ICRA

March 28, 2024

Girnar Food & Beverages Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based Limits-Working Capital Limits	12.00	12.00	[ICRA]A-(Stable); reaffirmed
Short-term Fund-Based Limits-Working capital Limits	37.50	37.50	[ICRA]A2+; reaffirmed
Total	**49.50**	**49.50**	

Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Girnar Food & Beverages Private Limited (GFBPL) continues to favourably factor in the extensive experience of its promoters in the branded packaged tea business and good recognition of its in-house brand, Girnar, among hot beverages, especially in the leading tea consuming market of Maharashtra, particularly Mumbai. The ratings continue to reflect the company's established customer base, given the regional preference for different taste/blend/flavours, resulting in repeat orders. Notwithstanding the ongoing Russia-Ukraine conflict, the company continued its exports to Russia as tea is an essential commodity and has not been included in embargo. Timely collection of receivables from the Russian customers in the current fiscal supported the overall working capital cycle, which resulted in reduced dependency on working capital limits. The ratings favourably factor in its comfortable capital structure due to controlled external borrowing levels and healthy coverage indicators. The liquidity profile of the company also remains strong, supported by sizeable cash and liquid investments as on December 31, 2023, and adequate undrawn working capital limits from bank.

The ratings, however, remain constrained by the vulnerability of the company's profit margins to fluctuations in bulk tea prices, which depend on climatic conditions, leading to demand-supply gap in the domestic and international markets. Given the intense competition in the tea business, GFBPL may not be able to fully pass on the price increase to its customers, exerting pressure on its profit margins. The ratings remain exposed to the geographical concentration risk as ~70% of the domestic sales is derived from Maharashtra (especially Mumbai), while 80-90% of exports sales is derived from Russia. The company's customer concentration risk remains high with a single Russia-based customer accounting for 35-50% of the total revenues. However, a long, established relationship with the customer ensures repeat orders, which provide comfort.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GFBPL's credit profile is expected to remain comfortable owing to limited reliance on external debt, strong business relationships with its customers in the overseas markets and continued strong presence in Maharashtra.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in packaged tea business; established brand in domestic market – GFBPL is promoted by Shah and Bhansali families. Mr. Harendra Shah and Mr. Pravin Bhansali are the key promoters, having an extensive experience of over four decades in the tea industry. GFBPL has established its position in the domestic market through the Girnar tea brand. Good recognition of the Girnar brand in the domestic market, especially in Maharashtra, and extensive experience of the promoters lend it with a competitive advantage in a highly fragmented industry.

Established customer base – The company's customer profile includes traders of bulk tea and re-packed tea in the international market. Owing to its presence in the tea business for around four decades, GFBPL has developed strong business relationships with its customers in the overseas market, leading to repeat orders. It serves end-customers in the domestic market via distributors, retail outlets (through Group company) and franchise outlets. The company is also present on online platforms, where sales are growing steadily. GFBPL has successfully garnered repeat orders from its customers due to regional preference of specific tastes and blends, coupled with the consistent quality maintained by it over the years.

Comfortable financial profile and strong liquidity position – Despite the Russia-Ukraine conflict, the company's exports to Russia were largely unaffected (as tea is under essential commodity and was excluded from embargo). The company reported healthy revenues of ~Rs. 338 crore in 9M FY2024. GFBPL continues to witness good traction for its value-added products, including pre-mixes and tea bags, which additionally supported the revenue growth. While prices of bulk tea and freight costs (which are the major input costs) remain elevated, the profit margins are likely to remain stable in FY2024, supported by steady scale of operations. Due to limited reliance on external debt owing to a controlled working capital cycle, the credit metrics remained comfortable with an interest cover of 4.5 times in FY2023 and total debt-to-operating profit ratio of 2.2 times as on March 31, 2023. In the absence of any major debt-funded capital expenditure (capex) plans and given the healthy liquidity position, the overall financial profile is likely to remain comfortable. The company's liquidity position remains strong, supported by sizeable cash, bank, and liquid investments of Rs. 40.5 crore and undrawn working capital limits of Rs. 42.8 crore from the bank as on December 31, 2023.

Credit challenges

Vulnerability of profit margins to fluctuations in bulk tea prices – Tea availability depends on agro-climatic conditions in the domestic and international markets, leading to significant fluctuations in bulk tea prices. In YTD FY2024, tea prices continued to be elevated. However, ICRA notes that the company had implemented price hikes (especially in case of exports), in line with its industry peers to offset the impact of rising bulk tea prices.

Exposed to geographical concentration risk; brand loyalty in domestic market partly mitigates the risk – The company has presence in both the international and domestic markets, with 40-45% of its sales generated from the domestic market during the last several years. In the domestic market, it is present in the branded packaged tea segment and is a regional player with ~70% domestic sales generated from Maharashtra (especially Mumbai). Russia contributed 80-92% to its total export revenues during the last few years. Significant revenue contribution from Russia in the international market and Maharashtra in the domestic market lead to a high geographical concentration risk. Besides, a single Russia-based customer contributes 35-45% to its total sales, reflecting high customer concentration risk. The same is mitigated to an extent due to established long-term business relationships with customers in Russia and brand loyalty in the domestic market, wherein end users prefer to stick to a particular taste for their daily consumption. Despite the ongoing Russia-Ukraine conflict, the company has continued its exports to Russia as tea is an essential commodity and not included in embargo. Timely collection of receivables from Russian customers in the current fiscal has supported the overall working capital cycle and liquidity position of the company.

Intense competition limits pricing flexibility – The company faces intense competition from other well-established brands (namely Wagh Bakri, Tata Tea, Brooke Bond Red Label, Brooke Bond Taj Mahal, and Society, among others) and several regional players in the domestic market. This, coupled with stiff completion in the international market from key tea-producing countries (Kenya, China, and Sri Lanka) limits the company's ability to pass on the price hike to customers.

Liquidity position: Strong

The company's liquidity position is strong, marked by cash and liquid balances of Rs. 40.5 crore as well as unutilised bank limits of Rs. 42.8 crore as on December 31, 2023. The average utilisation of fund-based working capital limits (sanctioned limits of Rs. 49.5 crore) stood low at 18% during the 12-month period ended on December 31, 2023. In the absence of any major capex plan and no repayment obligations, the liquidity position is likely to remain comfortable. However, any large dividend payout or cash outflow to related parties, which deteriorates the company's liquidity position would remain a key monitorable. The cash flow generation is expected to remain steady in FY2024, aided by healthy performance and prudent working capital management.

Rating sensitivities

Positive factors – The ratings may be upgraded, if the company significantly increases its scale of operations and profitability on a sustained basis, along with geographical diversification, while maintaining its comfortable liquidity position and financial profile.

Negative factors – The ratings may be downgraded if there is a deterioration in the company's revenues and/or profitability, which adversely impacts the financial profile and/or the liquidity position. Interest cover remaining below 4.0 times, on a sustained basis, would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Tea
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of GFBPL.

About the company

Incorporated in 1987, Girnar Food & Beverages Private Limited (GFBPL or the company) is promoted by the Shah and Bhansali families, who have equal shareholding in the company and are actively involved in all the major operations. The Group has long existence in the domestic branded packaged tea business through the Girnar brand. The company has a strong presence in Maharashtra, especially in the key market of Mumbai, from where it generates most of its sales. The company also has a limited presence in Gujarat, Delhi, Goa, Jammu and Kashmir and Rajasthan, among others. Domestic sales comprised 40-45% of its sales, and exports accounting for the rest during the last five years. In the overseas market, the company trades in bulk tea, with a strong presence in Russia, which is its major export market. GFBPL's packaging unit is located at Umbergaon, Gujarat and tea blending units in Coimbatore (Tamil Nadu) and Kolkata (West Bengal).

Key financial indicators (audited)

GFBPL	FY2022	FY2023
Operating income	383.5	492.4
PAT	24.0	17.7
OPBDIT/OI	11.3%	7.0%
PAT/OI	6.3%	3.6%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	1.5	2.2
Interest coverage (times)	5.8	4.5

Source: Company, ICRA Research; 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: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					March 28, 2024	March 17, 2023	April 13, 2022	February 14, 2022	November 05, 2020
1	Fund-based working capital limits	Long-term	12.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based working capital limits	Short-term	37.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based working capital limits	Simple
Short-term fund-based working capital limits	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	**Long-term fund-based working capital limits**	NA	NA	NA	12.00	[ICRA]A-(Stable)
NA	**Short-term fund-based working capital limits**	NA	NA	NA	37.50	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - Not applicable

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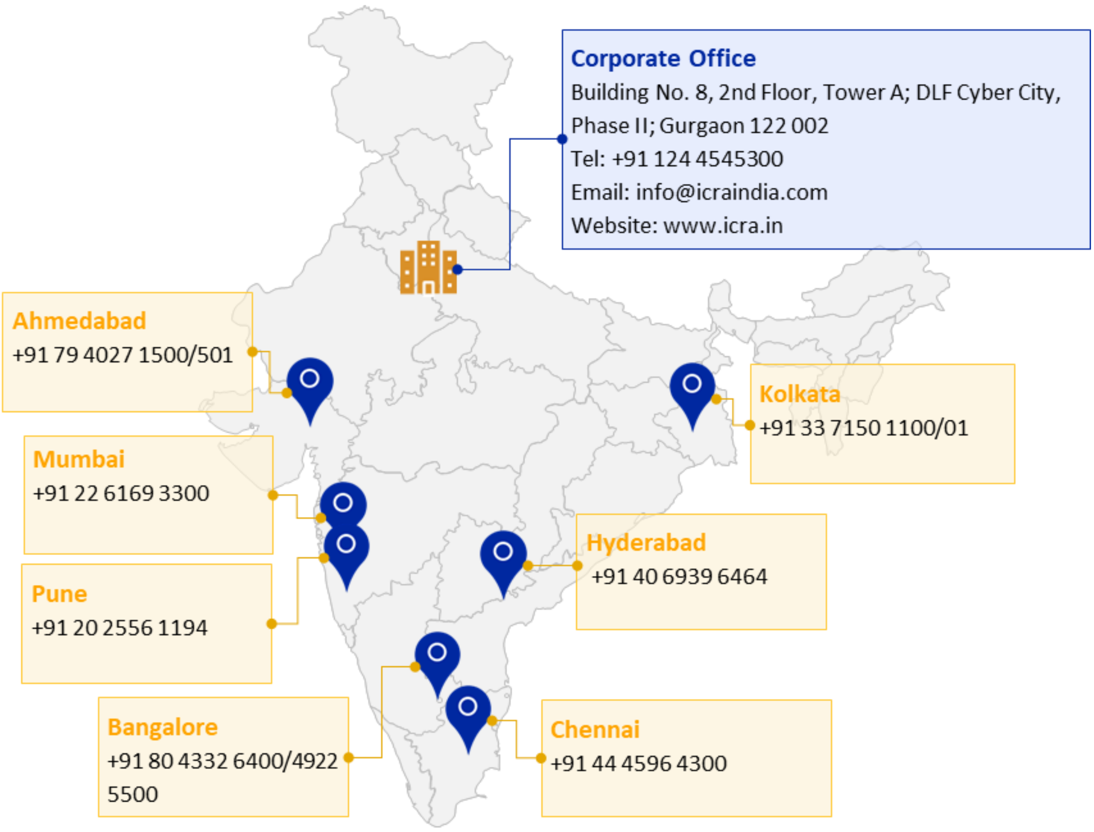

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