April 04, 2022

Hasimara Industries Limited: Long-term rating upgraded to [ICRA]BB- and short-term rating reaffirmed; outlook remains Stable

Summary of rating action

Instrument *	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	8.50	8.50	[ICRA]BB- (Stable); upgraded from [ICRA]B (Stable)
Fund-based Term Loans	4.10	4.10	[ICRA]BB- (Stable); upgraded from [ICRA]B (Stable)
Non-fund-based Bank Guarantee	1.50	1.50	[ICRA]A4; reaffirmed
Total	**14.10**	**14.10**	

**Instrument details are provided in Annexure-1*

Rationale

The upward revision in the long-term rating considers the improvement in the financial performance of Hasimara Industries Limited (HIL) in FY2021, driven by a significant increase in tea prices, translating into a sharp rise in profitability, cash accruals and debt coverage metrics. Although ICRA expects some moderation in HIL's profitability in FY2022 due to a decline in tea prices, the debt coverage indicators are likely to remain at a comfortable level. The ratings continue to consider the experience of the promoters in the tea business and the good quality of its produce as evident from the premium commanded over the average market prices. The ratings also factor in the favourable age profile of HIL's tea bushes, which supports its productivity.

The ratings, however, remain constrained by the modest scale of HIL's current operations, notwithstanding the growth witnessed in FY2021 and 9M FY2022. The ratings are also impacted by the risks associated with tea for being an agricultural commodity as production and quality of tea depend on agro-climatic conditions. Such risks are accentuated by the geographical concentration of HIL's operations as the company has a single garden in West Bengal. HIL also remains vulnerable to adverse regulatory changes, wage rate hike etc., which can impact its cost structure and profitability. Further, domestic tea prices are impacted by the demand-supply situation and prices in the international market, which would continue to have a bearing on the profitability of Indian tea players, including HIL.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that HIL is expected to maintain its business position while maintaining its profitability.

Key rating drivers and their description

Credit strengths

Experience of the management in the tea industry – HIL, incorporated in 1904, is a relatively small but an established player in the tea business, producing the crush, tear, curl (CTC) variety of tea. It has a total area of 1,061.5 hectares, of which, around 894 hectares is under tea cultivation. The long experience of the management in the tea industry has aided the production and sales of the company over the years. HIL's tea production remained in the range of 1.71 million kg to 1.96 million kg between FY2017 and FY2021. The company is not involved in the bought-leaf operation.

Good quality of tea produced; favourable age profile of bushes supports productivity – The high quality of HIL's produce is reflected by the premium it fetches over the industry average. The weighted average realisation of tea produced by the company stood at Rs. 210.4/ kg in 9M FY2022 compared to the North Indian auction average of Rs. 195.6/ kg. The company's tea bushes have a favourable age profile with around 69% of the bushes falling in the age group of 5-50 years. This supports the productivity of the company, mitigating the risks associated with the fixed-cost-intensive nature of the industry to an extent. HIL's yield per area of cultivation and the outturn ratio in FY2021 stood at 2,038 kg/hectare (2,245 kg/hectare in FY2020) and 22.1% (22.3% in FY2020), respectively.

Financial risk profile improved in FY2021 with significant increase in tea realistions; although some moderation is likely in FY2022 with decline in tea realisations, the gearing and coverage indictors are likely to remain comfortable – After incurring operating losses in FY2019 and FY2020, HIL posted an operating profit of Rs. 5.99 crore in FY2021, aided by a significant increase in tea prices (34% increase in FY2021 over FY2020). Consequently, the debt coverage metrics also improved significantly in FY2021. The total debt of HIL declined to Rs. 11.53 crore in FY2021 from Rs. 15.78 crore in FY2020 due to a sizeable reduction in working capital and unsecured loans. Improved profitability and reduced debt levels had a favourable impact on the company's overall financial risk profile. The company's operating profit reduced to Rs. 9.48 crore in 9M FY2022 from Rs. 12.34 crore in 9M FY2021 as tea prices declined to an extent in the current fiscal. Although this is expected to impact HIL's gearing and coverage indicators to an extent, the same is likely to remain at comfortable levels in the near term at least.

