March 17, 2023

Girnar Food & Beverages Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based working capital limits	12.0	12.0	[ICRA]A-(Stable); reaffirmed
Short-term fund-based working capital limits	37.5	37.5	[ICRA]A2+; reaffirmed
Total	**49.5**	**49.5**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation for Girnar Food & Beverages Private Limited (GFBPL) continues to favourably factor in the extensive experience of its promoters in the branded packaged tea business and the good recognition of its in-house brand, Girnar, among hot beverages, especially in the leading tea-consuming market of Maharashtra, particularly Mumbai. The ratings continue to reflect the company's established customer base, given the regional preference for different taste/blend/flavours, resulting in repeat orders. This has helped GFBPL to maintain a sustained market share over the years. The ratings favourably factor in its comfortable capital structure due to controlled external borrowing levels and healthy coverage indicators. The liquidity profile of the company also remains strong, supported by sizeable cash and liquid investments as on December 31, 2022, and adequate undrawn working capital limits from bank.

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 the geographical concentration risk as ~70% of the domestic sales is derived from Maharashtra (especially Mumbai), while 80-90% of exports are derived from Russia. Despite the ongoing Russia-Ukraine conflict, the company continued its exports to Russia as tea is an essential commodity and not included in embargo. While there have been some delays in the realisation of receivables from Russian customers in the current fiscal, the overall working capital cycle and liquidity position remain comfortable. The company's customer concentration risk remains high with a single Russia-based customer comprising 35-40% of the total revenues. However, a long, established relationship with the customer ensures repeat orders, which provide comfort.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GFBPL's credit profile is expected to remain comfortable, supported by steady growth in revenues led by its increasing penetration in newer markets and continued strong presence in Maharashtra. Along with limited reliance on external debt, the credit metrics are likely to be comfortable.

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 re-packed 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 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 revenue growth in current fiscal; comfortable financial profile and strong liquidity position – Despite the Russia-Ukraine conflict, the company continued its exports to Russia (as tea is under essential commodity and was excluded from embargo) and witnessed healthy sales uptick. The overall sales volumes increased YoY by 27% in 9M FY2023, aided by higher exports to Russia. Along with modest increase in sales realisations, the company reported revenues of ~Rs. 380 crore in 9M FY2023 vis-à-vis Rs. 287 crore in 9M FY2022 reflecting YoY growth of 33%. The company continues to witness good traction for its value-added products, including pre-mixes and tea bags, which additionally supported the revenue growth. While prices of bulk tea (which is the major input cost) remain elevated, the profit margins are likely to remain stable in FY2023, supported by increased scale of operations. Due to limited reliance on external debt owing to a controlled working capital cycle, the credit metrics remained comfortable with interest cover of 5.8 times in FY2022 (6.1 times in the previous year) and total debt-to-operating profit ratio of 1.5 times as on March 31, 2022 (1.5 times in the previous year). 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. Its liquidity position remains strong, supported by sizeable cash, bank, and liquid investments of Rs. 71.0 crore and undrawn working capital limits of Rs. 49.5 crore from bank as on December 31, 2022.

Credit challenges

Vulnerability of profit margins to fluctuations in bulk tea prices – Tea availability depends on agro-climatic conditions in the domestic and international markets, leading to significant fluctuations in bulk tea prices. In YTD FY2023, the tea prices continued to be elevated. However, ICRA notes that the company had implemented price hikes (especially in case of exports), in line with its industry peers to offset the impact of rising bulk tea prices.

Exposed to geographical concentration risk; brand loyalty in domestic market partly mitigates the risk – The company has presence in both the 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. Despite the ongoing Russia-Ukraine conflict, the company has continued its exports to Russia as tea is an essential commodity and not included in embargo. While there have been some delays in the realisation of receivables from Russian customers in the current fiscal, the overall working capital cycle and liquidity position remain comfortable.

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 the price hike to customers.

Liquidity position: Strong

The company's liquidity position is **strong,** marked by cash and liquid balances of Rs. 71 crore as well as unutilised bank limits of Rs. 14 crore as on December 31, 2022. The average utilisation of fund-based working capital limits (sanctioned limits of Rs. 49.5 crore) stood low at 20% during the 12-month period ended on December 31, 2022. In the absence of any major capex plans and no repayment obligations, the liquidity position is likely to remain comfortable. However, any large dividend payout or cash outflow to related parties which deteriorates the company's liquidity position would remain a key monitorable. The cash flow generation is expected to remain steady in FY2023, aided by higher sales and profitability.

Rating sensitivities

Positive factors - The ratings may be upgraded, if the company significantly increases 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. Interest cover remaining below 4.0 times, on a sustained basis, would be a negative factor.

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	The ratings are based on the standalone financial statements of GFBPL.

About the company

GFBPL, incorporated in 1987, 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 company 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 markets of Mumbai, from where it generates a major part of its domestic sales. It has limited presence in Gujarat, Delhi, Karnataka, Jammu and Kashmir, Telangana, and 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

Standalone	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	380.3	383.5
PAT (Rs. crore)	22.8	23.8
OPBDIT/OI (%)	10.6%	11.3%
PAT/OI (%)	6.0%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.9
Total Debt/OPBDIT (times)	1.5	1.5
Interest Coverage (times)	6.1	5.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Current Rating (FY2023) Date & Rating March 17, 2023	Current Rating (FY2023) Date & Rating April 13, 2022	Chronology of Rating History for the past 3 years: Date & Rating in FY2022 February 14, 2022	Date & Rating in FY2021 November 05, 2020	Date & Rating in FY2020 July 30, 2019
1	Fund-based working capital limits	Long-term	12.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based working capital limits	Short-term	37.50	-	[ICRA]A2+	[ICRA]A2+	[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, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term fund-based working capital limits	-	-	-	12.00	[ICRA]A-(Stable)
NA	Short-term fund-based working capital limits	-	-	-	37.50	[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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