

December 15, 2023

The Jute Corporation Of India Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Cash Credit	100.00	200.00	[ICRA]A+ (Stable), reaffirmed/ assigned
Long-term – Unallocated Limits	10.00	-	-
Total	110.00	200.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating of The Jute Corporation Of India Limited (JCI) considers the company's status as a public sector undertaking as well as its position as the nodal agency for providing minimum support price (MSP) to the jute cultivators. ICRA notes that the Government of India (GoI) extends operational support to JCI in the form of orders to supply raw jute to the jute mills. Further, it receives subsidy for meeting fixed overheads, including employee costs, thus supporting its profitability. The rating continues to derive comfort from its strong financial profile, as reflected by a conservative capital structure and comfortable coverage indicators. A substantial unencumbered cash and bank balance of the company also lend strength to its liquidity position and financial profile.

The rating, however, continues to be constrained by the company's exposure to regulatory changes as well as government policies, particularly related to the quantum and timely receipt of subsidy from the GoI. The rating also notes that JCI's revenues remain vulnerable to fluctuations in jute prices and production. The turnover of JCI is volatile in nature as the same depends on jute production and the prevailing market prices of raw jute vis-à-vis MSP. As the market price of raw jute was lower than MSP, JCI had to aggravate MSP operations, which led to an increase in its revenue from MSP operations to around Rs. 113 crore in FY2023, registering a YoY growth of around 262%. In FY2023, commercial sales witnessed a sharp decline by around 89% to around Rs. 2 crore only. The operating profit margin (OPM) of the company continued to remain low at 2.7% in FY2023 vis-à-vis 2.3% in FY2022. However, the net margin was supported by sizeable non-operating income in the form of interest on fixed deposit receipts (FDRs) and liabilities written back in FY2023.

The Stable outlook on the long-term rating reflects ICRA's opinion that JCI will continue to benefit because of its position as a nodal agency of the GoI for execution of MSP operations for jute cultivators.

Key rating drivers and their description

Credit strengths

Extensive support from the GoI – JCI acts as a nodal agency for the GoI to provide MSP to jute cultivators in India. The company receives operational support from the GoI, which acts as a back-to-back arrangement, under which it receives orders to supply raw jute to the jute mills, which is linked to the quantum of jute procured from the farmers. Additionally, it receives financial support from the GoI in the form of subsidy for maintaining the infrastructure required for carrying out MSP operations and meet its fixed administrative expenses, including employee costs. Moreover, if JCI incurs any loss while carrying out MSP operations, it will be reimbursed through budgetary allocations in the subsequent year.

Strong financial profile with a conservative capital structure and comfortable coverage indicators – The capital structure of the company remained conservative over the past few years on account of low external borrowings. Its TOL/TNW stood at a low level of 0.7 times as on March 31, 2023. Despite some moderation witnessed, the debt coverage indicators stood at a

comfortable level in FY2023 on account of moderate level of profits and low level of debt. Although increase in the debt level and likely decline in the cash accruals will have a bearing on the coverage indicators of the company in FY2024, ICRA expects the same to remain comfortable in the medium-to-long term.

Substantial unencumbered cash balance strengthens liquidity position – JCI normally maintains healthy unencumbered cash and bank balances. Owing to heavy procurement and high inventory holding, largely self-financed, the overall unencumbered cash/ bank balance of the company came down to around Rs. 34 crore as on March 31, 2023 from around Rs. 164 crore as on March 31, 2022. Nevertheless, this along with unutilised bank lines, provides adequate financial flexibility to the company.

Credit challenges

Exposure to regulatory changes and/ or government policies – JCI remains exposed to regulatory changes, particularly on the quantum and timely receipt of subsidy from the GoI. Any change in the same may exert pressure on its cash flows. In FY2022, the GoI rejected the proposal for disbursement of subsidy receivables (pertaining to FY2019-FY2021) of Rs. 24.74 crore. Accordingly, the same was written off as an exceptional item in the P&L account, resulting in losses at the net level and adversely impacting the cash flows of the company in FY2022. JCI also remains exposed to any change in the operational support currently received from the GoI in terms of orders to supply raw jute to the jute mills at a price fixed by the Office of the Jute Commissioner.

