March 07, 2024

The Scottish Assam (India) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Cash credit	5.25	5.25	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Unallocated limit	5.25	5.25	[ICRA]BBB+ (Stable); reaffirmed
Total	**10.50**	**10.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to consider the conservative capital structure of The Scottish Assam (India) Limited (TSAIL) with limited debt comprising working capital borrowings and healthy liquid investment portfolio, leading to a negative net debt position (total debt less free cash, bank balance and liquid investments) and strong liquidity. ICRA also draws comfort from the favourable age profile of TSAIL's tea bushes with around 82% of the bushes in the productive age profile of 6-50 years. This leads to high productivity, which mitigates the risks associated with the fixed-cost intensive nature of the tea plantation business to some extent. The rating also factors in the company's focus on production of superior quality tea that commands a significant price premium over the average market realisation. The rating, however, continues to be impacted by the company's modest scale of current operations and the risks associated with tea for being an agricultural commodity, as tea production depends on agro-climatic conditions. The company has just a single garden in the Upper Assam region, which accentuates such risks. In addition, domestic tea prices are impacted by the demand-supply situation and prices in the international market, which would continue to have a bearing on the profitability of Indian tea players, including TSAIL. Besides, the business remains vulnerable to regulatory changes, wage rate hike etc. In the current fiscal, the basic wage rate for tea estate workers in Assam has been increased by Rs. 18/man-day with effect from October 2023. This coupled with a sharp decline in the prices of orthodox tea produced by TSAIL from bought leaves (comprising 7% of total production in 9M FY2024) and a decline in the overall production in the current fiscal led to a contraction in TSAIL's OPBDITA to Rs. 1.3 crore in 9M FY2024 from Rs. 7.7 crore in 9M FY2023. However, a significant increase in fair value gain on liquid investments led to a higher net profit of Rs. 12.5 crore in 9M FY2024 vis-à-vis Rs. 9.0 crore in 9M FY2023.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that TSAIL's sizeable liquid investments, limited reliance on external debt and efficient operations are likely to support its credit profile in the medium-to-long term, notwithstanding a deterioration in its operating profitability in the current fiscal.

Key rating drivers and their description

Credit strengths

Low debt, substantial liquid investment portfolio and income thereon to support the financial profile – TSAIL continues to have a conservative capital structure on the back of limited dependence on external debt. Its borrowings currently comprise only working capital debt. The company's total outside liabilities relative to its tangible net worth stood at 0.1 times only over the last two fiscals. TSAIL's sizeable liquid investments, which stood at Rs. 80.8 crore as on December 31, 2023, kept the company's net debt position negative in the recent years. Income from the investments (including fair value gains) is likely to support TSAIL's net profit in FY2024, although the company is likely to suffer losses at the operating level.

Favourable age profile of bushes mitigates risks associated with the fixed-cost intensive nature of bulk tea industry – The favourable age profile of TSAIL's tea bushes, with around 82% in the age group of 6-50 years in FY2023, resulted in high yield (tea produced from own estate leaves per hectare under cultivation) of its tea estate. Its yield improved to 2,282 kg/hectare in FY2023 from 2,091 kg/hectare in FY2022. The company's yield is likely to decline in the current fiscal but remain healthy. High productivity supports the company's cost structure, given the fixed-cost intensive nature of the industry.

Superior quality of tea, as evident from significant price premium commanded by its produce – The company's average realisation was higher by 23-50% compared to the North Indian CTC auction averages over the last five years, reflecting superior quality of its tea. In 9M FY2024, the company's average realisation for CTC teas stood at Rs. 248/kg, ~31% higher than the North Indian CTC auction average during the same period.

Credit challenges

Rise in wage rates, decline in production and moderation in realisations to exert pressure on the operating profitability in the current fiscal – The company's overall production improved to 1.61 mkg in FY2023 from 1.42 mkg in FY2022. TSAIL commenced production of orthodox tea from bought leaves in FY2023 due to remunerative orthodox tea realisations. However, the share of orthodox tea in TSAIL's total production remains low (7% in 9M FY2024 vis-à-vis 10% in FY2023). In 9M FY2024, the company's overall production declined to 1.30 mkg from 1.55 mkg in 9M FY2023 on the back of a drop in the production of both CTC and orthodox teas. Besides, a sharp fall in orthodox tea prices in the current fiscal led to a decline in the company's average realisation to Rs. 245/kg in 9M FY2024 from Rs. 251/kg in 9M FY2023, notwithstanding resilient prices of CTC teas made from own estate leaves (Rs. 248/kg in 9M FY2024 vis-à-vis Rs. 249/kg in 9M FY2023). The drop in production and realisation coupled with a rise in the basic wage rate for tea estate workers in Assam by Rs. 18/man day from October 2023, leading to a rise in the production cost by ~Rs. 9/kg, have adversely impacted TSAIL's revenue and operating profitability in the current fiscal. TSAIL's OPBDITA declined to Rs. 1.3 crore in 9M FY2024 from Rs. 7.7 crore in 9M FY2023 and is likely to turn negative in the full year of FY2024. However, a significant increase in fair value gain on liquid investments led to a higher net profit of Rs. 12.5 crore in 9M FY2024 vis-à-vis Rs. 9.0 crore in 9M FY2023.

