

## Rating Advisory

May 30, 2020 | Mumbai

### Terai Tea Company Limited

#### Advisory as on May 30, 2020

This rating advisory is provided in relation to the rating of Terai Tea Company Limited

The key rating sensitivity factors for the rating include:

- Extent and funding of capital expenditure (capex)
- Improvement in revenue and profitability
- Working capital management
- Funding support from promoters

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Terai Tea Company Limited (TTCL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If TTCL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### **About the group**

TTCL was incorporated in 1973 by Mr Madan Das Agarwala. It is engaged in plantations and tea manufacturing, and undertakes opportunistic trading of agricultural commodities, such as jute, sugar, and yellow peas. It has around 262 hectares of land under plantation under the Bagdogra Tea Estate. Over the years, the group has purchased seven tea estates, covering around 2,000 hectares under tea plantation, and five leaf factories.

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## Rating Rationale

August 05, 2019 | Mumbai

### Terai Tea Company Limited

*Rated amount enhanced*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.38.96 Crore (Enhanced from Rs.28 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Negative (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL ratings on the bank facilities of Terai Tea Company Limited (TTCL) continue to reflect the extensive experience of the Terai Tea group's promoters, and their continued funding support, and the moderate working capital requirement. These strengths are partially offset by the modest operating efficiency and financial risk profile, and exposure to volatility in tea prices and change in weather conditions.

CRISIL had on July 26, 2019 revised its outlook on the long-term bank facilities of TTCL to 'Negative' from 'Stable', and reaffirmed the rating at 'CRISIL BBB-'. The rating on the short-term bank facility had been reaffirmed at 'CRISIL A3'.

#### Analytical Approach

CRISIL has combined the business and financial risk profiles of TTCL, Abhijit Tea Co Pvt Ltd (ATCPL), New Darjeeling Union Tea Co Ltd (NDUTCL), East India Produce Ltd (EIPL), Jaldacca Tea Plantations Pvt Ltd (JTPL), The Kharibari Tea Company Ltd (TKTCL), Terai Dooars Tea Company Pvt Ltd (TDTCL), and Sayedabad Tea Company Ltd (STCL). This is because the companies, collectively referred to as the Terai group, have common management, and are in the same line of business with substantial shareholding in inter-group companies.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

## **Key Rating Drivers & Detailed Description**

### **Strengths:**

#### **\* Extensive experience of the promoters in the tea industry**

The Terai group, incorporated in 1973, is a partially integrated player in the tea segment. Its promoters have been in the tea manufacturing business for over 40 years. During this period, the group acquired seven tea estates, mostly sick units, and demonstrated its ability to turn them around into profitable entities. The promoters have incurred regular capex towards acquiring new plantations, and refurbishing old machinery. This has helped the group establish a strong position in the tea industry and maintain substantial growth in revenue.

#### **\* Continued funding support from the promoters**

The promoters have extended significant financial support to the group, via unsecured loans and convertible debentures to facilitate capex, and cover working capital and debt obligations. Their ability to provide need-based funding support enhances the group's financial flexibility.

**\* Moderate working capital management:** Operations are managed prudently, with gross current assets of 162 days as on March 31, 2019 driven by low inventory and moderate debtor of 24 and 61 days respectively.

### **Weakness:**

**\* Susceptibility to volatile tea prices and changing weather conditions:** Tea is a seasonal product and its yield depends on weather conditions. Production could be hampered significantly in case of any variation in rains, humidity, and temperature. In case of poor weather conditions, deterioration in production levels and quality leads to volatile realisations. Moreover, plantation operations are fixed-cost in nature with labour accounting for 50-60% of total costs. Presence of several labour laws and unions ensure that manpower cannot be reduced easily. Such inflexibility in cost reduction means that in case of lower production or realisations, the group may witness a drop in profitability.

**\* Modest operating efficiency:** The group is a partially integrated tea manufacturer, and sources around 60% of the required tea leaves from other estates. High proportion of outside purchases keeps the operating margin modest, and increases susceptibility to supply-side fluctuations. The margin of players dependent on external purchase of the raw material is range bound, providing limited headroom for improving profitability. As a result, return on capital employed remained low at 6% in fiscal 2019. Although the group has taken steps to improve productivity by replanting old tea plants and increasing the area under plantation, it will take substantial time to yield results.

