

November 20, 2023

Amgoorie India Limited: Ratings downgraded to [ICRA]A- (Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	24.00	24.00	[ICRA]A- (Stable), downgraded from [ICRA]A (Stable)
Long-term/ Short-term – Fund-based Limits – Cash Credit/ WCDL	12.00	12.00	[ICRA]A- (Stable)/ [ICRA]A2+, downgraded from [ICRA]A (Stable)/ [ICRA]A1
Long-term – Unallocated Limits	4.00	4.00	[ICRA]A- (Stable), downgraded from [ICRA]A (Stable)
Total	40.00	40.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the ratings of Amgoorie India Limited (AIL) factors in the moderation in the credit profile of the Goodricke Group {Amgoorie India Limited (AIL, rated at [ICRA]A- (Stable)/ [ICRA]A2+), Goodricke Group Limited (GGL, rated at [ICRA]A (Stable)/ [ICRA]A2+), Koomber Tea Company Private Limited (KTCPL, rated at [ICRA]A- (Stable)/ [ICRA]A2+) and Stewart Holl (India) Limited (SHIL, rated at [ICRA]A- (Stable)/ [ICRA]A2+), with which it has strong operational and managerial linkages. The Group's consolidated profitability and debt coverage metrics deteriorated over the last two fiscals and are likely to worsen further in the current fiscal on the back of a significant wage hike for tea estate workers in North India and sub-optimal yields in some of the estates due to adverse weather conditions and pest attacks. The wages have increased further in the current fiscal both in West Bengal and Assam with effect from June 2023 and October 2023, respectively. Besides, a sharp decline in orthodox tea prices, along with some moderation in CTC prices in the current fiscal are likely to result in loss at the net level on a consolidated basis. A drop in realisation and wage rate hike are also likely to keep AIL's standalone performance under pressure in the current fiscal.

Meanwhile, the ratings continue to factor in AIL's status as one of the strategically important tea producing entities for the Goodricke Group, which has an established presence in the domestic tea industry. The ratings also consider AIL's high quality of tea produced, which commands a significant premium over the average North Indian auction prices. Further, the ratings derive comfort from the conservative capital structure of the company. AIL's extended debt repayment tenure would continue to result in limited repayment obligations in the near-to-medium term.

The ratings, however, continue to be impacted by the risks associated with tea for being an agricultural commodity, which depend on agro-climatic conditions as well as the inherent cyclicity of the fixed-cost intensive nature of the tea industry that leads to variability in profitability and cash flows of bulk tea producers, including AIL. The concentration of the company's all five gardens in North India further accentuates agro-climatic risks. In addition, 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 AIL.

The Stable outlook on the long-term rating reflects ICRA's expectations that an established position of the Goodricke Group, including AIL, in the tea industry, and the company's conservative capital structure would continue to support its business and credit profiles.

Key rating drivers and their description

Credit strengths

Established position of the Goodricke Group in tea business – The company is a part of the Goodricke Group, which has an established presence in the tea industry for over four decades and accounted for around 2.2% of India's total tea production in FY2023. Camellia Plc, UK, is the ultimate holding company of all the entities in the Group. The ratings of AIL draw comfort from the implicit support derived from its operational and managerial linkages with the Goodricke Group.

Superior quality of tea, as evident from the premium price commanded by the company's produce compared to average market prices – AIL is one of the established CTC players in the bulk tea industry with five tea estates spread across Assam and West Bengal (Darjeeling). AIL's superior quality of tea results in a premium for its produce compared to the industry average. The weighted average realisation of tea produced by the company stood at around Rs. 320/ kg in H1 FY2024 compared to the North Indian auction average of around Rs. 200/ kg during the same period.

Conservative capital structure – The capital structure of the company continued to remain conservative, as reflected by a gearing of 0.2 times as on March 31, 2023. However, owing to a significant drop in the profitability at the operating level along with loss incurred at the net level, the coverage indicators have witnessed a deterioration in FY2023 over the last fiscal. Although wage rate hike and moderation in the realisation would lead to loss at the net level in the current fiscal, ICRA does not foresee any major deterioration in the company's capital structure and coverage indicators.

