

July 20, 2023

Kanan Devan Hills Plantations Company Private Limited: Ratings upgraded; 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	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Long term - Fund based – Working Capital/ Cash Credit	125.00	116.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Short term - Fund based – Interchangeable	(61.00)	(51.00)	[ICRA]A2+; Upgraded from [ICRA]A2
Short term - Non-fund based – Interchangeable	(7.50)	(7.50)	[ICRA]A2+; Upgraded from [ICRA]A2
Long term – Unallocated limit	5.00	-	-
Total	130.00	139.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade considers a significant improvement in the operating profit and debt coverage metrics of Kanan Devan Hills Plantations Company Private Limited (KDHP) in FY2023, which is likely to sustain, going forward. KDHP's tea production and realisation improved by 10% and 6%, respectively, in FY2023. This coupled with an improvement in revenues from the high-margin non-tea segments like tourism, trading of spices, medicinal and aromatic products led to a significant improvement in the company's turnover and operating profit in FY2023. Reduced borrowings also had a positive impact on the company's debt coverage metrics in FY2023. The company's operating profit from the tea segment is likely to decline in the current fiscal due to a wage rate hike. However, improving revenues from the high-margin non-tea segments are likely to keep KDHP's overall operating profit healthy and the debt coverage metrics comfortable. The ratings continue to consider the company's strong operational and financial linkages with Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA/Stable/[ICRA]A1+) and KDHP's established presence in the domestic bulk tea industry with a sizeable scale of operation. The ratings also favourably factor in the company's high productivity, however, an adverse age profile of tea bushes necessitates continuous investments towards replantation.

The ratings are constrained by the agro-climatic risks associated with tea for being an agricultural commodity and the cyclicity inherent in the fixed-cost intensive tea industry that leads to variability in profits and cash flows of all bulk tea producers, including KDHP. Domestic tea prices are influenced by international prices and hence the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the profitability of Indian players, including KDHP. Nevertheless, the company's focus on improving the quality of its produce, which fetches significant price premium over the average market prices in South India and its established and efficient garden practices are likely to support the business profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that KDHP's improved operating profit and debt coverage metrics will sustain, going forward. 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

Improved profits and debt coverage metrics likely to sustain due to increasing revenues from high-margin non-tea segments – KDHP's revenue from tea grew by 13% in FY2023, supported by an increase in tea sales volume by 7%, on the back of higher tea production, as well as an improvement in tea realisation by 6%. This along with a significant growth in trading sale of petroleum products and spices, medicinal and aromatic products resulted in a growth in the company's operating income (OI) by 14% in FY2023. An improvement in revenues from the high-margin non-tea segments like tourism (income from tourist bungalows/cottages, sale of tickets for tea museum and tea factory), sale of spices, medicinal, aromatic products etc. positively impacted the company's profitability in FY2023. An improvement in yield and realisation of tea also strengthened the company's profitability in FY2023 despite a hike in wage rates. Its operating margin improved to 5.2% in FY2023 from 3.6% in FY2022. Improved revenue and operating margin resulted in a significant increase in KDHP's OPBDITA to Rs. 23.5 crore in FY2023 from Rs. 14.4 crore in FY2022. Its debt coverage metrics also improved in FY2023 with a rise in the operating profit and reduction in debt, as reflected by an interest coverage of 3.5 times, total debt relative to OPBDITA of 3.0 times and DSCR of 1.8 times in FY2023 compared to 2.5 times, 5.7 times and 1.5 times, respectively, in FY2022. An upward trend in the company's revenues from the high-margin non-tea segments is likely to help sustain the improved operating profit and debt coverage metrics, despite a likely decline in the profit from the tea segment in the current fiscal due to the recent wage rate hike.

Credit strength derived from KDHP's linkages with TCPL – The ratings of KDHP draw comfort from the implicit support derived from its strong operational and financial linkages with TCPL. The tea plantation gardens managed by KDHP have been given on a long-term lease by TCPL, which holds a 28.5% stake in KDHP. Further, a considerable portion (18% in FY2023) of KDHP's tea production is sold to TCPL, to which KDHP has been supplying since its inception. 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. TCPL has provided long-term loans to KDHP, having an outstanding amount of Rs. 16.25 crore as on March 31, 2023. Based on KDHP's liquidity position, TCPL allowed deferment of loan repayments and extended advances for purchases made from KDHP in the past.

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 FY2023 stood at 23.98 million kg (Mkg) out of which 9% was produced from bought leaves. The company produces about 9-11% of the overall south Indian tea and its average realisations attract a considerable premium to the regional 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 2,500 kg/ hectare of area under cultivation and an outturn ratio of 24.4% in FY2023. 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

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 been increased by Rs. 41/man day, with a retrospective effect from January 2023. This will translate into an increase in the tea production cost by ~Rs. 8/kg. Hence, the company's profitability from the tea segment is likely to decline in the current fiscal unless there is a commensurate improvement in realisations.

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 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.

Liquidity position: Adequate

The company's liquidity position is likely to remain **adequate**. Its cash flow from operations (CFO) remained healthy at Rs. 38 crore in FY2023 due to improved operating profit and a decline in the overall working capital requirement. The CFO is likely to moderate to some extent in FY2024 but is likely to remain comfortable. The company is likely to incur a capex of around Rs. 10-12 crore annually (including replantation). Its annual debt repayment obligation for FY2024 stands at ~Rs. 5.5 crore and will increase to ~Rs. 8.0 crore in FY2025 due to fresh long-term loans availed in FY2023. Nevertheless, a considerable undrawn working capital limit (around Rs. 51 crore with respect to the drawing power as of March 2023) 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 on a sustained basis. The key credit metrics, which may result in ratings upgrade include an interest coverage ratio of more than 4.5 times 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. A decline in the company's interest coverage to less than 2.8 times on a sustained basis may trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Bulk Tea
Parent/Group support	Implicit support from Tata Consumer Products Limited (TCPL)
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 FY2023, KDHP produced 23.98 Mkg tea, including 2.12 Mkg 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 FY2023 stood at 33%. The company is one of the largest exporters of tea from South India and generates a portion of its sales (10% in FY2023 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	FY2022	FY2023
Operating income	398.7	455.0
PAT	2.7	3.1
OPBDIT/OI	3.6%	5.2%
PAT/OI	0.7%	0.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.6
Total debt/OPBDIT (times)	5.7	3.0
Interest coverage (times)	2.5	3.5

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 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
					Jul 20, 2023	Jul 07, 2022	Jan 06, 2022	Jan 05, 2021
1	Term Loan	Long term	23.00	23.00	[ICRA]A-(Stable)	-	-	[ICRA]BBB+(Stable)
2	Fund based – Working Capital/ Cash Credit	Long term	116.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3	Fund based – Interchangeable	Short term	(51.00)	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Non-fund based – Interchangeable	Short term	(7.50)	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-
5	Unallocated limit	Long term	-	-	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[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 – Working Capital/ Cash Credit	-	-	-	116.00	[ICRA]A- (Stable)
-	Fund based – Interchangeable	-	-	-	(51.00)	[ICRA]A2+
-	Non-fund based – Interchangeable	-	-	-	(7.50)	[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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