyoti Gupta also have more than a decade experience in aforementioned industry. The firm

has a long presence in this sector and has established a healthy relationship with customers over the years.

Moderate financial risk profile

The firm's financial risk profile is currently moderate, with a decline in net worth albeit low gearing, and no long-

term debt. Net worth decreased to Rs. 28.65 Cr. in FY24 from Rs. 37.23 Cr. in FY23, mainly due to a Rs. 16.12 Cr. capital withdrawal by the partners. Gearing remained healthy at 0.61 times as of March 31, 2024, due to a debt-free structure. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) moderated to 13.06 times and 8.80 times in FY24, from 23.03 times and 15.12 times in FY23, while the net cash accruals to total debt (NCA/TD) ratio decreased to 0.41 times in FY24 from 0.92 times in FY23. Acuité expects the financial risk profile to improve in the absence of any major debt-funded capital expenditure over the medium term albeit risk of capital withdrawal.

Weaknesses

Intensive working capital operations

The firm's working capital management is intensive. GCA days increased to 196 days in FY24 from 125 days in FY23, with debtor days rising to 95 days in FY24 from 63 days in FY23 due to a longer payment cycle amid the US economic slowdown. Inventory days also rose sharply to 79 days in FY24 from 39 days in FY23 as the firm had to hold on to finished goods due to geopolitical reasons. The creditor cycle extended to 41 days in FY24 from 18 days in FY23. Acuité expects working capital cycles to remain in a similar range as the firm shifts focus from manufacturing to job work, leading to longer cycles.

Partnership nature of business

The firm is exposed to risk of capital withdrawal considering its partnership nature of constitution of the business. There have been instances in the past for capital withdrawal, but the promoters have maintained the funds required for operations of the business. There was a net withdrawal of capital from business amounting to Rs.16.12 Cr. in FY24 resulting its working capital cycle to elongate. The GCA increased to 196 days in FY24 from 125 days in FY23. Acuité believes, the management will maintain the capital required for proper functioning of the business.

Customer concentration risk

The firm is also susceptible to customer concentration risk as on average ~80-90% percent of the firm's revenue is generated through sales to one US based customer. However, the firm is taking the initiative to diversify its customer base. Acuité believes that the ability of CEC to expand its customer base to mitigate the revenue concentration risk will remain a key rating sensitivity factor.

Rating Sensitivities

Movement in revenue growth and profitability margin

Movement in capital structure

Working capital cycle

Movement of order book

Liquidity Position

Adequate

The firm has adequate liquidity position marked by comfortable albeit decreased net cash accruals of Rs. 7.17 Cr. as against nil maturing debt repayment obligations. The current ratio of the firm stood comfortable at 1.59 times in FY24. The Gross Current Asset (GCA) days of the firm stood high at 196 days in FY24. Bank limits utilization is moderate at ~65% during the last 6 months ending November 2024. The firm avails PCFC facility on bill-to-bill basis on export orders typically of a tenure of 6 months. The same can also be evidenced from the debtor days as of Dec 2024 which is 118 days. The liquidity of the firm is likely to remain adequate over the medium term on account of average albeit decreased cash accruals against nil debt repayments obligations albeit increase in working capital cycle and withdrawal of capital from business over the medium term.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	106.74	194.93
PAT	Rs. Cr.	6.67	18.25
PAT Margin	(%)	6.25	9.36
Total Debt/Tangible Net Worth	Times	0.61	0.55
PBDIT/Interest	Times	13.06	23.03

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Oct 2023	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	19.60	ACUITE A3 (Reaffirmed)
01 Aug 2022	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	19.60	ACUITE A3 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.00	Simple	ACUITE A4+ Downgraded (from ACUITE A3)
Punjab National Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	19.60	Simple	ACUITE A4+ Downgraded (from ACUITE A3)

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About Acuité Ratings & Research

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