

July 09, 2024

The Jute Corporation Of India Limited: Rating assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Cash Credit	200.00	450.00	[ICRA]A+ (Stable), outstanding/ assigned
Total	200.00	450.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned 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. JCI had to augment MSP operations in FY2024 due to lower market price of raw jute than MSP, leading to a significant growth of around 402% in its gross sales to around Rs. 569 crore on a YoY basis. This, along with a sharp improvement in the operating profit margin (OPM) to 15.3% in FY2024 (provisional [P]) from 2.7% in FY2023 led to a robust growth in the entity's overall profits and cash accruals in FY2024 (P) on a YoY basis. The market price of raw jute, however, witnessed a rising trend in the recent months. Accordingly, MSP operations are likely to decline substantially in the current fiscal. 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 would continue to remain volatile in nature as the same depends on jute production and the prevailing market prices of raw jute vis-à-vis its MSP.

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 and generation of healthy cash flow relative to its debt service obligations.

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.

Significant rise in the scale of operations, thereby improving profits and cash accruals in FY2024 – The operating income of JCI is volatile in nature as it is dependent on jute production and the prevailing market prices of raw jute. Due to lower market prices than the MSP during most of the months of FY2023, the MSP operations of the company witnessed an increase, which

consequently led to a growth in the gross sales to around Rs. 113 crore in FY2023 from around Rs. 31 crore in FY2022. Although revenue from commercial operations rose during FY2018-FY2021, the same declined sharply during FY2022-FY2023. However, in view of lower market price of raw jute than MSP, JCI had to augment MSP operations, which led to an increase in its gross sales to around Rs. 569 crore in FY2024 (P), registering a YoY growth of around 402% (the operating income grew by 318% to Rs. 597 crore in FY2024 on a YoY basis). The operating profit margin (OPM) also witnessed a sharp improvement to 15.3% in FY2024 (P) from 2.7% in FY2023. This, along with a significant growth in the scale of operations registered in FY2024 led to a substantial increase in the overall profits and cash accruals of the company in FY2024 (P) over the previous fiscal. The market price of raw jute, however, witnessed a rising trend in the recent months. Accordingly, MSP operations are likely to decline substantially in the current fiscal. JCI had a high inventory at the end of March 2024, which is being dispatched to the designated jute mills, leading to a sizeable revenue for the company. However, ICRA anticipates that the turnover of JCI would decline by 23-25%, on a YoY basis, in FY2025.

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. Although the working capital borrowings of the company witnessed an increase due to significantly enhanced MSP operations, thereby higher inventory holding, unencumbered cash/ bank balance of the company rose to around Rs. 51 crore as on March 31, 2024 (P). This, along with unutilised bank lines, provide 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 profit and loss (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 impacted 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 operation at all. Such variability has impacted JCI's scale of operations in the past and is likely to be the primary factor affecting the revenues, going forward.

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, mitigating the liquidity risk to an extent. Recently, the company has enhanced its fund-based working capital limits to Rs. 450 crore from Rs. 200 crore. The working capital requirements are seasonal in nature and are dependent on the market price of raw jute vis-à-vis its MSP. The average fund-based working capital utilisation stood at a low level of around 33% during the last 15 months, ended in May 2024, leaving adequate buffer for future working capital requirement. Moreover, 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 and profitability, while maintaining a comfortable liquidity position on a sustained basis.

Negative factors – Pressure on JCI’s rating may arise if any adverse Government regulation and/ or any substantial delay in receipt or cancellation of subsidy from the GoI, adversely impacts 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)

JCI, Standalone	FY2022	FY2023	FY2024*
Operating income	56.3	142.9	597.4
PAT	-13.8	10.0	70.3
OPBDIT/OI	2.3%	2.7%	15.3%
PAT/OI	-24.5%	7.0%	11.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	1.2
Total debt/OPBDIT (times)	0.0	7.3	1.4
Interest coverage (times)	201.6	4.3	11.5

Source: The Jute Corporation Of India Limited, ICRA Research; * Provisional numbers; All ratios as per ICRA’s calculations; Amount in Rs. crore

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

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’	December 20, 2023

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025) Amount rated (Rs. crore)	Chronology of rating history for the past 3 years				
			Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 9, 2024	Jul 5, 2024	Dec 15, 2023	Dec 12, 2022	Oct 7, 2021
1 Cash Credit	Long Term	450.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Unallocated Limits	Long Term	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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	-	-	-	150.00	[ICRA]A+ (Stable)
NA	Cash Credit 2	-	-	-	150.00	[ICRA]A+ (Stable)
NA	Cash Credit 3	-	-	-	100.00	[ICRA]A+ (Stable)
NA	Cash Credit 4	-	-	-	50.00	[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. Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Ms. Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

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

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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



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