**\* Average financial risk profile:** Financial risk profile is constrained by weak debt protection metrics, with interest coverage and net cash accrual to total debt ratios of 1.86 times and 0.10 time, respectively, in fiscal 2019 albeit low gearing of 0.82 times.

## **Liquidity**

Liquidity is expected to remain adequate. Net cash accrual is likely to be at Rs 7.0-9.0 crore per annum over the medium term against yearly debt obligation of Rs 4.5-7.0 crore. Unencumbered cash and cash equivalents were Rs 3-4 crore as on March 31, 2019. Liquid investments in equity and mutual funds exceeded Rs 10 crore. Financial assistance may also be expected from the promoters whenever necessary, as in the past. Bank limit utilisation averaged a moderate 79% in the 12 months through June 2019. Liquidity remains constrained by low accrual at standalone level in smaller entities.

## **Outlook: Negative**

CRISIL believes TTCL will remain constrained by modest topline, profitability, and cash accrual over the medium term. The ratings may be downgraded if deterioration in topline and operating margin weakens liquidity and debt coverage metrics further. The outlook may be revised to 'Stable' if a considerable increase in profitability and sustained improvement in scale of operations strengthen business risk profile and debt coverage metrics.

## About the Group

TTCL was incorporated in 1973 by Mr Madan Das Agarwala. It is engaged in plantations and tea manufacturing, and undertakes opportunistic trading of agricultural commodities, such as jute, sugar, and yellow peas. It has around 262 hectares of land under plantation under the Bagdogra Tea Estate. Over the years, the group has purchased seven tea estates, covering around 2,000 hectares under tea plantation, and five leaf factories.

## Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	237	212
Profit After Tax (PAT)	Rs crore	3.48	(1.71)
PAT Margin	%	1.47	(0.81)
Adjusted debt/adjusted networth	Times	0.93	1.04
Interest coverage	Times	1.86	1.40

## Status of non cooperation with previous CRA

TTCL has not cooperated with India Ratings And Research Private Limited. which has published its ratings as an issuer not co-operating vide release dated June 17, 2019. The reason provided by India Ratings And Research Private Limited was non-furnishing of information for monitoring of ratings. India Ratings on 10th July 2019 through its press release has withdrawn TTCL's rating.

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	25.62	CRISIL BBB-/Negative
NA	Long-Term Loan	NA	NA	Mar-2022	1.18	CRISIL BBB-/Negative
NA	Bank Guarantee	NA	NA	NA	1.2	CRISIL A3
NA	Short-Term Loan	NA	NA	NA	10.96	CRISIL A3

## Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Terai Tea Co Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Sayedabad Tea Company Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Abhijit Tea Co Pvt Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
East Indian Produce Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Jaldacca Tea Plantation Pvt Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
New Darjeeling Union Tea Co Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
The Kharibari Tea Company Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.

## Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	37.76	CRISIL BBB-/Negative/ CRISIL A3	26-07-19	CRISIL BBB-/Negative	27-09-18	CRISIL BBB-/Stable	30-06-17	CRISIL BBB-/Stable	16-03-16	CRISIL BBB-/Stable	CRISIL BBB-/Stable
Non Fund-based Bank Facilities	LT/ST	1.20	CRISIL A3	26-07-19	CRISIL A3	27-09-18	CRISIL A3	30-06-17	CRISIL A3	16-03-16	CRISIL A3	CRISIL A3

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1.2	CRISIL A3	Bank Guarantee	1.2	CRISIL A3
Cash Credit	25.62	CRISIL BBB-/Negative	Cash Credit	25.62	CRISIL BBB-/Negative
Long Term Loan	1.18	CRISIL BBB-/Negative	Long Term Loan	1.18	CRISIL BBB-/Negative
Short Term Loan	10.96	CRISIL A3	--	0	--
<b>Total</b>	<b>38.96</b>	<b>--</b>	<b>Total</b>	<b>28</b>	<b>--</b>

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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