March 31, 2017

Andrew Yule & Company Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long-Term Fund Based Facilities-Cash Credit	Rs. 69.57 crore	[ICRA]BB+(Stable) assigned
Unallocated Limits	Rs.17.67 crore	[ICRA]BB+(Stable) assigned
Short-Term Non Fund Based Facilities	Rs. 40.76 crore	[ICRA]A4+ assigned

**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 69.57-crore cash-credit facilities and Rs. 17.67-crore unallocated limits of Andrew Yule & Company Limited (AYCL) . The outlook on the long-term rating is Stable. ICRA has also assigned a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 40.76-crore non-fund based facilities of the company.

Rationale

The ratings take into account AYCL's status as a Government of India (GoI) company, with the GoI holding a 89.25% stake and its exit from the purview of the Board of Industrial and Financial Reconstruction (BIFR) in July 2015. The ratings favourably factor in AYCL's established position in the domestic bulk-tea industry with superior quality of tea produced, commanding a significant premium over auction averages, and high yield of AYCL's tea estates, which mitigates the risk associated with the fixed-cost intensive nature of the bulk tea industry. The tea division accounted for around 57% of the total revenue, on an average, in the past three years. The ratings also draw comfort from the substantial amount of cash and bank balances, which support liquidity and AYCL's conservative capital structure in FY2016, which improved further in the current year after the conversion of bank term loan into equity in June 2016. The company has nominal long-term loan of around Rs. 3.8 crore, comprising Sales Tax Loan from the Government of West Bengal, on its books at present. As per the BIFR scheme, this loan and interest thereon was supposed to be rephased but the same is yet to take place. During FY2014 and FY2015, AYCL's non-operating income comprised significant amount of interest waiver and write-backs, which led to higher net profits compared to FY2016. In addition, AYCL's net profitability was also supported by interest income on its cash and bank balances as well as dividend receipt and royalty income from its associate, Tide Water Oil Co. (India) Ltd. (TWO, rated at [ICRA]AA(Stable)/A1+ by ICRA), in which AYCL holds a 26.23% stake.

The ratings are, however, constrained by the losses incurred by the engineering and electrical divisions, which adversely impacted the operating profitability of the company, thus leading to depressed debt-coverage indicators too. The electrical and engineering divisions accounted for around 35% and 8% of the income, respectively in the last three years. ICRA, however, notes that in the current year, there has been a substantial improvement in the order position of the electrical division, which has favourably impacted its financial performance. The ratings also take into account the risks associated with tea being an agricultural commodity, which depends on favourable agro-climatic conditions. Besides, inherent cyclicality of the tea industry leads to variability in profitability and cash flows of bulk tea producers like AYCL. In addition, Indian tea is essentially a price taker in the international market, and hence global supply-demand dynamics would continue to have a bearing on the domestic price levels to some extent.

In addition, interest income from the large cash and bank balance as well as dividend and royalty income from TWO would support the net profitability and debt coverage indicators of the company.

Key rating drivers

Credit strengths

- Government of India holds a 89.25% stake in the company, which provides financial flexibility
- Favourable long-term outlook on the domestic bulk tea industry
- Comfortable liquidity position

Credit weaknesses

- Loss-making operations / subdued performance of the engineering and electrical divisions which hits the overall operating profitability of the company
- Return indicators also continue to be under pressure
- Risks associated with tea being an agricultural commodity; cost pressures faced by the bulk tea industry

Description of key rating drivers highlighted above:

AYCL is a Government of India (GoI) company, with the GoI holding a 89.25% stake at present (increased from 87.98% in March 2016), which provides considerable financial flexibility. The increase in the GoI's stake was on account of the conversion of share application money into equity shares. In addition, the conversion of bank loans into equity favourably impacted its capital structure. The company has diversified operations in tea, electrical and engineering equipment, with revenue from these divisions contributing to 60%, 33% and 8% of the total revenues of the company, respectively. AYCL is a producer of CTC tea, producing around 10.98 million kg (mkg) of tea during FY2016. AYCL's tea earns a significant premium over auction averages on account of its established position in the bulk tea industry and superior quality of tea produced. However, it is exposed to the agro-climatic risks and the inherent cyclicality of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of bulk tea producers. Moreover increased cost pressure, particularly wages paid to workers, is likely to have an adverse impact on the profitability of the tea division. Over the long term, however, increasing domestic demand for black tea, combined with a limited increase in domestic production, is likely to support a positive price and margin trajectory for the Indian bulk tea industry, although export volumes would continue to play a key role.

During FY2016, the operating income of the company remained almost stagnant due to the sluggish performance of the electrical and engineering segments, despite a 12.7% growth in revenue from the tea division. While the tea division remained profitable, losses in the non-tea divisions led to muted operating profit in FY2016. Net profitability, though, was mainly supported by non-operating income, comprising interest income and dividend income from TWO. Return indicators, however, remained under pressure due to low operating profits during FY2016. During 9M FY2017, while revenue from the tea division witnessed some de-growth, healthy execution of orders in the electrical division led to a 13% growth in AYCL's operating income. Improvement in the performance of the non-tea divisions is likely to negate the impact of increased cost pressure in the tea division on AYCL's profitability. Moreover, the profitability of the company in the current year has been favourably impacted by considerable non-operating income earned by the company towards compensation income on acquisition of land and interim dividend received from its associate. The company has a comfortable liquidity profile, characterised by a healthy cash and bank balance on its books as on March 31, 2016.

Analytical approach: To arrive at the ratings, ICRA has taken into account the standalone financials of the company along with key operational developments in the recent past.

Links to applicable criteria
Corporate Credit Ratings: A Note on Methodology
ICRA Rating Methodology: Indian Bulk Tea Industry

About the company:

AYCL, incorporated in 1919, is the flagship company of the Andrew Yule Group and has operations in the field of tea, electrical and engineering equipment, which account for 60%, 33% and 7% of the company's total revenues, respectively in FY2016. The Central Government holds a 89.25% stake in the company. AYCL has 12 tea estates located across Assam, Dooars and Darjeeling. The electrical division manufactures distribution transformers, HT & LT switchgears, voltage regulators in its manufacturing facilities located in Kolkata and Chennai. The engineering division manufactures industrial fans, air and water pollution control equipment in its plant located at Kalyani, West Bengal.

During 9MFY2017, AYCL reported a net profit of Rs. 43.36 crore on income from operations of Rs. 301.53 crore compared to a net profit of Rs. 12.07 crore on income from operations of Rs. 267.37 crore during 9M FY2016.

AYCL reported a profit after tax (PAT) of Rs. 8.54 crore on an operating income of Rs. 360.22 crore in FY2016 compared to PAT of Rs. 12.97 crore on an operating income of Rs. 356.93 crore in FY2015.

Status of non-cooperation with previous CRA: India Ratings has suspended the ratings of IND C/A4 and long-term issuer rating of IND D due to lack of adequate information by the company as per press release dated September 12, 2016.

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017			
1	Cash Credit	Long Term	69.57	[ICRA]BB+ (Stable)			
2	Non-fund based facilities	Short Term	40.76	[ICRA]A4+			
3	Unallocated	Long Term	17.67	[ICRA]BB+ (Stable)			

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity Date**	**Size of the issue (Rs. Cr)**	**Current Rating and Outlook**
Cash Credit	-	-	-	69.57	[ICRA]BB+ (Stable)
Non-fund based facilities	-	-	-	40.76	[ICRA]A4+
Unallocated	-	-	-	17.67	[ICRA]BB+ (Stable)

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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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