

Press Release

Kamarhatty Company Limited

March 17, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.13	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	37.77	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	5.10	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	59.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned and reaffirmed a long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and reaffirmed a short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 59.00 crore bank facilities of Kamarhatty Company Limited (KCL). The outlook is 'Stable'.

About 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, 2390 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 yam, 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

Rationale for Consolidation or Parent / Group / Govt. Support

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 operation

The group is engaged in manufacturing of jute yarn, sack and hessian bags and mostly supplied 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 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 promoted 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 on the back of track record of operations. The long track record of operations and experience of management have helped the company maintain healthy relations with its customers enabling it to maintain steady revenue growth. Acuité believes that Kamakshi Jute Group will sustain its existing business profile on the back of established track record of operations and experienced management.

Steady growth in operating income of the group coupled with modest operating margins

The group has achieved revenues of Rs.382.54 Cr in FY2021 as compared to revenues of Rs.379.71 Cr in FY2020 and Rs.330.54 Cr in FY2019, thereby registering a 2 year CAGR of 8 per cent. Operating performance in FY2021 was impacted due to outbreak of Covid-19. The manufacturing operations were impacted from March, 2020. However, as demand remained strong during the year, realisation prices rose, partially offsetting for the volume loss. The operating margin stood at 4.66 per cent in FY 2021 as against 4.25 per cent in the previous year. The PAT margins stood at 1.55 per cent in FY2021 as against 1.59 per cent as on FY2020. The RoCE levels stood at 9.98 per cent in FY2021 as against 10.80 per cent in FY2020.

Kamarhatty Co Ltd is setting up a linen manufacturing facility in Chandannagar, West Bengal. The capacity of the linen unit was originally planned to be 1200 MTPA, but the project's scope has been expanded. During the trial runs, the management saw a significant growth potential and hence decided to increase the installed capacity to 2000 MTPA from 1200 MTPA at a minimal incremental cost. In addition, the 1200 MTPA linen capacity that was initially planned is already operational, and trial production is underway, while the effluent treatment plant's installation is under process. The plant's commercial production is planned to begin in July '22. The total cost of the project is projected to be Rs 50 cr, to be funded through bank loans of Rs 24 cr, promoter's contribution of Rs 26 cr. The group has already spent Rs 33.00 cr on the 1200 MTPA linen project, which was funded from promoters' contribution of Rs 17 cr and term loan of Rs 16 cr. The balance of the capex is planned to be spent in FY2023.

Above Average financial risk profile

The financial risk profile of the group stood is marked by its modest networth, comfortable gearing level and above average debt protection metrics. The tangible networth stood at

Rs 85.68 cr as on 31st March, 2021 as compared to Rs 67.59 cr in the previous year. Acuité has considered unsecured loans to the tune of Rs.15.50 Cr as on March 31, 2021 as part of networth as these loans are subordinated to bank debt. The gearing (debt-equity) stood at 0.79 times in FY 2021 as compared to 0.97 times in the previous year. The coverage indicators stood healthy marked by Interest coverage ratio (ICR) which stood at 3.77 times for FY 2021 as compared to 3.35 times in FY 2020. Debt service coverage ratio (DSCR) stood at 1.70 times in FY 2021 as compared to 1.86 times in FY 2020. Net cash accruals to total debt (NCA/TD) stood at 0.20 times in FY 2021. The Debt-EBITDA stood at 3.11 times in FY 2021. Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, despite having debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 137 days as on March 31, 2021 as against 127 days as on March 31, 2020. The high GCA days are on account of high inventory period of the group which stood at 86 days as on March 31, 2021 as compared to 75 days as on 31st March 2020. However, the debtor period stood comfortable at 30 days as on 31st March, 2021 as against 31 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels over the medium term due to the payment terms with its customers and suppliers.

Labour intensive nature of operations

Jute industry is one of the oldest industries and it is the most labour intensive industry in eastern India. It also remains vulnerable to labour unions and strikes, which affects the productivity of the mills. The employee cost constitutes a large portion, apart from raw material cost and it has been varying between 18-20 per cent of the total sales in the last three financial years.

Rating Sensitivities

Sustainability in revenue growth and profitability margins
Elongation of working capital cycle

Material Covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by adequate net cash accruals which stood at Rs.13.37 Cr as on March 31, 2021 as against long term debt repayment of Rs.5.46 Cr over the same period. The current ratio stood moderate at 1.02 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.2.35 Cr as on March 31, 2021 as compared to Rs.1.91 Cr as on March 31, 2020. However, due to operations being working capital intensive there is significant dependence on external debt to fund its working capital requirements which is reflected in moderate average fund based limit utilization at 72 per cent over the eight months ended December, 2021. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals

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, 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	382.54	379.71
PAT	Rs. Cr.	5.94	6.03
PAT Margin	(%)	1.55	1.59
Total Debt/Tangible Net Worth	Times	0.79	0.97
PBDIT/Interest	Times	3.77	3.35

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Feb 2021	Term Loan	Long Term	16.31	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	4.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	2.50	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	4.60	ACUITE A3+ (Assigned)
	Term Loan	Long Term	3.91	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	2.05	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.60	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB Stable Reaffirmed
Standard Chartered Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Assigned
ICICI Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	3.13	ACUITE BBB Stable Assigned
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	18.95	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.00	ACUITE BBB Stable Reaffirmed
Standard Chartered Bank	Not Applicable	Term Loan	Not available	Not available	Not available	8.00	ACUITE BBB Stable Assigned
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	5.60	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.60	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in</p> <p>Anik Das Senior Analyst-Rating Operations Tel: 022-49294065 anik.das@acuite.in</p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.