July 10, 2023

Amalgamated Plantations Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	104.37	66.05	[ICRA]A-, reaffirmed; outlook revised to Negative from Stable
Long-term – Unallocated Limits	-	30.00	[ICRA]A-, reaffirmed; outlook revised to Negative from Stable
Long-term/ Short-term Fund-based – Working Capital Facilities	438.00	450.00	[ICRA]A-/ [ICRA]A2+, reaffirmed; outlook revised to Negative from Stable
Long-term/ Short-term – Unallocated Limits	7.63	3.95	[ICRA]A-/ [ICRA]A2+, reaffirmed; outlook revised to Negative from Stable
Total	**550.00**	**550.00**	

**Instrument details are provided in Annexure – I*

Rationale

The revision in the outlook on the long-term rating to Negative from Stable takes into consideration consistent losses incurred by Amalgamated Plantations Private Limited (APPL) over the past years, leading to a substantial erosion of net worth. ICRA expects the net worth of the company to turn negative in FY2024, unless there is a substantial turnaround in the company's performance.

The ratings take into account APPL's established presence in the domestic bulk tea industry with a sizeable scale of operation, its focus on improving the quality of its produce, status as one of the largest producers of orthodox teas in India and the strong financial linkages with Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA/ Stable/ [ICRA]A1+). APPL is a Tata Group company, where TCPL (41.03% stake in APPL) and Tata Investment Corporation Limited (24.61% stake in APPL) jointly hold 65.64% of the equity base. In addition, TCPL holds 100% of the preference share capital of APPL, which stands at around Rs. 267 crore at present. In FY2023, while focus on improving the quality of teas supported tea prices for APPL, particularly that produced from its own estate, a sharp increase in wage and fuel costs, and lower-than-expected increase in production, impacted the operating profits. However, infusion of Rs. 50 crore preference share capital by TCPL in FY2023 eased the cash flow pressure of APPL to an extent. The profitability of the company is estimated to improve, unless there is any significant hike in the wage rate in the current fiscal compared to the last year as production is likely to increase along with better price recovery amid APPL's continuous focus on producing good quality tea, backed by improved agricultural practices and irrigation infrastructure.

The ratings, however, continue to be impacted by APPL's low net worth base and adverse coverage indicators. The ratings are also impacted by geographical concentration risk, agro-climatic risks, as well as the inherent cyclicality of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of all bulk tea producers including APPL. In addition, Indian tea is essentially a price taker in the international market and hence global supply-demand dynamics would continue to have a bearing on the domestic prices to some extent. The age profile of its tea bushes remains adverse as a substantial portion of the bushes is over 60 years old, necessitating continuous investment towards replantation. Nevertheless, the company's focus on improving the quality of its produce (which fetches a significant price premium over the average North Indian auction price), its established and efficient garden practices and a large bought-leaf operation (which provides some hedge to the fixed-cost intensive plantation operations), and status as a large producer of orthodox teas are likely to support the business profile, going forward.

Key rating drivers and their description

Credit strengths

Status of being a Tata Group company, which holds a 65.64% stake – APPL enjoys considerable financial flexibility for being a part of the Tata Group, which holds a 65.64% of the equity base in APPL through two companies, TCPL (holds a 41.03% stake in APPL) and Tata Investment Corporation Limited (holds a 24.61% stake in APPL). Apart from the equity shareholding, TCPL also holds 100% of the preference share capital in APPL. As the cash flow of the company remained under pressure over the last few years, TCPL had extended the maturity of the preference share capital of Rs. 67 crore by another two years, which were due for part redemption in FY2022, and also infused Rs. 200 crore in APPL as preference share capital in FY2022 and FY2023.

