

November 20, 2023

Koomber Tea Company Private Limited: Ratings downgraded 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 / Short Term – Cash Credit / WCDL	6.00	6.00	[ICRA]A- (Stable)/ [ICRA]A2+; downgraded from [ICRA]A (Stable)/ [ICRA]A1
Total	6.00	6.00	

Rationale

The ratings downgrade for Koomber Tea Company Private Limited (KTCPL) factors in the moderation in the credit profile of the Goodricke Group, comprising the flagship company, Goodricke Group Limited (GGL; rated at [ICRA]A/Stable/[ICRA]A2+), KTCPL, Amgoorie India Limited (AIL; rated at [ICRA]A-/Stable/[ICRA]A2+) and Stewart Holl (India) Limited (SHIL; rated at [ICRA]A-/Stable/[ICRA]A2+). KTCPL has significant operational and managerial linkages with the Goodricke Group and it avails funding support from related entities of the Group. The Group's consolidated profitability and debt coverage metrics deteriorated over the last two fiscals and are likely to worsen further in the current fiscal on the back of a significant wage hike for tea estate workers in North India and sub-optimal yields in some of the estates due to adverse weather conditions and pest attacks. The wages have increased further both in West Bengal and Assam with effect from June 2023 and October 2023, respectively. Besides, a sharp decline in orthodox tea prices and some moderation in CTC prices in the current fiscal are likely to result in a net loss on a consolidated basis. A decline in production, wage rate hike and moderation in realisations are also likely to keep KTCPL's standalone performance under pressure in the current fiscal. The ratings, however, continue to factor in KTCPL's conservative capital structure and an established presence of the Goodricke Group in the domestic tea industry with a sizeable scale of operations. The ratings continue to factor in KTCPL's small scale of operations and exposure to geographical concentration risks as its two gardens are located in the Cachar region of Assam. ICRA also notes the risks associated with tea for being an agricultural commodity as well as the cyclicity inherent in the fixed-cost intensive tea industry that leads to variability in profits and cash flows of bulk tea producers like KTCPL. 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 the Goodricke Group.

The Stable outlook on the long-term rating reflects ICRA's expectations that an established position of the Goodricke Group, including KTCPL, in the tea industry, and the company's conservative capital structure would continue to support its business and credit profiles.

Key rating drivers and their description

Credit strengths

Established position of the Goodricke Group in tea business – KTCPL is a part of the Goodricke Group, which has an established presence in the tea industry for over four decades and accounted for nearly 2.2% of India's total tea production in FY2023. Camellia Plc, UK, is the ultimate holding company of all the entities in the Group. GGL, the flagship entity, accounts for the major portion (78% in FY2023) of the consolidated operating income. It has diverse revenue streams including packet/instant tea and export sales in addition to sale of bulk tea in the domestic market. GGL purchases nearly half of KTCPL's production. The ratings of KTCPL draw comfort from the implicit support derived from its operational and managerial linkages with GGL and funding support availed for other related entities of the Group.

Conservative capital structure – The company's capital structure remained conservative, as reflected by a gearing of 0.1 times as on March 31, 2023 due to limited debt vis-à-vis a considerable tangible net worth. KTCPL has a fund-based working capital

limit of Rs. 6 crore. The company does not have any long-term loan from banks, however, it avails loans from related parties from time to time (Rs. 2 crore as on March 31, 2023). The company's working capital borrowing is likely to increase in the current fiscal due to a reduction in cash accruals. However, its capital structure would remain conservative.

Credit challenges

Deterioration in the credit profile of the Goodricke Group – The Group's consolidated profitability and debt coverage metrics deteriorated over the last two fiscals and are likely to worsen further in the current fiscal. There have been frequent hikes in wage rates for tea estate workers in North India in the recent years, including the hikes effected in the current year (basic wages increased by Rs. 18 per man-day both in West Bengal and Assam with effect from June 2023 and October 2023, respectively). This, coupled with crop losses due to adverse weather conditions and pest attacks in some of the estates mainly in Doors, continue to keep the Group's overall performance under pressure. Besides, a sharp decline in orthodox tea prices and some moderation in CTC prices in the current fiscal are likely to result in a net loss on a consolidated basis in FY2024.

Wage rate hike and moderation in realisation to exert pressure on KTCPL's profitability in the current fiscal – KTCPL's standalone performance improved in FY2023, aided by increased production and realisations, despite wage rate hikes. However, the company's revenue and profits are likely to decline significantly in the current fiscal due to a sharp drop in realisation, further wage rate hike and lower production.

Exposed to geographical concentration risks with relatively smaller scale of operation – The company has a small scale of operation with two tea estates, having an area of around 1,232 hectare under cultivation in the Cachar district of Assam. Proximity of the gardens gives rise to geographical concentration risks. The company produced 2.24 million kg tea in FY2023, out of which only 1.7% was produced from bought leaves.

Risks associated with tea for being a cyclical agricultural commodity – 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 the major portion of the production cost. Hence, the inherent cyclicity of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as KTCPL.

Realisation in the domestic market remains vulnerable to export market performance of Indian tea – 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 despite the better quality of Indian tea. Discontinuation of exports of orthodox teas to Iran from India has led to a sharp fall in the Indian orthodox tea prices in the current fiscal, adversely impacting KTCPL's overall realisations.

Liquidity position: Adequate

The company's cash flow from operations is likely to decline in the current fiscal. Its working capital utilisation is full currently, however, the utilisation is likely to decline towards the year-end with a reduction in inventory and receivables, as inherent in the bulk tea business. Its free cash stood at a modest level of Rs. 0.65 crore as on March 31, 2023. However, absence of any term loan repayment obligation, limited capex and access to unsecured loans from a related party are likely to keep its liquidity position adequate.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is an improvement in the credit profile of the Group.

Negative factors – Continuing pressure on the company's profitability and cash accruals may negatively impact the ratings. Weakening of linkages of the company with the Group or a deterioration in the credit profile of the Group may also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Bulk Tea
Parent/Group support	Implicit support from the Goodricke Group due to significant operational and managerial linkages with the flagship entity and funding support from related entities
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

KTCPL was incorporated in 1975 and cultivates tea across its two tea gardens located in Cachar district in Assam with a total area of around 1,232 hectares under cultivation. The company operates two factories, one factory associated with each garden. KTCPL is a producer of both CTC and orthodox varieties of black tea and green tea. The share of CTC tea in the company's production stood at 41% and the rest of the production comprised orthodox black tea and green tea varieties. The company is a part of the Goodricke Group of Companies, based in India. Camellia Plc., UK, is the ultimate holding company, which through its subsidiaries holds the entire share of the company.

Key financial indicators (audited)

KTCPL Standalone	FY2022	FY2023
Operating income (Rs. crore)	42.3	48.3
PAT (Rs. crore)	-0.2	1.7
OPBDIT/OI (%)	4.0%	7.7%
PAT/OI (%)	-0.4%	3.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	2.9	1.9
Interest coverage (times)	5.3	6.2

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	Type	Current Rating (FY2024)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				Nov 20, 2023	Jan 11, 2023	Dec 27, 2021	Nov 23, 2020	Oct 27, 2020
1 Cash Credit/ WCDL	Long-term and short term	6.0	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
2 Interchangeable Limit	Long-term and short term	-	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term/ Short-term – Fund-based (Cash Credit / WCDL)	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 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: [Click Here](#)

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL	NA	NA	NA	6.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

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.

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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