Seasonal nature of operations; operating volumes susceptible to the demand-supply dynamics of raw jute – MSP operations are influenced by the volatility in the raw jute prices arising from the demand-supply gap and production. At times, MSP is in force throughout the season when there is a good harvest, while some seasons experience no MSP operations at all. Such variability has impacted JCI's scale of operations in the past and is expected to be the primary factor affecting the revenues, going forward. Due to higher market prices vis-à-vis MSP during most of the months, the MSP operations of the company witnessed a significant decline, which consequently led to a fall in the turnover to around Rs. 31 crore in FY2022 from around Rs. 184 crore in FY2019. Although the revenue from commercial operations registered a growth during FY2018-FY2021, the same stood at a low level in the past. However, in view of lower market price than MSP, JCI had to aggravate MSP operations, which led to an increase in its revenue from MSP operations to around Rs. 113 crore in FY2023, registering a YoY growth of around 262%. The market price of raw jute continues to remain lower than MSP in the current fiscal. In view of substantially higher MSP operations, ICRA expects the turnover of JCI to increase significantly, on a YoY basis, in FY2024.

Liquidity position: Adequate

The ownership and the company's strategic importance to the GoI strongly support its ability to raise additional debt at a competitive rate from its lenders, thereby mitigating liquidity risk to an extent. Recently, the company has enhanced its fund-based working capital limits to Rs. 200 crore from Rs. 100 crore. The working capital requirements are seasonal in nature and are dependent on the market price of raw jute. The average utilisation of the fund-based working capital limits of the company has increased in the recent past on the back of increased MSP operations. However, in view of sizeable unencumbered cash/ bank balance, undrawn working capital facilities and absence of any major planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade JCI's rating if the entity is able to increase its scale of operations substantially, while improving its margins on a sustained basis.

Negative factors – Pressure on JCI's rating may arise if any adverse Government regulations and/ or any substantial delay in receipt or cancellation of subsidy from the GoI, adversely impact the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/ Group support	Implicit support from the Government of India
Consolidation/ Standalone	The rating is based on the standalone financial statements of the entity

About the company

The Jute Corporation of India Limited (JCI), a Central Public Sector Enterprise, under the Ministry of Textile (MOT), was set up in 1971 to act as a nodal agency to provide minimum support price to jute cultivators in India. Initially, JCI started its operation as a small trading agency. Later, it gradually expanded its network across the jute growing areas of India and now has presence in six states (West Bengal, Bihar, Assam, Tripura, Odisha, and Andhra Pradesh). JCI operates through its 110 departmental purchase centres (DPC) and 14 regional offices/ regional lead DPCs, with its head office in Kolkata.

JCI executes MSP operations for jute procurement and serves as a stabilising agency in the raw jute market. JCI's price support operations involve procuring raw jute from farmers, usually small and marginal farmers, at MSP without any quantitative limit, as and when the prevailing market price of jute falls below the MSP. These operations help create a notional buffer in the market by siphoning off excess supply to arrest inter-seasonal volatility in raw jute prices. It also denotes the floor price at which a jute farmer can sell the produce.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	56.3	142.9
PAT	-13.8	10.0
OPBDIT/OI	2.3%	2.7%
PAT/OI	-24.5%	7.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	0.0	7.3
Interest coverage (times)	201.6	4.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: The Jute Corporation of India Limited

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL Ratings	Issuer not cooperating, based on best-available information; Rating continues to be 'CRISIL B/ Stable, ISSUER NOT COOPERATING'	October 21, 2022