Established position as a prominent bulk tea player in North India – APPL is an established player in the domestic bulk tea industry and is one of the largest plantation companies in North India. Its total tea production in FY2023 stood at 39.3 million kg (Mkg) out of which around 35.0% was produced from bought leaves. The company is primarily a producer of CTC variety of tea, however, orthodox variety of tea accounted for 26.2% of its total produce in FY2023. The company is one of the largest orthodox tea producers in India. APPL'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 stood at around Rs. 231/ kg in FY2023 compared to the North Indian auction average of around Rs. 201/ kg during the same period.

Focus on improving quality of its plantations and increasing production from bought-leaf operations to mitigate risks – APPL is an established player in the domestic bulk tea industry. While the company is primarily a CTC tea producer, which accounted for around 74% of the total tea produced in FY2023, the contribution of orthodox tea plays an important role to its profitability, given its higher realisations. The company's increasing focus on the relatively stable margin bought leaf operations mitigates the risks associated with the fixed cost intensive nature of the tea plantation business to some extent. Favourable productivity of tea estates, coupled with the company's focus on bought-leaf operations, which provide stable but low margins, mitigates the risks associated with the fixed-cost intensive nature of the bulk tea industry to some extent.

Credit challenges

Consistent losses incurred over the past years, leading to erosion of net worth; coverage indicators also remain adverse – The company reported an operating profit of Rs. 10.7 crore in FY2023 compared to an operating loss Rs. 6.1 crore in FY2022. Despite an increase in the overall production level, although lower than expected, and an improvement in the realisation, a sharp rise in wage and fuel costs adversely impacted the operating profits of the company in FY2023. High interest costs on account of an increase in debt quantum to fund the losses, led to a net loss of Rs. 54.7 crore in FY2023 against a net loss of Rs. 65.1 crore in FY2022. ICRA notes that the company has incurred cash losses over the past many years (excluding FY2021), leading to a continuous erosion of its net worth. In view of improved realisation, given APPL's focus on improving the quality of teas and likely increase in the overall production level to some extent, the profitability of the company is estimated to improve in the current fiscal. However, the company would continue to incur losses at the net level in FY2024. Accordingly, the net worth of the company is likely to turn negative in the current fiscal, unless there is a substantial turn-around in the company's performance. APPL's capital structure remained weak on account of rising debt levels and low level of net worth. The debt coverage indicators also remained subdued with low interest cover and high Total debt/OPBITDA. Nonetheless, APPL enjoys financial flexibility for being a part of the Tata Group, which holds around a 65.64% of the equity base in the company.

Adverse age profile of the bushes, however, a defined replantation policy in place – The age profile of its tea bushes remains adverse as a substantial portion of the bushes is over 60 years old, necessitating continuous investment towards replantation. ICRA notes that the company has been taking specific steps to address the same by following a definite annual replantation policy. Also, the yields have been supported by increasing acreage under high-yielding clones and other focused efforts taken towards improving productivity.

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 60% of the production cost. The inherent cyclicality of the fixed cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers such as APPL. In addition, Indian tea is essentially a price taker in the international market and hence global supply-demand dynamics would continue to have a bearing on the domestic price levels to some extent.

Exposed to geographical concentration risks – The company operates 25 tea estates, all of which are located in North India. Moreover, around 85% of the tea estates are located in Assam, whereas the rest are located in Dooars region in West Bengal. This exposes APPL to geographical concentration risk. Nevertheless, proximity of the tea estates lends operational flexibility to an extent.

Liquidity position: Adequate

APPL's liquidity is expected to remain adequate with likely improvement in the cash flow from operations in the current fiscal, predominantly debt-funded capex plans towards replantation programme, renovation of factory/ plant and machinery and upgradation of irrigation facilities, and buffer available in the working capital lines. Its status as a Tata Group company and demonstrated support from TCPL in the past would continue to lend comfort to its liquidity position.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade looks unlikely. However, the outlook can be revised to Stable if the company is able to register a significant growth in its revenues and profitability while improving its cash flow position, leading to a sustained improvement in its overall financial profile.

