April 04, 2024

The Jorehaut Group Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	22.00	22.00	[ICRA]A- (Stable), reaffirmed
Long-term Fund-based – Term Loans	7.50	7.95	[ICRA]A- (Stable), reaffirmed
Long-term/ Short-term – Unallocated Limits	0.50	0.05	[ICRA]A- (Stable)/ [ICRA]A2+, reaffirmed
Total	**30.00**	**30.00**	

** Instrument details are provided in Annexure – I*

Rationale

The reaffirmation of the ratings considers the established presence of The Jorehaut Group Limited (TJGL) and long experience of the promoters in the tea industry. The ratings also factor in the company's focus on production of superior quality tea that commands a significant price premium over the North Indian auction prices. Production loss in the Langharjan Tea Estate and wage rate hike in Assam with effect from August 2022 adversely impacted the profitability of the company in FY2023 over the previous fiscal. ICRA expects cost pressure to continue for bulk tea companies, including TJGL, on the back of another round of wage rate hike in Assam with effect from October 2023. Nevertheless, the ratings continue to derive comfort from the favourable financial risk profile of the company, characterised by a conservative capital structure and strong debt protection metrics. ICRA notes that the company is planning to acquire one tea estate along with a bought-leaf factory, which, if materialises, is likely to lead to an increase in its scales of operations and overall profits as well as cash accruals from the business, going forward. The aforesaid acquisition is proposed to be funded through a mix of debt and reserve/ surplus available with the company. The same would reduce the liquidity buffer available and increase the company's debt level, adversely impacting the coverage ratios to an extent.

The ratings continue to be impacted by the company's modest scale of current operations and the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive nature of the tea industry that leads to variability in profitability and cash flows of bulk tea producers, including TJGL. The concentration of the company's all four gardens in Assam further accentuates agro-climatic risks. 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 TJGL.

The Stable outlook on the long-term rating reflects ICRA's expectations that the entity is expected to maintain its business positioning and would continue to maintain its conservative capital structure and comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Experienced promoters and established presence in bulk tea industry – TJGL is an established CTC (crush, tear, curl) tea producer, and accounted for ~0.52% of India's tea production in 9M FY2024 (~0.45% in FY2023). The promoters have experience of over four decades in the tea industry. The company has four tea gardens in the Upper Assam region, spread over a cultivable area of ~2,084 hectare (HA), and four bought leaf units. The bought leaf factories are also located in the Upper Assam region. Around one-eighth of the total produce (in terms of volume) of the company was exported to the US, the UK, Germany, Japan etc.

Superior quality of tea, as evident from the premium price commanded by the company's produce – TJGL is one of the established CTC players in the bulk tea industry with four tea estates spread across Assam. TJGL's superior quality of tea results in a premium for its produce compared to the industry average. The weighted average realisation of tea produced by the company was around 34% higher compared to the North Indian auction average in 9M FY2024. TJGL's gardens record yields that are comparable with other leading bulk tea players.

Favourable financial risk profile characterised by a conservative capital structure and comfortable debt coverage indicators – The capital structure of the company has gradually improved over the last few years on account of scheduled repayment of long-term debt and healthy accretion to reserves. The gearing and TOL/TNW stood at 0.3 times and 0.6 times, respectively as on March 31, 2023. Acquisition of a bought-leaf factory (Kaziranga Tea Manufacturers) in FY2024, partially funded by term loan from bank and pre-dominantly debt-funded capital expenditure programme towards proposed acquisition of a tea estate along with a bought-leaf factory in FY2025, would lead to an increase in the company's overall debt level. Although the same will have a bearing on the capital structure of the company, the capital structure would continue to remain at a conservative level. The debt coverage indicators have remained strong over the past few years owing to healthy profits as well as cash accruals and a relatively lower debt level. Despite some moderation expected, primarily due to drop in the overall profits and cash accruals in FY2024, the debt protection metrics of the company would continue to remain at a comfortable level in the near-to-medium term.

