February 14, 2022

Girnar Food & Beverages Private Limited: Ratings upgraded to [ICRA]A-(Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based working capital limits	12.00	12.00	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Short-term fund-based working capital limits	37.50	37.50	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**49.50**	**49.50**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the healthy growth in revenues and improvement in profit margins of Girnar Food and Beverages Private Limited (GFBPL) in FY2021 and FY2022 as well as its continued robust financial profile and liquidity position. With an increase in the prices of bulk tea in H1 FY2021 following lower production amid adverse climatic conditions and pandemic-induced lockdown, the company increased prices. This led to a ~20% YoY increase in average sales realisations. Amid stable demand of tea, GFBPL's revenues increased by 18% in FY2021 to Rs. 380.3 crore. While there have not been any major price changes in the company's products in YTD FY2022, its sales volumes have increased by ~7% on an annualised basis, led by increased at-home consumption of tea. The company continues to witness good traction for its value-added products, including pre-mixes and tea bags, which additionally supported the revenue growth. The operating profit margin (OPM) is also likely to remain elevated in FY2022 compared to the historical levels (prior to FY2021) on account of increased revenues and moderation in advertisement and promotion expenses. The financial profile of GFBPL remains comfortable with limited reliance on external debt. Its liquidity position remains strong, supported by sizeable cash, bank and liquid investments of Rs. 44.0 crore and undrawn working capital limits of Rs. 49.5 crore from bank as on December 31, 2021.

The ratings continue to favourably factor in the extensive experience of GFBPL's promoters in the branded packaged tea business and good recognition of the in-house brand 'Girnar' among hot beverages, with strong presence in Maharashtra, particularly Mumbai. The ratings continue to reflect the company's established customer base given the regional preference for different taste/blends/flavours, resulting in repeat orders.

The ratings, however, remain constrained by the vulnerability of the company's profit margins to fluctuations in bulk tea prices, which depends 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 geographical concentration risk as ~70% of the domestic sales are derived from Maharashtra (especially Mumbai), while 80-90% of export revenues are derived from Russia. The company's customer concentration risk remains high with a single Russia-based customer comprising 35-40% of the total revenues. However, established relationship and long association with the customer ensure repeat, orders, which provide comfort.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GFBPL will continue to benefit from its established brand 'Girnar' as well as extensive experience of its promoters in the tea business. GFBPL's reliance on external debt is expected to remain limited, which would also lend support to its credit profile.

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 the 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 the extensive experience of promoters provide growth visibility over the near-to-medium term.

Established customer base – The company's customer profile includes traders of bulk tea and repacked 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 sales through 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.

Healthy growth in revenues; comfortable financial profile and strong liquidity position – The company's revenues increased to Rs. 380.3 crore in FY2021 from Rs. 322.9 crore in FY2020, reflecting a YoY growth of 18%. While the overall sales volumes largely remained stable in FY2021, the revenue growth was attributable to an increase in average sales realisations as the tea players had implemented price hikes to offset the impact of higher bulk tea prices. Increased scale of operations and savings in advertisement and sales promotion expenses (due to reduced spending throughout the industry owing to the pandemic) led to an improvement in OPM and net profit margin (NPM), which stood at 10.6% and 6.0%, respectively in FY2021 (vis-à-vis 7.9% and 4.1%, respectively in FY2020). Higher profits translated into an improvement in the coverage indicators, as evident from an interest coverage of 6.1 times in FY2021 (4.4 times in the previous year) and total debt-to-operating profit ratio of 1.5 times as on March 31, 2021 (2.7 times in the previous year). In YTD FY2022, while the average selling prices have largely remained stable due to softening in bulk tea prices, the sales volumes have picked up given the increased at-home consumption of tea. The company continues to witness good traction for its value-added products, including pre-mixes and tea packets, which additionally supported the revenue growth. 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 debt of Rs. 61.1 crore as on March 31, 2021 comprises only unsecured loans from promoters and their relatives. Its liquidity position remains strong supported by sizeable cash, bank and liquid investments of Rs. 44.0 crore and undrawn working capital limits of Rs. 49.5 crore from bank as on December 31, 2021.

Credit challenges

Vulnerability of profit margins to fluctuations in bulk tea prices – Tea availability depends on agro-climatic conditions in domestic and international markets, leading to significant fluctuations in bulk tea prices. In FY2021, there was a significant increase in cut, tear, curl (CTC) and orthodox tea prices. This was led by demand-supply mismatch due to lower production following the nationwide lockdown during April-May 2020. In YTD FY2022, although tea prices have softened from FY2021, they continue to remain elevated. However, ICRA notes that the company had implemented price hikes in FY2021, in line with its industry peers to offset the impact of rising bulk tea prices.

Exposed to geographical concentration risk; brand loyalty in the domestic market partly mitigates the risk – The company has presence in both 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% sales generated from Maharashtra (especially Mumbai). Russia contributed 80-90% 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 leads to a high geographical concentration risk. Besides, a single Russia-based customer contributes 35-40% 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.

Intense competition limits pricing flexibility – The company faces intense competition from other well-established brands (namely Wagh Bakri, TATA, Brooke Bond Red Label, Brooke Bond Taj Mahal and Society, among few 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 price hike to the customers.

Liquidity position: Strong

GFBPL’s liquidity position remains **strong** supported by cash, bank and liquid balances of Rs. 44.0 crore as on December 31, 2021. The sanctioned working capital limits of Rs. 49.5 crore remain largely unutilised and provide cushion to the liquidity. The average utilisation of fund-based working capital limits stood low at 6% during the 12-month period ended on December 31, 2021. In the absence of any debt repayment obligations or any major capex plans, the liquidity position is likely to remain comfortable. The cash flow generation is also expected to improve in FY2022, aided by higher sales and profitability.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to significantly increase 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Bulk Tea Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1987, GFBPL is promoted by the Shah and Bhansali families, who have an equal shareholding in the company and are actively involved in all its major functions. The Group has an extensive 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, where it generates a major part of its domestic sales. It has limited presence in Gujarat, Delhi, Karnataka, Jammu and Kashmir, Telangana, Rajasthan, among others. The domestic sales contribute 40-45% to its total revenues, while exports account for the rest. In the overseas market, the company trades in bulk tea, with a strong presence in Russia, from where it generates 80-90% of its total export sales. GFBPL’s processing and packaging unit is in Umbergaon, Gujarat, with blending units in Coimbatore (Tamil Nadu) and Kolkata (West Bengal).

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	322.9	380.3
PAT (Rs. crore)	13.3	22.8
OPBDIT/OI (%)	7.9%	10.6%
PAT/OI (%)	4.1%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt/OPBDIT (times)	2.7	1.5
Interest Coverage (times)	4.4	6.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: GFBPL, ICRA research; All ratios as per ICRA calculations

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 for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					14-Feb-2022	**05-Nov-2020**	**30-Jul-2019**	**-**
1	Cash Credit	Long-term	12.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	PC/PCFC/FDB/FBE/BRD	Short-term	37.50		[ICRA]A2+	[ICRA]A2	[ICRA]A2	-

Complexity level of the rated instrument

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, is available on ICRA's 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
NA	Cash Credit	-	-	-	12.00	[ICRA]A-(Stable)
NA	PC/PCFC/FDB/FBE/BRD	-	-	-	37.50	[ICRA]A2+

Source: *GFBPL*

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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