

November 27, 2024

Contemporary Brokers Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	16.00	16.00	[ICRA]BBB (Stable); reaffirmed
Fund-based Limits – Working Capital Term Loan	1.72	1.72	[ICRA]BBB (Stable); reaffirmed
Fund-based Limits – Short-term Loan	4.00	4.00	[ICRA]A3+; reaffirmed
Unallocated Limits	0.28	0.28	[ICRA]A3+; reaffirmed
Total	22.00	22.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated business risk profile of Contemporary Brokers Pvt Ltd (CBPL) and its group entity- Contemporary Targett Private Limited (CTPL), henceforth referred as the 'Group', considering the close managerial and financial linkage among these companies and extension of corporate guarantee (CG) to CBPL by CTPL. CTPL is also the parent entity of CBPL by virtue of u/s 2(87)(i) of Companies Act 2013. However, another group entity Breech Oralcare Private Limited (BOPL), which was included earlier, have been excluded considering the release of the CG extended to BOPL by CBPL.

The reaffirmation of the ratings considers CBPL's favourable business risk profile, considering the regulated nature of the tea auction process under the purview of the Tea Board of India, and the established market position of the Group in the tea broking and oral care industries. In the tea operation (under CBPL), the presence of an escrow mechanism, supports the collection of the commission income as well as trade advances extended to some of the tea producers against custodian of saleable tea through auction. In the oral care business (under CTPL), the back to back sales favourably supports the credit risk profile of the entity. ICRA notes that although the performing of the broking entity moderated in the last fiscal on account of subdued realisations, the same is expected to recover in the current fiscal driven by a significant improvement in tea prices. Similarly, for CTPL while the volume off-take moderated in the last fiscal on account of muted demand, it is also expected to recover in the current fiscal. The ratings continue to take comfort from the favourable financial risk profile of the Group, as reflected by a conservative capital structure and nil term debt. Further, CBPL's business of extending trade advances generates a net interest income for the entity reducing pressure on profits.

The ratings, however, are constrained by the modest scale of operations. The ratings also remain impacted by the commodity concentration risk for CBPL as the business entirely depends on a single agro-commodity, tea. Besides, CTPL faces product concentration risk as it undertakes contract manufacturing of only toothbrushes for their principals. The ratings also factor in CBPL's working capital intensive nature of operations with requirement of sizeable trade advances extended to the tea producers.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Contemporary Group will be able to maintain its business position, given its established track record of operations in the tea broking and oral care industries, while sustaining its profitability in the long run.

Key rating drivers and their description

Credit strengths

Established market position in tea broking and oral care industries – At present, CBPL is the third largest tea-broking company and accounts for 10-11% of the total auction sales (in terms of quantity) in North India. CBPL's top clients include some of the large and established bulk tea and packet tea companies in India. CTPL is among the largest contract manufacturers of toothbrushes for Colgate Palmolive India Limited (CPIL).

Low-risk business model as tea broking is a regulated industry – The Tea Board of India regulates the tea auction process that includes the auction mechanism, the movement of tea and sale proceeds. All transactions in the auction process are based on the established relationship of producers, customers and brokers, which continues to favourably impact the business profile of CBPL. Tea brokers, including CBPL, earn a commission income (from both buyers and sellers) for handling teas in the auction. Presence of an escrow mechanism and back to back sales also reduces any counterparty risk.

Favourable financial risk profile of the Group, as reflected by a conservative capital structure – The capital structure of the Group remained conservative with a gearing of 0.7 times and TOL/TNW of 1.2 times as on March 31, 2024. Going forward, ICRA expects the overall capital structure of the Group to remain conservative in view of repayment of all long-term debts along with a moderate accretion to reserves.

Credit challenges

Moderate scale of current operations – The scale of operations of the Group remained small, with an operating income of Rs 91 crore in FY2024. While an improvement is expected in the current fiscal, it is expected to remain small in the near to medium term. In addition, owing to small scale of business, the overall profits and net cash accruals also remained moderate for the consolidated entity.

Exposed to commodity and product concentration risks – With CBPL's business depending entirely on a single agro commodity – tea, the business performance of the company primarily depends on the performance of the bulk tea industry, which exhibits cyclicity and remains exposed to agro-climatic risks. CTPL undertake contract manufacturing of only toothbrushes, leading to high product concentration risk.

High working capital requirement for extending trade advances in tea broking business – The tea broking business necessitates extending trade advances to the tea producers. Accordingly, CBPL extends sizeable trade advances to the tea producers, varying in tandem with the tea-producing cycle, resulting in high working capital requirements during the year.