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 15, 2023	Dec 12, 2022	Oct 7, 2021	Sep 21, 2020
1 Cash Credit	Long Term	200.00	28.45	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Unallocated Limits	Long Term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits – Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit 1	-	-	-	100.00	[ICRA]A+ (Stable)
NA	Cash Credit 2	-	-	-	100.00	[ICRA]A+ (Stable)

Source: The Jute Corporation of India Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Mr. Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

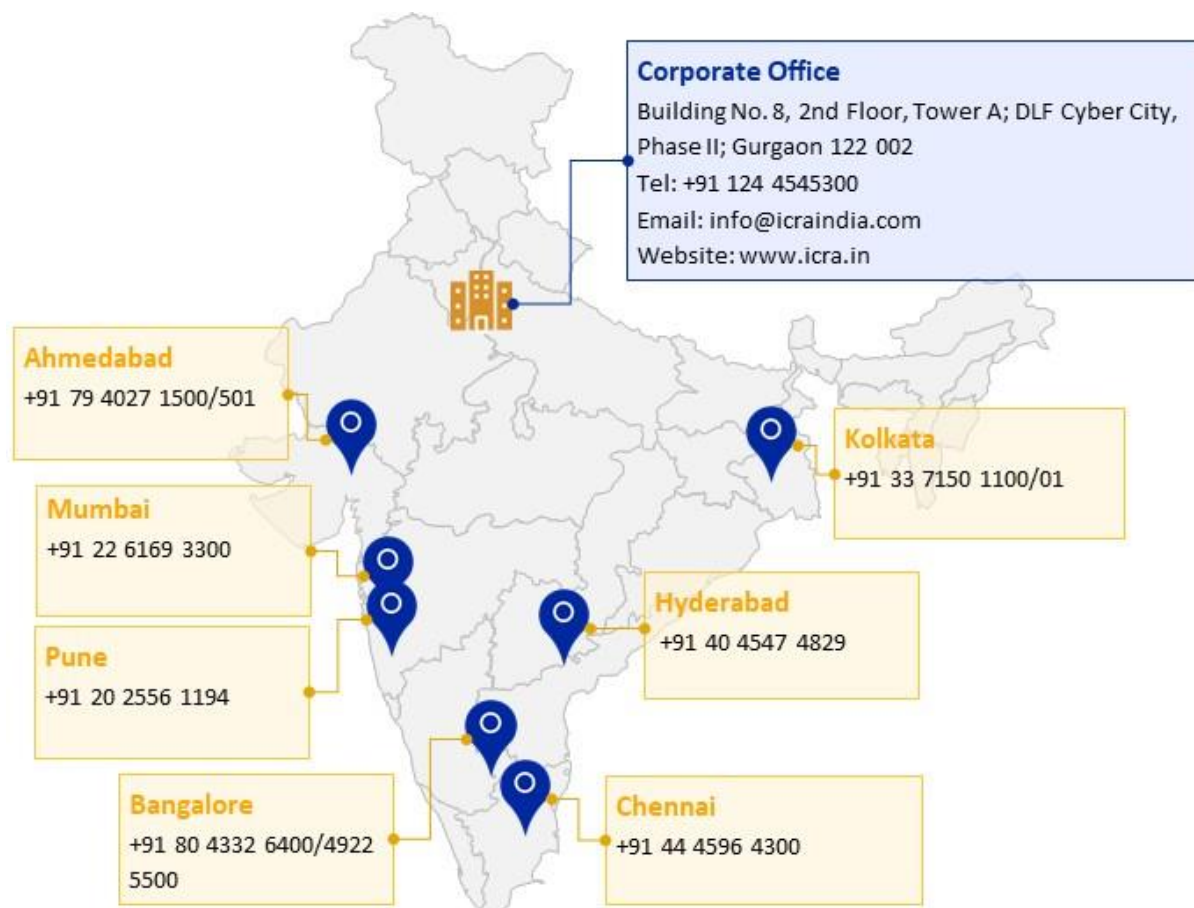


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.