Negative factors – Pressure on APPL's ratings may arise if there is a deterioration in the credit profile of TCPL, and/or weakening of the operational and financial linkages with it. Also, a sharp decline in the profitability and cash accruals, leading to weakening of APPL's credit profile on a sustained basis, could also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Bulk Tea Industry
Parent/ Group support	Parent/ Group Company: Tata Consumer Products Limited (TCPL) APPL is an associate of TCPL, which holds a 41.03% equity stake in the company, imparting considerable financial flexibility to the company. TCPL provided demonstrated financial support in the form of preference share capital to APPL to support its liquidity position. There are considerable management and financial linkages between the two companies.
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the entity

About the company

APPL was incorporated in 2007 to take over the erstwhile North Indian Plantation Operations (NIPO) of TCPL. As per the Scheme of Arrangement approved by the Calcutta High Court with effect from April 1, 2007, all the tea estates along with three packaging centres of NIPO were acquired by APPL for around Rs. 368.7 crore. APPL is an associate of TCPL, which holds a 41.03% equity stake in the company. The company mainly produces CTC variety of tea. The company produced around 39.3 Mkg of tea in FY2023, of which around 26% was of orthodox variety. In addition to its own leaf, the company has considerable bought-leaf operations. At present, the company has 25 tea estates spread over 14,406 hectares area in Assam and Dooars regions in West Bengal.

Key financial indicators (audited)

APPL, Standalone	FY2022	FY2023
Operating income	850.6	965.2
PAT	-65.1	-54.7
OPBDIT/OI	-0.7%	1.1%
PAT/OI	-7.7%	-5.7%
Total outside liabilities/Tangible net worth (times)	19.7	56.4
Total debt/OPBDIT (times)	-87.6	57.0
Interest coverage (times)	-0.1	0.2

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

Source: Amalgamated Plantations Private Limited

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
					Jul 10, 2023	Jun 6, 2022	Apr 7, 2021	-
1	Term Loan	Long Term	66.05	65.67	**[ICRA]A- (Negative)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Unallocated Limits	Long Term	30.00	-	**[ICRA]A- (Negative)**	-	-	-
3	Fund-based working capital facilities	Long Term/ Short Term	450.00	354.80	**[ICRA]A- (Negative)/ [ICRA]A2+**	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-
4	Fund-based working capital facilities	Long Term/ Short Term	-	-	-	[ICRA]A+ (CE) (Stable)/ [ICRA]A1 (CE); Withdrawn	[ICRA]A+ (CE) (Stable)/ [ICRA]A1 (CE)	-
5	Unallocated Limits	Long Term/ Short Term	3.95	-	**[ICRA]A- (Negative)/ [ICRA]A2+**	[ICRA]A- (Stable)/ [ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Unallocated Limits	Not Applicable
Long-term/ Short-term fund-based – Working Capital	Simple
Long-term/ Short-term – 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
-	**Term Loan**	FY2019	-	FY2024	1.88	[ICRA]A- (Negative)
-	**Term Loan**	FY2020	-	FY2025	11.85	[ICRA]A- (Negative)
-	**Term Loan**	FY2022	-	FY2027	25.00	[ICRA]A- (Negative)
-	**Term Loan**	FY2019	-	FY2024	7.13	[ICRA]A- (Negative)
-	**Term Loan**	FY2022	-	FY2027	12.19	[ICRA]A- (Negative)
-	**Term Loan**	FY2020	-	FY2025	8.00	[ICRA]A- (Negative)
-	**Unallocated Limits**	-	-	-	30.00	[ICRA]A- (Negative)
-	**Working Capital Facilities**	-	-	-	105.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	50.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	85.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	30.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	25.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	55.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Working Capital Facilities**	-	-	-	100.00	[ICRA]A- (Negative)/ [ICRA]A2+
-	**Unallocated Limits**	-	-	-	3.95	[ICRA]A- (Negative)/ [ICRA]A2+

Source: Amalgamated Plantations Private 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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