

Press Release

Kamarhatty Company Limited

February 01, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 42.87 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs 42.87 crore bank facilities of Kamarhatty Company Limited (KCL). The outlook is '**Stable**'.

About the company

Kamarhatty Company Limited was set up in 1877 under British managing agency Jardine Henderson Ltd which was later on taken over by its current director Mr. Sushant Kumar Agarwal in 1987 and is one of the oldest functioning composite jute mills in the locality. The company is engaged in manufacturing of hessian, sacks and jute yarn with manufacturing facility located in Kamarhatti, Kolkata, on the banks of the river Ganges. Currently, the company is managed by Mr. Harsh Nahata.

About the group

Incorporated in 2004, Kamakshi Jute Industries Limited (KJIL) is engaged in manufacturing of hessian bags, sacks and jute yarn with manufacturing facility located at Cooch Behar, West Bengal spread across an area of 14.95 acres of land. The installed capacity is 3800 TPA for yarn, 2380 TPA for hessian bags and 8670 TPA for sacking. The company is currently managed by its directors Mr. Harsh Nahata, Mr. Virendra Nahata and Mr. Sushant Kumar Nahata. KJIL procures raw jute from suppliers located in Kolkata and nearly 90 percent sales are made to Directorate General of Supplies and Goods.

Keshava Jute Mills Private Limited (the 'Company') formerly Kishore Trading Company Private Limited is engaged in manufacturing of jute yarn, hessian fabrics and sacking bags. Incorporated on 2nd November 2010, the company has its manufacturing unit in Rajam, Andhra Pradesh. Currently, the company is managed by its director Mr. Harsh Nahata.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Kamakshi Jute Industries Limited, Keshava Jute Mills Private Limited and Kamarhatty Co. Limited, while arriving at the rating. This is because of common management, similar lines of business and financial linkages in the form of cross guarantees between the entities. The group is herein referred to as Kamakshi Jute Group. Extent of consolidation: full.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The group is engaged in manufacturing of jute yarn, sack and hessian bags and mostly supplies to Directorate General of Supplies and Goods. The group has its presence since 1877 having a long track record of operations as Kamarhatty Co. Limited was established in 1877 under British managing agency Jardine Henderson Ltd which was later on taken over by its current director Mr. Sushant Kumar Agarwal in 1987. The group is currently managed by Mr. Virendra Nahata, with an experience of more than two decades in the industry and Mr. Sushant Kumar Agarwal with an experience of more than three decades. The long track record of operations and experience of the management have helped the company maintain healthy relations with their customers enabling it to maintain steady revenue growth. Acuité believes that Kamakshi Jute Group will sustain its existing business profile on the back of the established

track record of operations and experienced management.

- **Proximity to raw materials**

The key raw material is raw jute and, Kamakshi Jute Group's manufacturing unit is located in Cooch Behar, West Bengal, and Kamarhatty, West Bengal which has the advantage of proximity to its raw materials as, West Bengal is the highest contributor of raw jute production in India. The group procures jute from distributors who procure locally from farmers in that area.

- **Moderate financial risk profile**

The financial risk profile of the group stood moderate marked by its modest networth, comfortable gearing level and healthy debt protection metrics. The tangible networth stood at Rs 68.43 crore as on 31st March, 2020 (Provisional) as compared to Rs 61.84 crore in the previous year. The gearing (debt-equity) stood at 0.88 times in FY 2020 (Provisional) as compared to 1.02 times in the previous year. Total debt of Rs 60.43 crore as on 31st March, 2020 (Provisional) consist of long term debt of Rs 39.39 crore, working capital borrowings of Rs 14.33 crore and unsecured loans from directors and promoters of Rs 10.71 crore. The coverage indicators stood healthy marked by Interest coverage ratio (ICR) which stood at 3.27 times for FY 2020 (Provisional) as compared to 3.04 times in FY 2019. Debt service coverage ratio (DSCR) stood at 1.94 times in FY 2020 (Provisional) as compared to 1.58 times in FY 2019. Net cash accruals to total debt (NCA/TD) stood at 0.23 times in FY 2020 (Provisional) as against 0.17 times in FY 2019. The Debt-EBITDA stood at 2.93 times in FY 2020 (Provisional). The financial risk profile is expected to remain at similar levels over the medium term on account of any further debt funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

The operations of Kamakshi Jute Group are working capital intensive marked by GCA (Gross Current Assets) Days of 122 days in FY 2020 (Provisional) as compared to 138 days in the previous year in FY 2019. The inventory days stood at 77 days in FY 2020 (Provisional) as compared to 96 days in the previous year. The debtor days stood well managed at 30 days in FY 2020 (Provisional) as compared to 27 days in FY 2019. The working capital limits remained utilized at around 60 percent for 6 months ended November, 2020. The working capital operations are expected to remain at similar levels over the medium term due to the payment terms with its customers and inventory policy.

- **High project implementation risk**

Kamarhatty Co Ltd is setting up a linen manufacturing unit at a fund outlay of Rs. 33.00 crore which is to be funded from Rs. 16 crores of external borrowings and the balance Rs. 17 crore from own sources. The loan for the project has been sanctioned. The capacities envisaged for the linen unit is 1200 MTPA. The project is expected to be operational from April, 2021 which was previously expected to be in September, 2020. This is a significantly large size project considering the current scope of operations of the group thus exposing the group to implementation risk. Acuité believes that the timely completion of the project at the estimated cost would be a key rating sensitivity factor.

Rating Sensitivity

- Substantial growth in revenue coupled with sustained profitability
- Timely completion of the linen manufacturing unit

Material Covenants

None

Liquidity Profile: Adequate

Kamakshi Jute Group has adequate liquidity marked by moderate cash accruals to its maturing debt obligations. The company generated cash accruals of Rs 10.31-13.94 crore in FY 2018-2020 (Provisional) against maturing debt obligations of Rs 4.63-4.81 crores over the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 18.92-26.81 crore during 2021-23. The group maintained unencumbered cash and bank balances of Rs. 2.19 crore as on March 31, 2020 (Provisional). The working capital limits remained utilized at around 60 percent for 6 months ended November, 2020. The current ratio stood at 1.08 times as on March 31, 2020 (Provisional). The working capital operations of the group are intensive marked by GCA (Gross Current Assets) Days of 119 days in FY 2020 (Provisional) as compared to 138 days in the previous year in FY 2019. Acuité believes that the liquidity of the company is likely to remain at similar levels over the medium term.

Outlook: Stable

Acuité believes that Kamakshi Jute group will maintain 'Stable' outlook over the medium term from its promoter's experience with an established track record of operations, healthy order book and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the revenues or profit margins, or in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	383.50	330.54
PAT	Rs. Cr.	6.86	4.27
PAT Margin	(%)	1.79	1.29
Total Debt/Tangible Net Worth	Times	0.88	1.02
PBDIT/Interest	Times	3.27	3.04

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

Brickwork, vide its press release dated November 27, 2020 had denoted the rating of Hi-Tech Chemicals Private Limited as 'Brickwork BB/A4; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.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	9.50	ACUITE BBB/ Stable (Assigned)
Term Loan-I	Not Applicable	Not Applicable	Not Applicable	16.31	ACUITE BBB/ Stable (Assigned)
Term Loan- II	Not Applicable	Not Applicable	Not Applicable	2.05	ACUITE BBB/ Stable (Assigned)
Term Loan-III	Not Applicable	Not Applicable	Not Applicable	3.91	ACUITE BBB/ Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.60	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research

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