

March 17, 2017

## Limbuguri Tea Estate Private Limited

Name of the instrument	Existing Amount (in Rs. Crore)	Revised Amount (in Rs. Crore)	Rating Action
Rated on Long-term scale			
Fund Based Limit	4.48	4.50	[ICRA]BBB (Stable) re-affirmed
Unallocated Limits	-	5.50	[ICRA]BBB (Stable) assigned

Instrument Details are provided in Annexure-1

### Rating Action

ICRA has re-affirmed the long-term rating of **[ICRA]BBB (pronounced ICRA triple B)** to the Rs. 4.50-crore<sup>1</sup> (revised from Rs. 4.48 crore) fund-based bank limits of Limbuguri Tea Estate Private Limited (LTEPL)<sup>2</sup>. ICRA has also assigned the long-term rating of **[ICRA]BBB (pronounced ICRA triple B)** to the Rs. 5.50-crore unallocated limits of the company. The outlook on the long-term rating is **Stable**.

### Detailed Rationale

While re-affirming the rating, ICRA has considered the business risk profile of LTEPL along with its group company, Ethelwold Estate Private Limited [EEPL, rated *[ICRA]BBB (Stable)*] and Arunachal Tea & Industries Private Limited [ATIPL, rated *[ICRA]BBB (Stable)*] since there are strong operational, financial and managerial linkages between the companies.

The re-affirmation of the rating primarily takes into account LTEPL's conservative capital structure, comfortable debt coverage indicators, and substantial liquid investment portfolio relative to its debt obligations. ICRA also factors in the favorable age profile of tea bushes with around 61% of the bushes in the age group of 5-50 years, leading to better productivity and the superior quality of LTEPL's tea.

The ratings, however, also takes into consideration the risks associated with tea being an agricultural commodity, which is dependent on agro- climatic conditions as well as the inherent cyclicity of the fixed cost intensive tea industry that leads to variability in profitability and cash flow of bulk tea producers such as LTEPL. ICRA notes that the small scale of current operations, coupled with a single estate being located in the Upper Assam region, further accentuates the risk for LTEPL. In addition, domestic tea prices are influenced by international prices, and hence the demand/supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the profitability of Indian players, including LTEPL. During FY2016, LTEPL's production witnessed an increase of around 7% as compared to the corresponding period in the previous year. The sales volume and realizations of the company also witnessed an increase of ~3% and ~6%, respectively, during FY2016. However, adverse weather conditions led to lower production from own leaves (around 8%) during Apr-Dec 2016, which along with significant decline in the realization (around 7%) is likely to have an adverse impact on the operating profitability of the company during FY2017. Moreover, scheduled increase in Assam wage rates is likely to further exert pressures on the profitability of the company in the near term. The trend in prices, however, would be a key rating sensitivity, going forward.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

## Key rating drivers

### Credit Strengths

- Conservative capital structure, comfortable debt coverage indicators and a substantial liquid investment portfolio as on March 2016
- Favorable age profile of bushes with around 61% in the age group of 5-50 years, leading to moderate productivity of the gardens

### Credit Weaknesses

- Small scale of current operations
- Crop loss during Apr-Dec 2016 coupled with significant decline in realizations and scheduled increase in Assam wage rates is likely to keep profitability under pressure in the near term
- Risks associated with tea being an agricultural commodity, which is dependent on favorable agro-climatic conditions; presence of a single garden in Upper Assam region increases sensitivity to such risks.
- Prices of Indian tea, in spite of its quality, are to a certain extent linked to prices in the international market; export market performance of Indian teas is also critical to sustain domestic tea prices.

### Detailed description of key rating drivers highlighted above:

LTEPL is a relatively small but established player in the tea business with a single garden located in the Upper Assam region. The geographical concentration of the company's garden exposes it to risks of adverse agro-climatic conditions. LTEPL primarily manufactures crush-tear-curl (CTC) variety of tea. However, the management plans to start manufacturing of orthodox variety tea as well, from FY2018 onwards. The total tea produced by the company is from its own crop, and it does not engage in bought leaf operations. LTEPL has an installed production capacity of 10 lakh kg of tea per annum, of which utilization stood at around 75% during FY2016. Tea production increased by around 7% in FY2016, from 6.98 lakh kgs in FY2015 to 7.5 lakh kgs in FY2016. The tea realizations of the company also witnessed a n improvement in FY2016, by ~6% at Rs. 168 per kg when compared to Rs. 158 per kg during the previous year. However during Apr-Dec 2016, the tea production of the company witnessed a decline of around 8% which coupled with significant decline in realizations by around 7% is likely to have an adverse impact on the profitability of the company during FY2017. Moreover, scheduled increase in Assam wage rates during FY2017 is likely to exert pressures on the profitability of the company.

The company has generated revenues of Rs. 12.15 crore during FY2016, higher by around 11%, when compared to the revenues of Rs. 10.96 crore in FY2015, on the back of increase in sales volume and average realization of the company's tea. The operating profitability of the company thus witnessed an improvement from 9.56% in FY2015 to 12.56% in FY2016. The net profitability of the company also remained in line operating profitability. However during FY2017, the profitability of the company is likely to witness a significant deterioration. The capital structure of the company continued to remain conservative, as also reflected by a low gearing of around 0.24 time as on March 31, 2016. Moreover, the liquidity position of the company remained comfortable, given the high cash balance maintained by the company at Rs. 12.11 crore (including NABARD deposits of Rs. 2.89 crore) as on March 31, 2016, particularly in the form of fixed deposits with the bank. Moreover, the debt coverage indicators of the company remained healthy during FY2016.



**Analytical approach:** For arriving at the ratings, ICRA has taken into account the debt-servicing track record of EEPL, its business risk profile, financial risk drivers and the management profile.

**Links to applicable Criteria**

Indian Bulk Tea Industry  
Corporate Credit Rating –A Note on Methodology

**About the Entity:**

Limbuguri Tea Estate Private Limited was incorporated in August, 1992, with a single tea garden in the Tinsukia district of Assam, spread over a total tea cultivable area of around 384 hectares. The company primarily produces the Crush-Tear-Curl (CTC) variety of tea, which is sold in the domestic market through a mix of auction and private sales depending upon market conditions. The management plans to start the orthodox tea manufacturing facility from FY2018, onwards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	March 2016	February 2015	-
1	Fund Based	Long Term	4.50	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Unallocated	Long Term	5.50	[ICRA]BBB (Stable)	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund-based limits	-	-	-	4.50	[ICRA]BBB (Stable)
Unallocated Limits	-	-	-	5.50	[ICRA]BBB (Stable)

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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.

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