

Press Release

Shaktigarh Textile and Industries Limited

April 30, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB- /Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) on the Rs. 30.00 crore bank facilities of Shaktigarh Textile and Industries Limited. The outlook is **'Stable'**.

Incorporated in 1965, Shaktigarh Textile and Industries Limited (STIL) is a West Bengal based company which initially started with the manufacturing of cotton textiles. The company was promoted by the Hada group and was referred to The Board of Industrial and Financial Reconstruction (BIFR) due to subsequent losses. In 2011, STIL was taken over by Kajaria Family to set up a jute park in Shaktigarh, West Bengal. The jute park became operational from Sep 30, 2014. Currently STIL is engaged in manufacturing of jute products, such as hessian & sacking bags. STIL is a composite jute mill with manufacturing capacity of 70500 MTPA (out of which 48000 MTPA capacity is taken through lease agreement entered into in 30 March, 2019 for a period of 15 years). The company is managed by Mr. Srivatsa Kajaria, who is the 4th generation of the Kajaria Family.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of STIL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operation

Shaktigarh Textile & Industries Limited (STIL) was incorporated in 1965 and was taken over by the Kolkata based Kajaria family in the year 2011. The promoters have more than three decades of experience into manufacturing and selling of jute and related products. After takeover, promoter set up a Jute Park at Shaktigarh (Burdwan District in West Bengal) under Public Private Partnership model. The jute park became operational from September 2014. STIL is currently managed by Mr. Srivatsa Kajaria who represents the 4th generation of the Kajaria family. Acuite believes that the long standing experience of the management would enable the company to maintain comfortable relationships with their key customers and suppliers.

• Moderate financial risk profile

The company has moderate financial risk profile, marked by its modest net worth, comfortable gearing and moderate debt protection metrics. The tangible net worth stood at Rs 56.16 crore in FY2019 compared to Rs.51.96 crore in FY2018. Acuite has considered the unsecured loan of Rs. 43.42 crore in FY2019 as against Rs. 39.26 crore in FY2018 which has been subordinated to the bank and the same has been treated as quasi equity. Acuite has received the undertaking for the same. The debt-equity ratio stood at 0.50 times in FY2019 in similar line of 0.51 times in FY2018. The total debt of Rs. 28.31 crore consists of working capital borrowings of Rs. 14.50 crore, long term debt of Rs. 13.81 crore. The Interest coverage ratio and debt service coverage ratio stood moderate at 1.83 times and 0.93 times respectively in FY2019 compared to 1.07 times and 0.57 times in FY2018. The NCA/TD stood at 0.12 times in FY2019. Going forward, Acuite expects the financial risk profile to improve in absence of major debt funded capex plans and improving revenue trends.

• Improving scale of operation and profitability

The company has improving revenue trend marked by operating income of Rs 449.19 crores in FY2020 (Provisional) as against Rs 71.44 crores in FY19 and Rs 67.80 crores in FY18 on account of improvement in capacity from 7,500 MTPA to 70,500 MTPA with in house expansion of 15000 MTPA and 48000 MTPA been taken on lease. The capacity utilization improved from 30 percent in FY 2017 to 70.25 percent in FY2020. Further, the company's operating margins stood at 10.48 percent in the FY2019 as against 7.18 percent in FY18 and 4.72 percent in FY17 on account of decrease in raw material costs during the period.

Weaknesses

• Working capital intensive nature of business

The company has working capital intensive nature of operation marked by high GCA days of 116 in FY2019 as compared to 130 days in FY2018. This is mainly on account of high inventory days of 66 in FY2019 compared to 46 days in FY2018 due to seasonal availability of raw jute fibres. The debtor days stood at 26 days in FY2019 compared to 50 days in FY2018 due to timely realization of receivables from debtors. The other current asset of Rs. 6.05 crore as on March 31, 2019 consists of advance tax paid of Rs. 0.28 crore, input tax receivable of Rs. 0.52 crore, deposit with WBSEB of Rs. 0.05 crore, prepaid expense of Rs. 0.03 crore and prepaid expenses, advances given to employees and export incentives of Rs. 5.15 crore. The bank limit in the company remains around 93percent utilized during the last twelve months ended on March, 2020. The working capital is expected to remain intensive over the medium term.

• Raw material price volatility due seasonal nature

The major raw materials procured by the company include raw jute fibres. The raw material cost constitutes of around 70 percent of the total sales. Price of jute is highly volatile in nature due to seasonal availability of raw jute and the jute production is highly susceptible to agro-climatic conditions. Thus any adverse movement of jute prices further impacts profitability.

Rating Sensitivity

- Substantial growth in revenue coupled with sustaining profitability
- Improvement in working capital intensity

Material Covenants

None

Liquidity Profile

The company generated cash accruals of Rs 3.40 crores in FY 2019 which is estimated to increase over the medium term on account of improving scale of operation and profitability. The bank limit of the company remains about 93percent utilized during the last twelve months ended on March, 2020. STIL maintains unencumbered cash and bank balances of Rs.0.24 crore as on March 31, 2019. The current ratio of the company stands low at 1.02 times as on 31st March, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of improving cash accruals against its maturing debt obligations.

Outlook: Stable

Acuite believes that STIL's outlook will remain 'Stable' over the medium term from its experienced management and locational advantage. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues and profitability while improving working capital management. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability, or deteriorating financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	71.44	67.80
PAT	Rs. Cr.	0.04	(2.23)
PAT Margin	(%)	0.06	(3.29)
Total Debt/Tangible Net Worth	Times	0.50	0.51
PBDIT/Interest	Times	1.83	1.07

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

None

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

- **Note on complexity levels of the rated instrument**
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.68	ACUITE BBB-/Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.32	ACUITE BBB-/Stable

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About Acuité Ratings & Research:

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