Credit challenges

Small scale of current operations – The company's operating income increased by around 19% to Rs. 38.53 crore in FY2021 despite a ~11% contraction in volumes sold (1.65 million kg in FY2021 vis-à-vis 1.86 million kg in FY2020), due to a 34% increase in tea prices. The total production stood at 1.71 million kg (1.89 million kg in FY2020) and 1.94 million kg (1.55 million kg in 9MFY2021) in FY2021 and 9M FY2022, respectively. HIL's current scale of operation remains small compared to the established players in the tea manufacturing industry, constraining the company's operational profile to some extent.

High geographical concentration risk – The company has a single tea garden in Alipurduar, West Bengal. This keeps HIL vulnerable to high geographical concentration risks.

Exposed to agro-climatic risks, regulatory changes, wage rate hike etc as tea is an agricultural commodity – The quality and production volume of tea depend on agro-climatic conditions, pest attacks etc. The sector also remains vulnerable to other factors like regulatory changes, wage rate hike by the Government etc. The Government of West Bengal, in January 2021, declared an interim wage hike of 15%, which led to an increase in HIL's production cost in 9M FY2022.

Prices of Indian tea, despite its better quality, remain vulnerable to price fluctuation in the international market – Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, despite the large domestic consumption base. 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. Hence, the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the realisations and profitability of Indian players, including HIL.

Liquidity position: Adequate

The liquidity profile of the company is adequate. HIL generated cash flow from operations of Rs. 3.37 crore in FY2021, aided by a significant increase in realisations. The average utlisation of fund-based working capital limits remained at around 51% during January 2021 to February 2022, leaving the company with a sizeable cushion. The company's repayment obligations (excluding unsecured loans) stand at Rs. 0.98 crore, Rs. 1.65 crore and Rs. 1.55 crore in FY2022, FY2023 and FY2024 respectively. HIL is expected to spend around Rs. 2.19 crore for upgradation and modernisation of machinery in FY2023 and FY2024. The same will be funded through a mix of term loans (Rs. 1.63 crore) and internal accruals (Rs. 0.57 crore). However, the liquidity of the company is expected to remain adequate in the near term at least, in view of adequate cash flow from operations and undrawn line of credits.

Rating sensitivities

Positive factors – ICRA may upgrade HIL's ratings if its revenues and profitability improve on a sustained basis.

Negative factors – ICRA may downgrade HIL's ratings if there is any further increase in wages or any unfavourable regulatory development, negatively impacting the company's credit profile and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Bulk Tea Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of HIL.

About the company

Hasimara Industries Limited (HIL), incorporated in 1904, owns a tea garden in the Alipurduar district of West Bengal. The tea estate is spread over an area of around 1,061 hectares, of which around 894 hectares is under tea cultivation. The company produces CTC variety of black tea, which it sells in the domestic market through auction and private sales. It is not involved in bought leaf operations.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	9MFY21 (Provisional)	9MFY22 (Provisional)
Operating Income (Rs. crore)	32.36	38.53	32.10	39.66
PAT (Rs. crore)	-2.86	3.67	12.34	9.48
OPBDIT/OI (%)	-2.16%	15.54%	43.95%	28.18%
PAT/OI (%)	-8.84%	9.53%	38.46%	23.92%
Total Outside Liabilities/Tangible Net Worth (times)	2.12	1.29	-	-
Total Debt/OPBDIT (times)	-22.54	1.93	-	-
Interest Coverage (times)	-0.46	4.72	16.53	19.48

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 04, 2022	**-**	**Mar 04, 2021**	**Nov 7, 2019**
1	Cash Credit	Long-term	8.50	-	[ICRA]BB- (Stable)	-	[ICRA]B (Stable)	[ICRA]B (Stable)
2	Term Loans	Long-term	4.10	3.64	[ICRA]BB- (Stable)	-	[ICRA]B (Stable)	[ICRA]B (Stable)
3	Bank Guarantee	Short-term	1.50	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4
4	Unallocated	Long-term/ Short-term	-	-	-	-	-	[ICRA]B (Stable)/ [ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Bank Guarantee	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 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	8.50	[ICRA]BB- (Stable)
-	Term Loan I	September 2016	-	September 2022	2.30	[ICRA]BB- (Stable)
-	Term Loan II	August 2020	-	August 2024	1.80	[ICRA]BB- (Stable)
-	Bank Guarantee	-	-	-	1.50	[ICRA]A4

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: 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.

For more information, visit www.icra.in

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