

Rating Advisory

June 12, 2020 | Mumbai

Advisory as on June 12, 2020

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

CRISIL vide its publication dated May 30, 2020 highlighted the aspect of non-co-operation by Terai Tea Company Limited.

Terai Tea Company Limited has now initiated cooperation, has confirmed timeliness in debt servicing for May 2020 and has also provided 'No Default Statement' dated June 01, 2020.

You may access the Rating Rationale as appended below.

Rating Rationale

August 05, 2019 | Mumbai

Terai Tea Company Limited

Rated amount enhanced

Rating Action

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

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 (TDTCP), 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:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	
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	--
Total	38.96	--	Total	28	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
------------------------	----------------------------	----------------------------------

<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p> <p>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com</p>	<p>Mohit Makhija Director - CRISIL Ratings CRISIL Limited B:+91 124 672 2000 mohit.makhija@crisil.com</p> <p>Argha Chanda Associate Director - CRISIL Ratings CRISIL Limited D:+91 33 4011 8210 Argha.Chanda@crisil.com</p> <p>Arti Roy Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 33 4011 8231 Arti.Roy@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>
--	---	---

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL