

Andrew Yule & Company Limited

December 21, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based Facilities-Cash Credit	69.57	69.57	[ICRA]D reaffirmed
Unallocated Limits	17.67	17.67	[ICRA]D reaffirmed
Short-Term Non Fund Based Facilities	40.76	40.76	[ICRA]D reaffirmed
Total	128.00	128.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings considers stressed liquidity position of AYCL's electrical division, which has suffered continuous losses over past few years. ICRA also notes that there have been instances of letter of credit (LC) devolvement and temporary overdrawal of the cash credit account in this division in recent months, despite the company having a cash balance of Rs. 77 crore as on September 30, 2018. While the operations of the electrical and engineering divisions remain non-profitable on an overall basis, the company remained profitable because of profits from the tea business and significant interest income on its cash and bank balances. ICRA continues to note AYCL's status as a Government of India (GoI) company, with the GoI holding an 89.25% stake and the company's established position in the domestic bulk-tea industry with superior quality of tea produced in its 15 tea gardens.

Key rating drivers

Credit strengths

Status as a Government of India company – AYCL is a GoI company, with the GoI holding an 89.25% stake at present.

Established position of the company in the domestic bulk tea industry - AYCL produces superior quality of tea (both CTC and orthodox varieties), which commands a significant premium over auction averages on account of its established position in the domestic bulk tea industry.

Credit challenges

Loss-making operations/subdued performance of the engineering and electrical divisions – The electrical and engineering divisions accounted for around 34% and 7% of AYCL's total revenues in FY2018. The sluggish performance of the electrical and engineering divisions led to muted operating profitability in the recent past. In FY2018, the engineering division incurred losses of Rs. 5.2 crore, while the electrical division reported losses of Rs. 3.4 crore during the year. In the first half of the current year, both the electrical and engineering divisions reported losses at the PBIT level of Rs. 10.67 crore and Rs. 3.07 crore, respectively.

Stretched liquidity position of the electrical division: The electrical division has been incurring continuous losses at the PBIT level as a result of delay in receipt of payments from its customers. This led to a stretch in the liquidity position of the division, which in turn resulted in LC devolvments and temporary overdrawals of the cash credit accounts in recent months.

Subdued return indicators - Return indicators remained under pressure due to low operating profits in the recent past. Given the weak performance of the electrical and engineering divisions, return indicators are likely to remain subdued in the near term.

Risks associated with tea being an agricultural commodity; cost pressure faced by the bulk tea industry- Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Additionally, the inherent cyclicity of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as AYCL.

Liquidity Position:

While the tea division of the company was profitable in H1 FY2019, the electrical and engineering divisions have been incurring losses consistently for last few years, which led to a stretched liquidity position of these divisions. While at the overall company level, the liquidity remains comfortable with no long-term debt obligations, along with cash and bank balances of Rs. 77 crore as on September 30, 2018 and low CC utilisation in the tea and engineering divisions, the liquidity position of the electrical division remains under stress. There have been recent instances of LC devolvement and temporary overdrawals in the cash credit accounts in the electrical division.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Bulk Tea Industry
Parent/Group Support	NA
Consolidation / Standalone	Standalone

About the company:

AYCL, incorporated in 1919, is the flagship company of the Andrew Yule Group and has operations in the field of tea, electrical and engineering equipment, which account for 59%, 34% and 7% of the company's total revenues, respectively in FY2018. The Central Government holds a 89.25% stake in the company. AYCL has 15 tea gardens located across Assam and West Bengal. The electrical division manufactures distribution transformers, HT & LT switchgears, voltage regulators in its manufacturing facilities located in Kolkata and Chennai. The engineering division manufactures industrial fans, air and water pollution control equipment in its plant located at Kalyani, West Bengal.

During H1 FY2019, AYCL reported an operating income (OI) of Rs. 156.24 crore and profit after tax (PAT) of Rs. 11.66 crore against an operating income of Rs. 159 crore and PAT of Rs. 15.9 crore during H1 FY2018. During FY2018, the company reported an OI of Rs. 356.25 crore and PAT of Rs. 17.12 crore compared to an OI of Rs. 401.97 crore and PAT of Rs. 32.6 crore in FY2017.

Key financial indicators

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	401.97	356.25	156.24
PAT (Rs. crore)	32.60	17.12	11.66*
OPBDIT/OI (%)	2.1%	1.7%	0.6%
RoCE (%)	22.7%	14.7%	14.1%
Total Debt/TNW (times)	0.2	0.1	0.2
Total Debt/OPBDIT (times)	4.4	4.2	27.0
Interest coverage (times)	1.0	1.0	0.3

*for H1 FY2019, the numbers are profit before tax

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
India Ratings	<p>Migrated to Non-Cooperating Category, as the issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency</p> <p>Issuer rating - IND D (ISSUER NOT COOPERATING)</p> <p>Long-term rating - IND C (ISSUER NOT COOPERATING)</p> <p>Short-term rating - IND A4 (ISSUER NOT COOPERATING)</p>	September 26, 2018

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Dec 2018	Date & Rating in FY2018 Feb 2018	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016
1	Cash Credit	69.57	NA	[ICRA]D	[ICRA]D	[ICRA]BB+ (Stable)	-
2	Non-fund based facilities	40.76	NA	[ICRA]D	[ICRA]D	[ICRA]A4+	-
3	Unallocated	17.67	NA	[ICRA]D	[ICRA]D	[ICRA]BB+ (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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	69.57	[ICRA]D
	Non-fund based facilities	-	-	-	40.76	[ICRA]D
	Unallocated	-	-	-	17.67	[ICRA]D

Source: Andrew Yule & Company Limited

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120
jayanta@icraindia.com

Subholakshmi Bose

+91 33 7150 1219
subholakshmi.bose@icraindia.com

Kaushik Das

+91 33 7150 1104
kaushikd@icraindia.com

Maitri Vira

+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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