December 24, 2024

Parcon India Private Limited: Rating reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	40.00	50.00	[ICRA]A- (Stable) Reaffirmed/ Assigned for enhanced amount
Total	**40.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating continues to factor in 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 Indian tea auction. The rating also factors in the highly diversified client base with the presence of some of North India's largest and most 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 adequate debt coverage metrics. Further, the significant improvement in tea prices is expected to lead to an improvement in profitability of the company in FY2025 over FY2024. ICRA notes that the company has invested in an e-marketplace through an associated entity for the sale of tea in collaboration with other brokers. ICRA expects contribution from this segment to support the company's profitability going forward with a ramp-up of operations.

The rating is, however, constrained by the company's relatively small scale of operations, its low net worth base of around Rs. 26 crore as on March 31, 2024 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 (WC) during the peak season because of extending trade advances to the producers. However, the trade advances result in 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 adequate cash flows relative to its debt service obligations by leveraging on its established track record of operations in the North India tea auctions.

Key rating drivers and their description

Credit strengths

Established market position in tea broking business with highly diversified client base - PIPL is involved in the 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, thereby limiting the risks for tea brokers. 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.

Conservative capital structure and adequate coverage indicators – 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 0.2 times and TOL/TNW at 0.8 times as on March 31, 2024. The company's debt profile comprises of working capital borrowings (which peaks during the auction season to fund the trade advances) and unsecured loans from related parties. ICRA notes that the net debt (total debt less free cash and liquid investments) of the company remained negative as on March 31, 2024, which is likely to continue in the near-to-medium term. The commission income as well as interest income from trade advances, support the profitability of the company and lead to adequate debt coverage metrics.

Credit challenges

Relatively smaller scale of current operations and lower 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 small. ICRA also notes that the net worth of PIPL remained at a relatively lower level of around Rs. 26 crore as on March 31, 2024. While the auction volumes declined in the last two fiscals, the ramp-up of operations in the private segment is expected to compensate for the same to some extent. Further, recovery in tea prices in the current fiscal is expected to drive the growth in operating income in FY2025. Also, the higher demand for trade advances is expected to increase the interest income. The total revenue including interest on trade advances for the company is expected to improve considerably (~15-20%) in FY2025 compared to a ~3% moderation in the last fiscal.

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 for extending trade advances in tea broking business during peak season - 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: Adequate

The company is expected to generate positive cash flow from operations in the current fiscal, supported by improvement in tea realisations and interest income from trade advances. While the cash balances reduce and working capital utilisation peaks during the auction season, the average utilisation remains moderate. The average utilisation of the fund-based working capital limits of the company stood at around 45% during the last 15 months, ending in November 2024 with an as on date sizeable unutilised limit of ~Rs. 20-25 crores. Given the positive cash flow from operations and absence of any scheduled long-term debt repayment or any major planned capital expenditure programme and the recent enhancement in limits, ICRA expects the overall liquidity position of the company to remain adequate, 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 lowering of 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 Tea Board of India across 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)

PIPL Standalone	FY2023	FY2024
Operating income (OI)	26.4	25.7
PAT	5.2	1.5
OPBDIT/OI	23.8%	17.6%
PAT/OI	19.8%	5.7%
Total outside liabilities/Tangible net worth (times)	1.0	0.8
Total debt/OPBDIT (times)	1.7	1.2
Interest coverage (times)	2.7	3.0

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 (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Dec 24, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	50.00	[ICRA]A- (Stable)	24-Nov-23	[ICRA]A- (Stable)	16-Sep-22	[ICRA]A- (Stable)	9-Sep-21	[ICRA]BBB+ (Stable)
Unallocated Limits	Long Term	-	-	-	-	-	-	9-Sep-21	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

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**	-	-	-	50.00	[ICRA]A-(Stable)

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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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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