Credit challenges

Modest scale of current operations; moderate top line growth likely in FY2024 – The company's scale of operations continues to remain at a modest level. The company produced around 3.3 mkg of tea from its estate leaf and around 2.4 mkg of tea from bought leaf operations in FY2023. The company's scale of operations continues to remain at a modest level. A marginal increase (~1%) in the average realisation along with an increase in the overall volume of sales (~3%) resulted in a rise (~5%) in the company's turnover to around Rs. 150 crore in FY2023 over the previous fiscal. The overall realisation of tea produced by the company witnessed some moderation in the current fiscal. ICRA expects the top line of the company to grow by around 6% in FY2024 compared to FY2023, with an increase in the volume of production (~14%), mainly driven by increase in bought leaf operations.

Wage rate hike likely to exert pressure on the overall cost of production – ICRA expects cost pressure to continue for bulk tea companies, including TJGL, on the back of hike in the wage rates in Assam with effect from October 2023. This would continue to exert pressure on the company's overall cost of production. Nevertheless, increasing share of bought leaf operations and improvement in the realisation to an extent would continue to support the operating profit of the company, going forward. ICRA expects the operating margin of the company to moderate to around 10% in FY2024 from around 14% in FY2023, primarily on the back of increased wage costs, accentuated by moderation in realisation. The net margin of TJGL is likely to remain in the range of 6-7% in the near-to-medium term. Despite some moderation expected, the profits and cash accruals of the company are expected to remain adequate, going forward. The RoCE of the company would remain at a moderate level.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea-estate costs are primarily fixed, with labour-related costs, which are independent of the volume of production, accounting for around 50% of the production cost. This leads to variability in profitability and cash flows of bulk tea producers, including TJGL.

Export market performance of Indian tea crucial to sustain buoyancy in domestic tea prices – Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, notwithstanding the large domestic consumption base that India has. 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.

Liquidity position: Adequate

The company generated positive cash flow from operations over the past few years on account of healthy cash accruals from the business along with low working capital intensity of operations, which are likely to continue in the near term at least. However, the free cash flows are likely to turn negative in FY2024 on the back of sizeable capital expenditure. The average utilisation of fund-based working capital limits has remained at a low level in the last 15 months. The company has limited long-term debt repayment obligations (in the range of Rs. 4-5 crore) compared to its likely cash accruals from business over the next few years. The company will have liquid investments and surplus cash/ bank balances of around Rs. 50 crore as of March 2024. However, the company is considering large capex programme towards acquisition of one tea estate along with a bought-leaf factory, which, if materialises, would lead to a decline in the overall liquidity buffer. Nevertheless, in view of adequate cash flow from operations, sizeable unencumbered cash/ bank balance along with liquid investments and undrawn working capital facilities, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade TJGL's ratings if there is a material increase in its scale of operations while improving its profitability and liquidity position, significantly strengthening its net worth on a sustained basis.

Negative factors – Pressure on TJGL's ratings may arise if there is a significant decline in the profitability and/or a higher-than-anticipated debt-funded capital expenditure, adversely impacting the capital structure and debt protection metrics. Besides, any significant deterioration in the liquidity position may also result in ratings downgrade. Specific credit metric that may trigger ratings downgrade includes total debt/ OPBDITA of more than 2.3 times on a sustained basis.

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

Incorporated in 1977, The Jorehaut Group Limited (TJGL) produces primarily black tea of CTC variety. The company sells its products in the domestic as well as export markets. The company has four tea gardens located in the Upper Assam region, primarily in Golaghat and Dibrugarh districts. The company's tea estates are spread over a cultivable area of around 2,084 hectares. The company has acquired a bought leaf factory, Kaziranga Tea Manufacturers, in Golaghat, Assam in May 2023. At present, the company has four bought-leaf factories.

