

August 13, 2024

Kanan Devan Hills Plantations Company Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Term Loan	23.00	33.00	[ICRA]A- (Stable); Reaffirmed and assigned for enhanced amount
Long term - Fund based – Working Capital/ Cash Credit	116.00	122.00	[ICRA]A- (Stable); Reaffirmed and assigned for enhanced amount
Short term - Fund based – Interchangeable	(51.00)	(111.00)	[ICRA]A2+; Reaffirmed
Short term - non-fund based – Interchangeable	(7.50)	(26.00)	[ICRA]A2+; Reaffirmed
Total	139.00	155.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider Kanan Devan Hills Plantations Company Private Limited (KDHP) established presence in the domestic bulk tea industry with a sizeable scale of operation and strong operational and financial linkages with Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA/Stable/[ICRA]A1+). KDHP is a Tata Group Company, where TCPL holds 28.52% of the equity base directly. Further two trusts hold 24.71% of the equity base. In addition, TCPL has also supported the entity through providing unsecured loans as and when required. ICRA also notes that significant contribution from the high-margin non-tea segments like tourism, trading of spices, medicinal and aromatic products support the overall profits and net cash accruals of the entity. In FY2024, while high tea volumes supported the performance, a sharp increase in wage costs and stagnant realisation impacted the operating profits. The profitability of the company is estimated to improve in the current fiscal compared to the last year with significant increase in realisation in the current fiscal, which is expected to offset the impact of lower production to a large extent. In addition, the non-teas revenue is likely to further increase, thus supporting the performance.

The ratings are, however, constrained by KDHP's moderate profits generated over the years, resulting in modest levels of debt-coverage indicators. While the current year performance is expected to be better, the coverage indicators will continue to remain moderate. The ratings are also impacted by geographical concentration risk, agro-climatic risks, as well as the inherent cyclicity of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of all bulk tea producers including KDHP. 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. Nevertheless, the company's focus on quality, as demonstrated by significant premium commanded over the South India (SI) auction averages and support from the non-tea segments are likely to support the business profile going ahead.

The Stable outlook on the long-term rating reflects ICRA's opinion that KDHP's operating profit is comfortable relative to the debt-servicing obligations of the entity. ICRA also expects TCPL to continue to support KDHP, when required, given the strong business linkages and a track record of funding support seen over the years.

Key rating drivers and their description

Credit strengths

Strong linkages with TCPL lends financial flexibility – KDHP enjoys considerable financial flexibility for being a part of the Tata Group where TCPL holds 28.52% of the equity base. Further two trusts hold 24.71% of the equity base. TCPL has also supported the entity through providing unsecured loans as and when required. TCPL sources a large portion of its south Indian tea requirements from KDHP, which is also the supplier of green leaf to TCPL's instant tea division in Munnar. The company's strategic importance to TCPL and the financial flexibility derived from the funding support provided to it by TCPL strengthen KDHP's credit profile.

Established position as a prominent bulk tea player in South India – KDHP is an established player in the domestic bulk tea industry and is the largest plantation company in South India. Its total tea production in FY2024 stood at 23.97 million kg (Mkg) out of which 4% was produced from bought leaves. The company produces about 9-11% of the overall south Indian tea production and its average realisations attract a considerable premium to the SI auction averages, reflecting relatively better quality of tea produced.

High productivity of tea estates despite an adverse age profile of bushes – KDHP's garden costs are largely fixed, in line with that of the industry, with labour costs accounting for the major part of the cost of production. The risks associated with high fixed-cost nature of the industry are mitigated, to an extent, by the high productivity level of KDHP's estates and processing units, reflected by the yield of around 2,600 kg/ hectare of area under cultivation and an outturn ratio (tea produced to green leaves consumed) of 24.5% in FY2024. Nevertheless, the age profile of its tea bushes remains adverse, with around 75% of the bushes being more than 80 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 sustaining productivity.

Credit challenges

Moderate financial performance in FY2024; the current fiscal performance is expected to remain modest - In FY2024, while high tea volumes supported the performance, a sharp increase in wage costs and stagnant realisation impacted the operating profits. The profitability of the company is estimated to improve in the current fiscal compared to the last year with significant increase in realisation in the current fiscal, which is expected to offset the impact of lower production in Q1 to a large extent. In addition, the non-tea's revenue is likely to further increase, thus supporting the performance. Lower profits generated over the years, results in modest levels of debt-coverage indicators. While the current year performance is expected to be better, the coverage indicators will continue to remain moderate.

Exposed to geographical concentration risks – The company operates seven tea estates, all of which are located in Munnar, Kerala. This exposes KDHP to significant geographical concentration risks. Nevertheless, proximity of the tea estates to each other lends operational flexibility to an extent.

Risks associated with tea for being a cyclical agricultural commodity; recent wage rate hike to exert pressure on cost structure – 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 KDHP. The basic wage rate for KDHP's tea estate workers has recently had been increased by Rs. 41/man day from January 2023. This translated into a major impact in the last fiscal with a cash outlay of ~Rs. 36 crore which resulted in a net loss from the bulk tea business. However, with better realisations in the current year the company's profitability from the tea segment is likely to be slightly better compared to last year.