Credit challenges

Deterioration in the credit profile of the Goodricke Group – The Group's consolidated profitability and debt coverage metrics deteriorated over the last two fiscals and are likely to worsen further in the current fiscal. There have been frequent hikes in wage rates for tea estate workers in North India in the recent years, including the hikes effected in the current year (basic wages increased by Rs. 18 per man-day both in West Bengal and Assam with effect from June 2023 and October 2023, respectively). This, coupled with crop losses due to adverse weather conditions and pest attacks in some of the estates mainly in Dooars region, continue to keep the Group's overall performance under pressure. Besides, a sharp decline in orthodox tea prices, along with some moderation in CTC prices in the current fiscal are likely to result in a net loss on a consolidated basis in FY2024.

Wage rate hike and moderation in realisation continue to exert pressure on the profitability in the current fiscal – A significant hike in wage rates in West Bengal and Assam resulted in an increase in the cost of production, which along with moderation in the realisation led to a decline in the operating margin to 1.5% in FY2023 from 9.9% in FY2022. In the current fiscal, there has been further moderation in the realisation on a YoY basis. Despite some likely increase in the overall production, a further hike in the wage rate both in West Bengal and Assam in June 2023 and in October 2023 respectively, is likely to result in losses at the net level in FY2024.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions – 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 around 50% of the production cost. This leads to a variability in profitability and cash flows of bulk tea producers such as SHIL.

Export market performance of Indian tea crucial to sustain buoyancy in domestic tea prices – 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 the exporters dumping their produce in the domestic market, which in turn would exert pressure on domestic prices.

Liquidity position: Adequate

The company is likely to generate positive cash flow from operations in the near-to-medium term. The average utilisation of fund-based working capital limits has remained at a moderate level in the last 12 months. The company has a moderate level of scheduled debt repayment obligation over the next few years, compared to its likely cash accruals from the business. In view of unencumbered cash/ bank balance, undrawn working capital facilities and absence of any major planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is an improvement in the credit profile of the Group.

Negative factors – Continuing pressure on the company's profitability and cash accruals may negatively impact the ratings. Weakening of linkages of the company with the Group or a deterioration in the credit profile of the Group may also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Bulk Tea Industry
Parent/Group support	Implicit support from the Goodricke Group due to significant operational and managerial linkages
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 1977, AIL primarily produces black tea of crush, tear, curl (CTC) variety, which accounts for around 92% of its total produce, with the balance being orthodox variety. The company sells its products in the domestic market through a mix of auction and private sales. The company has five gardens, and one factory is associated with each of the gardens in West Bengal (Darjeeling) and Assam with a total planted area of around 3,822 hectares.

The company is a part of the Goodricke Group based in India. The Group has 29 tea estates with an area of 17,465 hectare under cultivation, almost equally spread over West Bengal and Assam. Camellia Plc., UK, is the ultimate holding company, which through its subsidiary/ fellow subsidiary holds the majority shareholding. The remaining stake is held by other investors.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	155.7	155.3
PAT	8.4	-2.4
OPBDIT/OI	9.9%	1.5%
PAT/OI	5.4%	-1.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.2
Total debt/OPBDIT (times)	1.2	7.6
Interest coverage (times)	9.1	1.5

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

Source: Amgoorie India Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		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
				Nov 20, 2023	Jan 11, 2023	Dec 27, 2021	Oct 27, 2020
1 Term Loan	Long Term	24.00	16.00	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Cash Credit/ WCDL	Long Term/ Short Term	12.00	2.00	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-
3 Fund-based Working Capital Facilities	Long Term	-	-	-	-	-	[ICRA]A+ (Stable)
4 Unallocated Limits	Long Term	4.00	NA	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits – Term Loan	Simple
Long-term/ Short-term – Fund-based Limits – Working Capital Facilities	Simple
Long-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	Term Loan	Mar, 2019	-	Mar, 2029	24.00	[ICRA]A- (Stable)
NA	Cash Credit/ WCDL	-	-	-	12.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Unallocated Limits	-	-	-	4.00	[ICRA]A- (Stable)

Source: Amgoorie India Limited

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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