

January 27, 2022

The Jorehaut Group Limited: [ICRA]BBB+ (Stable)/ [ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	7.5	[ICRA]BBB+ (Stable); Assigned
Long-term Fund-based – Cash Credit	22.0	[ICRA]BBB+ (Stable); Assigned
Long Term/Short Term – Proposed Unallocated Limits	0.5	[ICRA]BBB+ (Stable)/ [ICRA]A2+; Assigned
Total	30.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into consideration The Jorehaut Group Limited's (TJGL) established presence and long experience of the promoters in the tea industry. The ratings also factor in the company's favourable financial risk profile, as reflected by a conservative capital structure, comfortable level of debt coverage indicators and a sizeable amount of liquid investments and free cash. ICRA also draws comfort from the company's focus on production of superior quality tea that commands a significant price premium over the average market realisation. The ratings, however, continue 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 presence of TJGL's all four gardens in the Upper Assam region accentuates such risks. Besides, the business remains vulnerable to regulatory changes, wage rate hike etc. 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 TJGL.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that TJGL will continue to benefit from its established track record of producing tea of premium quality. Tea realisations have softened in the current year with recovery in production, after a sharp price rise in FY2021 due to a production loss caused by the pandemic. However, realisations for the producers of superior quality tea, like TJGL, have remained relatively firm in the recent past, which are likely to support the company's profitability to some extent on the back of an increase in production cost due to wage rate hike for tea estate workers.

Key rating drivers and their description

Credit strengths

Experienced promoters and established presence in bulk tea industry – TJGL, incorporated in 1977, is an established CTC (crush, tear, curl) tea producer in India, accounting for around 0.42% of India's tea production in H1 FY2022 (~0.44% in FY2021). The promoters have experience of over four decades in the tea industry. TJGL has four tea gardens in the Upper Assam region, spread over a cultivable area of ~2,067 hectare (HA), and three bought leaf units, which were commissioned in March 2019. The bought leaf factories are also located in the Upper Assam region. The company operates under the leadership of Mr. Iswar Prasad Poddar.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators – TJGL's capital structure improved significantly over the past years on the back of a gradual build-up of net worth, as reflected by a gearing of 0.90 times as on March 31, 2021 (2.15 times as on March 31, 2019). The total outside liabilities relative to the

company's tangible net worth stood at 1.5 times as on March 31, 2021 (3.2 times as on March 31, 2020). ICRA notes that a significant increase in the profitability and cash accruals led to a substantial improvement in the coverage indicators of the company, as reflected by an interest coverage of 23.3 times (6.6 times in FY2020) and net cash accrual relative to the total debt of 72% (26% in FY2020) in FY2021. TJGL has sizeable liquid investments and free cash of around Rs. 27.1 crore as on March 31, 2021, which support its cash flow position.

Superior quality of tea, as evident from significant price premium commanded by its produce – The weighted average realisation of the company's tea increased by 38% in FY2021 over FY2020 on the back of a sharp rise in tea prices in Q2 FY2021 due to production loss caused by the pandemic. The company's average realisation was higher by 35-50% compared to the North Indian auction averages over the last five years, reflecting good quality of its tea. Tea realisations have softened in the current year with recovery in production. However, prices for the producers of good-to-top-quality teas, like TJGL, have remained relatively firm in the recent past, as reflected by the weighted average realisation, which was ~36% higher than the North Indian auction average price in 9M FY2022.

Credit challenges

Modest scale of current operations – The company's scale of operations remains at a modest level as it operates through four gardens, and produced around 3.29 Mkg of tea in FY2021 vis-à-vis 3.61 Mkg of tea in FY2020. In addition to tea production from its own garden, the company produces tea from bought leaf, which contributed 39% and 42% to the total production in FY2020 and FY2021, respectively.

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 TJGL's tea operations, with all the gardens located in the Upper Assam region. The inherent cyclicity of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of all bulk tea producers, including TJGL. The sector remains vulnerable to the factors like regulatory changes, wage rate hike by the Government etc. ICRA notes that a hike in the wage rate for the tea garden workers in Assam from February 2021 led to an increase in the company's cost of production.

Prices of Indian tea, despite its 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 the 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 TJGL.

Liquidity position: Strong

TJGL's liquidity is expected to remain strong with free cash and liquid investments of Rs. 38.10 crore as on January 14, 2022. Further, TJGL's entire working capital limit of Rs. 22.0 crore remained unutilised as on December 31, 2021. Its debt repayment obligations also remain low at Rs. 3.65 crore in FY2022 and Rs. 2.90 crore in FY2023 and FY2024 each, compared to its cash flow from operations. In view of adequate cash flow from operations and undrawn line of credit, ICRA expects TJGL's overall liquidity to remain strong, in the near term at least.

Rating sensitivities

Positive factors – ICRA may upgrade TJGL's ratings if there is a material increase in its scale of operations without any significant deterioration in the profitability, capital structure and liquidity on a sustained basis.

Negative factors – Pressure on TJGL’s ratings may arise if there is a significant decline in profitability and/or a higher-than-anticipated debt-funded capital expenditure, which impacts the capital structure, debt protection metrics and liquidity position of the company. Specific credit metrics that might trigger ratings downgrade include a total debt/OPBITDA of more than 2.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Bulk Tea
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

The Jorehaut Group Limited (TJGL), incorporated in 1977, has four tea gardens in the Upper Assam region with a combined annual tea manufacturing capacity of 6.5 mkg (4 mkg of own tea capacity and 2.5 mkg of bought leaf operations). The bought leaf factories were commissioned in March 2019. The company’s tea estate is spread over a cultivable area of around 2,067 hectares. The company is mainly involved in plucking and processing of green leaves to manufacture crush, tear and curl (CTC; ~99%) variety of black tea.

Key financial indicators (audited)

TJGL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	127.2	156.1
PAT (Rs. crore)	3.4	22.5
OPBDIT/OI (%)	8.6%	20.5%
PAT/OI (%)	2.7%	14.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	1.5
Total Debt/OPBDIT (times)	2.6	1.1
Interest Coverage (times)	6.6	23.3

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 (FY2022)			Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 30, 2021 (Rs. crore)	Date & Rating in Jan 27, 2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Term Loans	Long-term	7.5	7.5	[ICRA]BBB+ (Stable)	-	-	-
2	Cash Credit	Long-term	22.0	--	[ICRA]BBB+ (Stable)	-	-	-
3	Proposed Unallocated Limits	Long-term/Short Term	0.5	--	[ICRA]BBB+ (Stable)/[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loans	Simple
Long-term Fund-based – Cash Credit	Simple
Proposed 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
	Term Loan	FY2022	NA	FY2025	7.5	[ICRA]BBB+ (Stable)
	Cash Credit	NA	NA	NA	22.0	[ICRA]BBB+ (Stable)
-	Proposed Unallocated Limits	NA	NA	NA	0.5	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: 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.

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.

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Branches



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