Liquidity position: Adequate

The Group (CTPL and CBPL) is expected to generate comfortable cash flow from operations in FY2025 and FY2026 relative to moderate debt repayment obligation of Rs. 0.33 crore in FY2025 and nil going forward. Further, the consolidated cash balances are expected to remain healthy, in line with current balance of Rs. 20 crore. The average utilisation of the fund-based working capital limits of the Group also remains moderate at ~77% during the last 12 months. In view of the adequate cash flow from operations, surplus cash/ bank balance and in the absence of any major planned capital expenditure programme or any repayment obligation, ICRA expects the overall liquidity position of the Group to remain adequate, going forward.

Rating sensitivities

Positive factors - ICRA may upgrade CBPL's ratings if the Group demonstrates a substantial growth in its scale of operations and profitability leading to an improvement in the credit metrics.

Negative factors - Pressure on CBPL's ratings may arise in case of a significant decline in the top line of the Group, a fall in cash accruals from the business, and /or any major unanticipated debt-funded capital expenditure, adversely impacting its credit profile. Other factors that may trigger ratings downgrade include consolidated PBDITA to Int. & Finance Charges of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated business risk profile of Contemporary Brokers Pvt Ltd and Contemporary Targett Pvt Ltd , given the close managerial and financial linkage and corporate guarantee extended among them.

About the company

Incorporated in 2003, CBPL is registered as a broker and auctioneer with the Tea Board of India across four North Indian auction houses in Kolkata, Siliguri, Jalpaiguri and Guwahati. It is an established tea broker in North India and its top clients include some of the large established bulk tea manufacturing companies. CBPL is a subsidiary company [u/s 2(87)(i) of the Companies Act 2013] of Contemporary Targett Private Limited, wherein the latter holds the right to control the CBPL management. The company has a wholly owned subsidiary - Bhagirathi Plastics Private Limited - which is involved in renting machinery for manufacturing toothbrush, to its Group entities.

Incorporated in 1976, CTPL is involved in the contractual manufacturing of toothbrushes, exclusively for Colgate Palmolive India Limited. With its manufacturing facility in Vadodara, Gujarat, CTPL has an annual production capacity of 245 million pieces of toothbrushes.

Key financial indicators (audited)

Particulars	Standalone – Contemporary Brokers Private Limited		Consolidated – Contemporary Brokers + Targett	
	FY2023	FY2024	FY2023	FY2024
Operating income	12.1	11.0	109.3	91.0
PAT	1.4	0.8	3.6	3.0
OPBDIT/OI	23.6%	18.9%	7.0%	6.4%
PAT/OI	11.4%	7.3%	3.3%	3.3%
Total outside liabilities/Tangible net worth (times)	2.2	2.0	1.3	1.2
Total debt/OPBDIT (times)	4.0	7.3	3.1	4.2
Interest coverage (times)	2.1	1.4	3.6	2.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Nov 27, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	16.00	[ICRA]BBB (Stable)	6-Sept-23	[ICRA]BBB (Stable)	5-Aug-22	[ICRA]BBB (Stable)	3-Jun-21	[ICRA]BBB (Stable)
Working Capital Term Loan	Long Term	1.72	[ICRA]BBB (Stable)	6-Sept-23	[ICRA]BBB (Stable)	5-Aug-22	[ICRA]BBB (Stable)	3-Jun-21	[ICRA]BBB (Stable)
Short-term Loan	Short Term	4.00	[ICRA]A3+	6-Sept-23	[ICRA]A3+	5-Aug-22	[ICRA]A3+	3-Jun-21	
Unallocated Limits	Short Term	0.28	[ICRA]A3+	6-Sept-23	[ICRA]A3+	5-Aug-22	[ICRA]A3+	3-Jun-21	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Long-term fund-based – Term Loan	Simple
Short-term Fund-based – Short-term Loan	Simple
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
NA	Cash Credit	-	-	-	16.00	[ICRA]BBB (Stable)
NA	Working Capital Term Loan	Aug 2020	-	Aug 2024	1.72	[ICRA]BBB (Stable)
NA	Short-term Loan	-	-	-	4.00	[ICRA]A3+
NA	Unallocated Limits	-	-	-	0.28	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Contemporary Targett Private Limited	Nil	Full Consolidation

Source: Contemporary Brokers Private Limited, Contemporary Targett Private Limited

Note: ICRA has taken a consolidated view of the above-mentioned entities, referred to as Contemporary Group/ Group while assigning the rating(s).

ANALYST CONTACTS

Girishkumar Kashiram Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 6939 6410

vikram.v@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

Rishin Devnath

+91 8240058424

rishin.devnath@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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