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 un-

remunerative 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.

Liquidity position: Adequate

The company's liquidity position is likely to remain **adequate**. Its cash flow from operations (CFO) is expected to improve in the current fiscal and remain comfortable going forward. The company is likely to incur a higher capex by around Rs. 7 to 8 crore in FY2025 however the entity is funding the same with addition of external debt. Its annual debt repayment obligation for FY2025 stands at ~Rs. 10 crore. Nevertheless, with an increase in the WC limits a sizeable undrawn working capital limit (around Rs. 30 crore with respect to the drawing power as of March 2025) is likely to support its liquidity. Besides, the financial flexibility derived from the company's linkages with TCPL, as reflected by the funding support received from the latter, is likely to support KDHP's liquidity.

Rating sensitivities

Positive factors – The ratings may be upgraded if KDHP's revenues and profitability improve significantly, resulting in an improvement in credit metrics and liquidity on a sustained basis

Negative factors – Reduced operational and financial linkages of the company with TCPL or a deterioration in the credit profile of TCPL may lead to a downgrade of KDHP's ratings. The ratings may also be downgraded if there is a sustained pressure on KDHP's earnings from operations, adversely impacting its liquidity position and the overall credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Tea
Parent/Group support	Implicit support from Tata Consumer Products Limited (TCPL), rated at [ICRA]AAA (Stable) has been considered.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the company.

About the company

KDHP was incorporated in 2005, when it took over the operations of South Indian tea plantations of the erstwhile Tata Tea Limited (now TCPL) and became the largest tea plantation company in South India. The company has taken on lease the land holdings, including tea gardens from TCPL, for 30 years. In FY2024, KDHP produced 23.97 Mkg tea, including 9.65 lakh kg from bought-leaf operations. KDHP has seven tea estates (spread across nearly 9,000 hectares of area under cultivation), all located within Munnar, Kerala and has 16 factories, which produce varieties of tea. It produces both the CTC and orthodox varieties of teas. The proportion of the orthodox tea sales volume in FY2024 stood at 30%. The company is one of the largest exporters of tea from South India and generates a portion of its sales (9% in FY2024 by volume) through marketing of its packet tea brand (Ripple) in Kerala. In addition, KDHP manages five tea estates of Tata Coffee and two tea estates of TCPL. The company is also involved in tourism business in Munnar. It runs a few bungalows/cottages and sells tickets to tourists for visit to its tea museum and factory. The company sells spices, medicinal and aromatic products through various outlets and runs a petrol pump in Munnar.

Key financial indicators (audited)

KDHP Standalone	FY2023	FY2024
Operating income	455.0	445.9
PAT	3.1	0.9
OPBDIT/OI	5.2%	3.7%
PAT/OI	0.7%	0.2%
Total outside liabilities/Tangible net worth (times)	1.6	1.8
Total debt/OPBDIT (times)	3.0	6.3
Interest coverage (times)	3.5	1.8

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

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	FY2025		FY2024		FY2023		FY2022	
		Amount Rated (Rs Crore)	Aug 13, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long term	33.00	[ICRA]A-(Stable)	20-Jul-23	[ICRA]A-(Stable)	07-Jul-22	-	06-Jan-22	-
Fund based – Working Capital/ Cash Credit	Long term	122.00	[ICRA]A-(Stable)	20-Jul-23	[ICRA]A-(Stable)	07-Jul-22	[ICRA]BBB+(Stable)	06-Jan-22	[ICRA]BBB+(Stable)
Fund based – Interchangeable	Short term	(111.00)	[ICRA]A2+	20-Jul-23	[ICRA]A2+	07-Jul-22	[ICRA]A2	06-Jan-22	[ICRA]A2
Non-fund based - Interchangeable	Short term	(26.00)	[ICRA]A2+	20-Jul-23	[ICRA]A2+	07-Jul-22	[ICRA]A2	06-Jan-22	[ICRA]A2
Unallocated limit	Long term	-	-	20-Jul-23	-	07-Jul-22	[ICRA]BBB+(Stable)	06-Jan-22	[ICRA]BBB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term Loan	Simple
Long term - Fund based – Working Capital/ Cash Credit	Simple
Short term - Fund based – Interchangeable	Simple
Short term - Non-fund based – Interchangeable	Very 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
-	Fund based – Term Loan	Feb-2023	-	Jan-2031	23.00	[ICRA]A- (Stable)
-	Fund based – Term Loan	-	-	-	10.00	[ICRA]A- (Stable)
-	Fund based – Working Capital/ Cash Credit	-	-	-	122.00	[ICRA]A- (Stable)
-	Fund based – Interchangeable	-	-	-	(111.00)	[ICRA]A2+
-	Non-fund based – Interchangeable	-	-	-	(26.00)	[ICRA]A2+

Source: Company

[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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