Key financial indicators (audited)

TJGL, Standalone	FY2022	FY2023
Operating income	146.1	151.7
PAT	20.2	12.9
OPBDIT/OI	19.0%	13.8%
PAT/OI	13.8%	8.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.8	1.3
Interest coverage (times)	36.8	24.0

Source: The Jorehaut Group Limited, 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

CRA	Status of non-cooperation	Date of Press Release
CARE Ratings	CARE BB+; Stable; ISSUER NOT COOPERATING*, Rating continues to remain under ISSUER NOT COOPERATING category	March 13, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				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 FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 4, 2024	-	Mar 6, 2023	Jan 27, 2022
1	**Cash Credit**	Long Term	22.00	17.66	**[ICRA]A- (Stable)**	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	**Term Loans**	Long Term	7.95	5.26	**[ICRA]A- (Stable)**	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	**Unallocated Limits**	Long Term/ Short Term	0.05	NA	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loans	Simple
Unallocated Limits	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	-	-	-	22.00	[ICRA]A- (Stable)
NA	Term Loan 2	FY2019	-	FY2028	0.26	[ICRA]A- (Stable)
NA	Term Loan 3	FY2019		FY2025	0.42	[ICRA]A- (Stable)
NA	Term Loan 4	FY2019		FY2025	0.21	[ICRA]A- (Stable)
NA	Term Loan 5	FY2022	-	FY2028	1.19	[ICRA]A- (Stable)
NA	Term Loan 7	FY2023	-	FY2029	5.87	[ICRA]A- (Stable)
NA	Unallocated Limits	-	-	-	0.05	[ICRA]A- (Stable)/ [ICRA]A2+

Source: The Jorehaut Group Limited

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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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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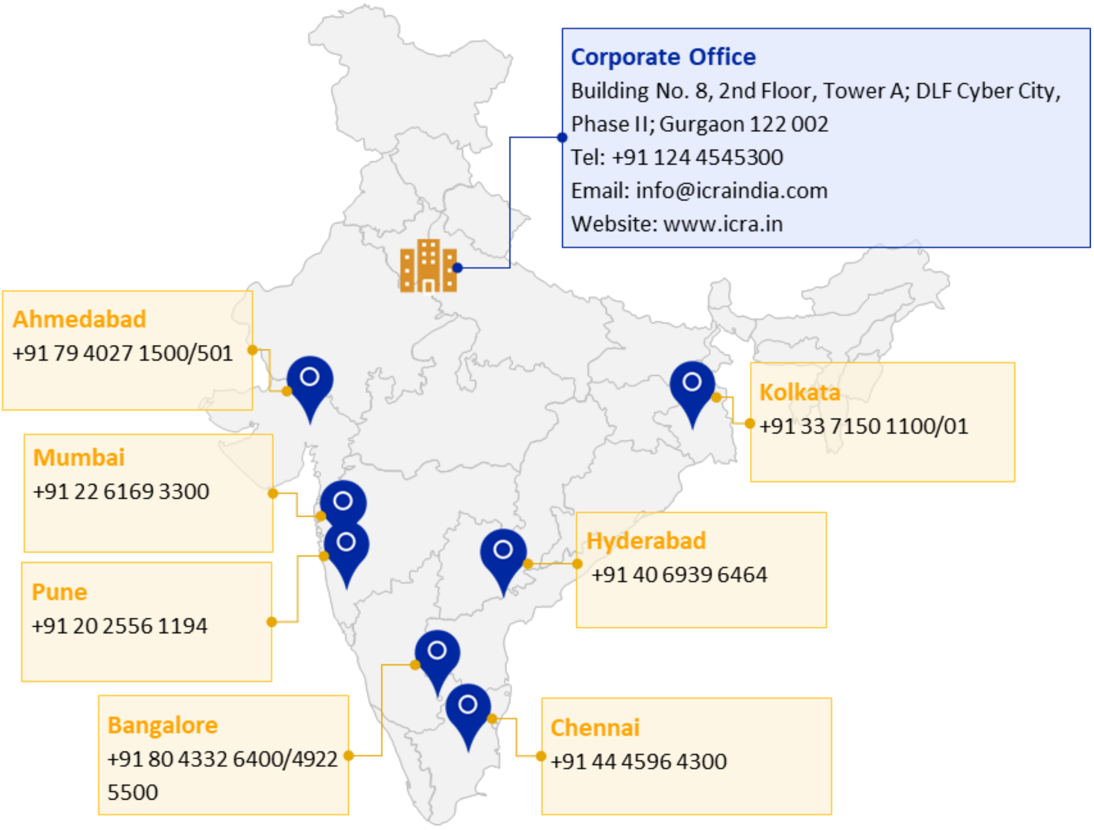

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