Press Release

Shaktigarh Textile and Industries Limited

January 19, 2024

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	57.00	ACUITE BBB- | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	57.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 57.00 Cr bank facilities of Shaktigarh Textile and Industries Limited (STIL). The outlook is '**Stable'.**

Rationale for rating

The rating assigned factors in the long operational track record of the company and experience of the promoters of over three decades in the jute manufacturing industry. The rating also takes into account the comfortable scale of operations in FY23, though moderated from FY22 levels. The rating also positively factors in the comfortable debtor periods which stood at 10 days in FY2023 and the counter parties are majorly the government bosies thereby mitigating the collection risk to an extent. The adequate liquidity position as reflected in the sufficient cushion in the net cash accruals after meeting the debt obligations, further supports the rating. However, Acuite notes the high fund-based limit utilization of ~98.06 per cent for the last seven months ended December'23. Improvement in the fund based limit utilization will remain a key rating monitorable. The rating is however constrained by working capital intensive nature of operations marked by high GCA days of 101 days in FY23 majorly on account of increased inventory holding level in FY23 and significant advances to suppliers. The rating further remains constrained by susceptibility of margins due to volatility in raw material prices and exposure to stringent regulations in the jute industry.

About the Company

Incorporated in 1965, Shaktigarh Textiles and Industries Limited (STIL) was taken over by Kajaria Family in 2011 to set up a jute plant in Shaktigarh, West Bengal. The jute plant became operational from Sep 30, 2014. Currently, the company is engaged in manufacturing of jute products, such as hessian and sacking bags. STIL is a composite jute mill with manufacturing capacity of 1,09,500 MTPA (out of which 22500 MTPA is owned and rest 87000 MTPA capacity is taken through lease agreement entered into on 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.

Unsupported Rating

Not applicable.

Analytical Approach

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

Key Rating Drivers

Strengths

Long track record of operations and Experienced management
The company has a long operational track record of around four decades as it was initially incorporated in 1965 and was later taken over by the Kolkata based Kajaria family in 2011. Further, the promoters have more than three decades of experience in the 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.
Acuité believes that the long operational track record of the company and extensive experience of the promoters in the jute industry shall enable the company to maintain comfortable relationships with their key customers and suppliers.

Moderation in operating income in FY23 although improvement in the profitability margins
The operating income of the company moderated to Rs.768.38 Cr in FY2023 as against Rs.976.36 Cr in FY2022, thereby registering an y-o-y decline of ~21 per cent on account of decline in the sales volume as one of the leased mills (Gondalpara Mills) which was acquired in FY22 remained close in FY23 and became operational in the current year only. The company's major customers include government organisations, namely, Bihar State Food & Civil Supplies, UP Food & Civil Supplies Department, Telangana State Civil Supplies Corporation Limited, etc.
Further, the company has achieved a revenue of Rs.437.78 Cr in Apr'23-Nov'23 and is expected to register a revenue of ~800 Cr for FY2024 due to expected increase in the demand from the government organisations during January, February and March'24, which was subdued during FY23 and the first half of FY24. The mandatory packaging norms for Jute year 2023-24 stipulate 100% foodgrain and 20% sugar packaging in jute bags.

The operating margin of the company improved to 2.41 per cent in FY2023 from 1.98 per cent in FY2022 on account of decline in material cost during the period. On the back of improved EBITDA margins, PAT margins also increased to 1.30 per cent in FY2023 as against 1.08 per cent in FY2022.

Scalability of scale of operations along with improvement in the profitability margins will remain a key rating monitorable.

Healthy financial risk profile
The company's financial risk profile is healthy marked by comfortable net worth base, low gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.65.71 Cr as on March 31, 2023 from Rs.57.60 Cr as on March 31, 2022, due to accretion of profits to reserves. Though the gearing has increased, it still stood comfortable at 0.79 times as on March 31, 2023 as against 0.56 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.37 times as on March 31, 2023 as against 4.31 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest Coverage Ratio of 3.79 times as on March 31, 2023 as against 4.91 times as on March 31, 2022; and Debt Service Coverage Ratio at 2.07 times as on March 31, 2023 as against 2.33 times as on March 31, 2022. The debt protection metrics have declined in FY2023 due to increase in the cash credit limit during the year. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.30 times as on March 31, 2023 as against 0.47 times as on March 31, 2022.
Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses
Working capital intensive nature of operations
The company has a working capital intensive nature of operations marked by increased GCA days of 101 days in FY2023 as against 86 days in FY2022 on account of increase in inventory holding period. The inventory period increased to 64 days in FY23 as against 38 days in FY2022

due to seasonal availability of raw jute fibres. However, the debtor period improved to 10 days in FY2023 as against 20 days in FY2022.
Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 73 days as on March 31, 2023 as against 69 days as on March 31, 2022.
Sustained improvement in creditors will remain a key monitorable.

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 Sensitivities

- Improvement in scale of operations along with significant improvement in the profitability margins.
- Further elongation of working capital cycle.
- Any unwarranted regulatory changes

Liquidity Position
Adequate
The company has an adequate liquidity position marked by Net Cash Accruals of Rs.15.65 Cr as on March 31, 2023 as again current maturities of long-term debt of Rs.5.02 Cr. Further, the firm is expected to generate sufficient net cash accruals to repay its debt obligation in the near to medium term. However, the fund-based limits remained highly utilised at 98.06 per cent for the last seven months ended December'23. The current ratio stood moderate at 1.38 times as on March 31, 2023. The cash and bank balance stood at Rs.1.58 Cr as on March 31, 2023. Moreover, the working capital intensive nature of the company is marked by GCA days of 101 days in FY2023 as against 86 days in FY2022.
Acuité believes that going forward the company is likely to maintain adequate liquidity position due to steady accruals.

Outlook: Stable
Acuité believes that the outlook on STIL will remain 'Stable' over the medium term on account of experienced management, long track record of operations , comfortable scale of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or profitability margins or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or further deterioration in the profitability margins or deterioration in its working capital cycle.

Other Factors affecting Rating
None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	768.38	976.36
PAT	Rs. Cr.	10.01	10.52
PAT Margin	(%)	1.30	1.08
Total Debt/Tangible Net Worth	Times	0.79	0.56
PBDIT/Interest	Times	3.79	4.91

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None.

Applicable Criteria
• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector:- 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, Acuité 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
08 Jul 2021	Cash Credit	Long Term	15.00	ACUITE BB+ (Downgraded, Withdrawn and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	4.32	ACUITE BB+ (Downgraded, Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	10.68	ACUITE BB+ (Downgraded, Withdrawn and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BBB- | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.86	ACUITE BBB- | Stable | Assigned
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- | Stable | Assigned
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- | Stable | Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	25 Feb 2025	Simple	4.74	ACUITE BBB- | Stable | Assigned
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	15 Jan 2027	Simple	9.40	ACUITE BBB- | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.