November 24, 2023

Parcon India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Cash Credit	40.00	40.00	[ICRA]A- (Stable), reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating continues to factor in the favourable business risk profile of Parcon India Private Limited (PIPL), considering the regulated nature of the tea auction process under the purview of the Tea Board of India, and its established market position as the second largest broker in North India tea auction. The rating also factors in the highly diversified client base with the presence of some of North India's large and established bulk tea players. The rating continues to derive comfort from the favourable financial risk profile of the company, as reflected by a conservative capital structure and comfortable debt protection metrics. Despite some likely moderation, ICRA expects that the company's operating profit and coverage indicators to continue to remain at a comfortable level in the current fiscal. The liquidity position of PIPL continues to remain strong with sizeable portion of unencumbered cash/ bank balance, which is likely to continue in the near-to-medium term.

The rating is, however, constrained by the company's relatively smaller scale of current operations, its low net worth base of around Rs. 29 crore as on March 31, 2023 and commodity concentration risk for PIPL as the business entirely depends on a single agro-commodity – tea. PIPL's business also depends on the performance of bulk tea players, which exhibits cyclicality and is also exposed to agro-climatic risks. The rating also factors in PIPL's high working capital requirement during the peak season because of extending trade advances to the producers. However, the same results in generation of a sizeable interest income for the company, supporting the overall profits and cash accruals. Additionally, ICRA notes that PIPL's exposure to the counterparty risks in respect of recovery of commission is mitigated by the regulations in tea auction, providing PIPL with custody of tea and routing of sales proceeds after adjusting for brokerage and advances extended to the sellers, if any.

The Stable outlook on the long-term rating reflects ICRA's opinion that PIPL would continue to generate healthy cash flows relative to its debt service obligations by leveraging on its established track record of operations in the North India tea auction.

Key rating drivers and their description

Credit strengths

Established market position in tea broking business with highly diversified client base – PIPL is involved in tea-broking business since 1991. It has scaled up its operations considerably and is now the second largest tea-broking company, accounting for around 21% of the total auction sales (in terms of volume) in North India. PIPL's top clients include some of the large and established bulk tea and packet tea companies in India. A diversified client base reduces the vulnerability of PIPL's operations to the fortunes of any single, large tea producer/ buyer.

Low-risk business model as tea broking is a regulated industry under purview of the Tea Board of India – The Tea Board of India regulates the tea auction process that includes the auction mechanism, movement of tea and sale proceeds. This favourably impacts the business profile of the company. Tea brokers, including PIPL, earn a commission income (from both buyers and sellers) for handling teas in the auction. In addition, the company earns interest on trade advances extended to some of the tea producers against custodian of saleable tea through auction.

Favourable financial risk profile, reflected by a conservative capital structure and comfortable debt protection metrics – The capital structure of the company has remained conservative over the past few years, primarily on the back of low reliance on external debt. The gearing of the company stood at 0.4 times and TOL/TNW at 1.0 times as on March 31, 2023. Moreover, ICRA notes that the net debt (total debt less free cash and liquid investments) of the company remained negative as on March 31, 2023, which is likely to continue in the near-to-medium term. The net profit of the company was supported by a sizeable non-operating income of around Rs. 3.89 crore in FY2023, in the form of profit on sale of some of its immovable properties. With interest income being more than the outgo, the company's net interest payout is also estimated to remain negative, as before. Despite some moderation in the profits as well as cash accruals from business, reduced debt level due to partial pay-off of unsecured loans is likely to keep the debt protection metrics of the company at a comfortable level in the current fiscal. ICRA does not foresee any major deterioration in its capital structure and coverage indicators, going forward.

Credit challenges

Relatively smaller scale of current operations and low net worth base – PIPL's primary source of revenue is brokerage/ commission from sellers and buyers of tea in the auction. The company's scale of operations continues to remain relatively smaller. Despite a decline in the volume, a marginal improvement in the prices of tea led to an increase in the brokerage income of the company by around 1% in FY2023 compared to FY2022. In addition, enhanced interest income on trade advances extended to the producers led to an overall increase in the operating income of PIPL by around 7% in FY2023 on a YoY basis. However, a likely increase in the brokerage income, driven by higher auction volume, reduced interest income from trade advances, is likely to result in a marginal dip in the operating income by around 1% in FY2024 compared to the last fiscal. This along with increased overheads will have a negative impact on the profitability of the company in FY2024. Nevertheless, the same would continue to remain at a comfortable level. ICRA also notes that the net worth of PIPL remained at a relatively lower level of around Rs. 29 crore as on March 31, 2023.

Exposure to commodity concentration risk – PIPL's business entirely depends on a single agro commodity – tea. Hence, PIPL's business performance would primarily depend on the performance of the bulk tea industry, which exhibits cyclicality and is exposed to agro-climatic risks.

High working capital requirement because of extending trade advances to producers – As the company is in the business of tea broking, it does not carry any inventory on its books. However, PIPL extends trade advances to the tea producers, resulting in high working capital requirement during the peak season. Nevertheless, the same remains secured against adequate stock of tea, which mitigates the risk of delinquency of trade advances. The broker checks the payment from the buyer before remitting it to the seller. Hence, PIPL reports debtors and creditors at the gross levels as an industry practice. In absolute terms, both the balances closely follow each other, which generally keep the company's working capital intensity low.

Liquidity position: Strong

The company is likely to generate positive cash flow from operations in the current fiscal, supported by healthy cash accruals from the business and low working capital intensity of operations. The average utilisation of the fund-based working capital limits of the company stood at around 30% during the last 15 months, ended in September 2023. PIPL also had a sizeable free cash/bank balance of around Rs. 26 crore as on March 31, 2023. ICRA notes that the company undertook buyback of equity shares of Rs. 3.42 crore and also paid off unsecured loan of around Rs. 5 crore in the current fiscal. However, in view of adequate cash flow from operations, surplus cash/ bank balance, undrawn working capital facilities and absence of long-term scheduled debt repayment obligations, ICRA expects the overall liquidity position of the company to remain strong, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade PIPL's rating if the entity demonstrates a substantial increase in its scale of operations while improving its profitability and cash flows on a sustained basis. Significant build-up of net worth along with low reliance on external debt to part fund its trade advances during the year, may also lead to a rating upgrade.

Negative factors – Pressure on PIPL's rating may arise in case of any material loss of market share to competitors or any significant write-offs of receivables, impacting its financial risk profile. Large reliance on external funding, leading to a stretched capital structure on a sustained basis, will also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

Incorporated in 1986, Parcon India Private Limited (PIPL) is registered as a broker and auctioneer with the Tea Board of India across its four North India tea auction houses – Kolkata, Siliguri, Jalpaiguri and Guwahati. PIPL is an established tea broker in North India and its top clients include some of the large established bulk tea companies. The company commenced its operations in 1991.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	24.7	26.4
PAT	3.5	5.2
OPBDIT/OI	26.6%	23.8%
PAT/OI	14.0%	19.8%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	1.9	1.7
Interest coverage (times)	4.8	2.7

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

Source: Parcon India 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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 24, 2023	Sep 16, 2022	Sep 9, 2021	May 11, 2020
1	**Cash Credit**	Long Term	40.00	0.05	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Term Loan**	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)
3	**Unallocated Limits**	Long Term	-	NA	-	-	[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits – Working Capital Facilities	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	40.00	[ICRA]A- (Stable)

Source: Parcon India 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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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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