Modest scale of current operations – The company's scale of operations remained modest as it operates through only one garden. In addition to tea production from its own garden, the company produces tea from bought leaf, which accounts for a small portion (7% in 9M FY2024) of its overall production.

Exposed to agro-climatic risks, regulatory changes, wage rate hike etc. – The profitability and cash flows of bulk tea producers remain volatile owing to the risks associated with tea for being an agricultural commodity as the production volume and quality of tea depend on agro-climatic conditions, pest attacks etc. Such risks are accentuated by the geographical concentration of TSAIL's operations, with a single garden in the Upper Assam region. The inherent cyclicality of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers such as TSAIL. The sector remains vulnerable to regulatory changes, wage rate hike by the Government etc. The basic daily wage of the tea estate workers in Assam has increased at regular intervals in the recent years, leading to a rise in the company's cost of production.

Prices of Indian tea, despite better quality, remain vulnerable to price fluctuation in the international market – Notwithstanding a large domestic consumption base that India has, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is also crucial for maintaining domestic realisations as unremunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert pressure on domestic prices despite better quality of Indian tea. Hence, the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the realisations and profitability of Indian players, including TSAIL.

Environmental and Social Risks

Environmental considerations: Tea, being an agricultural commodity, is susceptible to agro-climatic risks, with the production and quality of tea primarily dependent on rainfall, temperature and humidity. Among the different climatic factors, rainfall plays the most important role. Though these environmental factors pose supply-side risks, the demand side risks are largely protected as tea is one of the most popular, widely consumed and low-cost beverages. Adverse environmental conditions may potentially affect tea productivity, the extent of irrigation and pest control activities required, etc., thereby leading to revenue loss and/or an increase in the cost of production, in turn, resulting in margin contraction. ICRA considers such risks to be inherent in the tea production business.

Social considerations: Tea production is highly manpower intensive. A large proportion of the population, particularly women, is involved as workforce for tea production in the major tea producing regions in the country. The stakeholders of a tea production business include, inter alia, local communities and Government authorities, which influence the operating environment of the business. The wage rates for tea estate workers are regulated by the Government and are revised regularly as the level of wages and welfare costs for tea estate workers have significant socio-economic implications. Tea-estate costs are primarily fixed, with labour-related costs accounting for a significant portion of the production cost. Hence, any material increase in wage rates may adversely impact the cost structure of tea producers, impacting the margins. Shortage of workers, due to diminishing interest in the garden-based field work on the back of sociological changes, remains a concern.

Liquidity position: Strong

The company's liquidity is likely to remain strong. Its cash flow from operations is likely to decline in the current fiscal due to deterioration in its operating profitability. However, TSAIL does not have any long-term debt at present, and has a moderate cushion in working capital limit utilisation, as reflected by an average unutilised limit of ~Rs. 1 crore with respect to the drawing power in Q3 FY2024. Moreover, the company's liquidity is largely supported by sizeable liquid investments, which stood at ~Rs. 81 crore as on December 31, 2023. TSAIL does not have any major capex plan. Its internal accruals will be sufficient to fund the normal capex requirements.

Rating sensitivities

Positive factors – ICRA may upgrade TSAIL's rating if the company is able to achieve a substantial increase in its scale of operations without any significant weakening of its liquidity, profitability and debt protection metrics on a sustained basis.

Negative factors – Pressure on TSAIL's rating may arise if a significant decline in profitability and/or an adverse industry scenario affects its credit profile or if its liquidity position weakens. A deterioration in the company's interest coverage to below 4 times on a sustained basis may also trigger a rating downgrade.

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 the company

About the company

The Scottish Assam (India) Limited (TSAIL), incorporated in 1977, owns a tea garden in Jorhat district of Assam. The company's tea estate is spread over a planted area of around 632 hectares at present. TSAIL manufactures black tea from green leaves obtained from its own garden as well as from bought leaves, albeit in small proportion (7% production from bought leaves in 9M FY2024). The company mainly manufactures crush, tear and curl (CTC) variety of black tea, however, it also manufactures orthodox tea from bought leaves.

Key financial indicators (audited)

TSAIL	FY2022	FY2023	9M FY2023*	9M FY2024*
Operating income	35.2	39.3	36.8	30.6
PAT	11.5	3.9	9.0	12.5
OPBDIT/OI	15.9%	7.6%	20.9%	4.2%
PAT/OI	32.7%	9.8%	24.4%	41.0%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-	-
Total debt/OPBDIT (times)	0.7	1.2	-	-
Interest coverage (times)	18.7	25.2	86.6	4.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Unaudited*

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 on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 07, 2024	Jun 13, 2023	Jun 02, 2023	Dec 26, 2022	Dec 02, 2021	Sep 17, 2020
1	Cash credit	Long Term	5.25	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Unallocated limit	Long Term	5.25	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	-	-

**Due to non-submission of monthly No Default Statement*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term – Unallocated limit	Not applicable

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	**Cash credit**	NA	NA	NA	5.25	[ICRA]BBB+ (Stable)
NA	**Unallocated limit**	NA	NA	NA	5.25	[ICRA]BBB+ (Stable)

Source: Company

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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches