

Tea Board of India

March 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	39.10	21.23	[ICRA]AA(Stable); Reaffirmed
Total	39.10	21.23	

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 21.23-crore (reduced from 39.10-crore)¹ term-loan limits of the Tea Board of India (TBI)² at [ICRA]AA (pronounced ICRA double A). The outlook on the long-term rating is Stable.

Rationale

The rating continues to take into account the sovereign ownership and status of the TBI as an apex body for the domestic tea industry under the Ministry of Commerce and Industry (MoCI), Government of India (GoI). TBI has a structured payment mechanism for debt servicing through escrow arrangements, which reduces the risk associated with timely servicing of bank debt contracted under the Special Purpose Tea Fund (SPTF) scheme of TBI. In addition, GoI has also provided a corpus of Rs. 90 crore under the SPTF scheme for the capital adequacy requirement that, along with the default reserve fund, provides further protection against delay/default in recovery of payment from beneficiaries (i.e. tea estates). ICRA notes that TBI has discontinued acceptance of fresh application for loans under the SPTF scheme from FY2013, and the total bank loans outstanding as on March 31, 2017 stood at around Rs. 27.37 crore.

The rating, however, factors in TBI's dependence on non-plan allocations from the GoI to meet its rising employee costs and other administrative expenses. Such fund transfers are not formula-driven and could potentially be volatile in nature. Nonetheless, the large fixed deposit balance at the year-end, which generates significant interest income, coupled with a low debt burden, results in high financial flexibility and a comfortable liquidity position.

Outlook: Stable

ICRA believes that TBI will continue to benefit from the sovereign ownership and status as an apex body. The outlook may be revised to 'Positive' if a sustained improvement in gearing levels, strengthens the financial risk profile. The outlook may be revised to 'Negative' if there is a material reduction in non-plan financial assistance received from the Government of India (GoI) and leads to deterioration in the financial risk profile.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Sovereign ownership and status of Tea Board as an apex body for the domestic tea industry - TBI is an apex body under the Ministry of Commerce and Industry, and was established under the Tea Act, 1953, by a notification in the official Gazette of India. The functions of TBI, guided by the Tea Act 1953, primarily include regulating the tea industry through providing permission for growing tea in India, issuing various licences and registrations, carrying out various development and research activities, and also promoting tea in both domestic and overseas markets.

Structured payment mechanism for servicing debt - The SPTF scheme of TBI was introduced in the Eleventh Plan Period (2007-12) for extending financial support to Tea Estates (TEs) for undertaking replanting, replacement planting, and rejuvenation of aged tea bushes. As per the scheme, TBI used to provide 75% of the assessed unit cost by way of a term loan (50%) and a subsidy (25%), with the remaining 25% to be borne by the TEs themselves. GoI had contributed around Rs. 90 crore towards capital adequacy to support TBI's lending operation under SPTF. However, from FY2013, the board discontinued the acceptance of fresh application for loans. The total outstanding loan under SPTF stood at Rs. 27.37 crore as on March 31, 2017. The repayment of the loan to banks is matched to the recovery from the TEs. Moreover, the entire loan disbursement and recovery mechanism is operated through an escrow mechanism in which the TEs are committed to deposit. TBI has also created a Default Reserve Fund in which it collects one quarter's interest payment (at the time of disbursement of loan) and would also collect one quarter's principal repayment (after the moratorium period of five years).

Financial flexibility on account of comfortable liquidity position – TBI enjoys considerable financial flexibility on account of a low debt burden and high fixed deposits at the year end, along with significant interest income on the same. The total loans outstanding in its books comprise only SPTF loans which stood at Rs. 27.37 crore as on March 31, 2017. TBI had fixed deposits of around Rs. 250 crore as on March 31, 2017 and significant annual interest income earned thereon provide sufficient buffer in meeting any debt-repayment obligation of the Board.

Credit challenges

Dependence on the Government of India (GoI) for financial assistance as non-plan allocations, which is not formula-based and could potentially be volatile in nature – TBI is primarily dependent on non-plan allocations from the GoI to cover its operational expenses. The non-plan allocation in turn is linked to tea cess collection. For the past few years, while the non-plan allocation has been insufficient to meet the employee and general administrative expenses of TBI, particularly after the implementation of the Sixth Pay Commission in FY2009. In the past, TBI had utilised surplus funds available from various plan schemes to cover the shortfall. Under various plan schemes, during the FY2008-17 period, TBI disbursed around Rs. 1,319 crore of subsidies against a receipt of around Rs. 1,334 crore.

Significant increase in employee costs in recent years, leading to an increase in fixed cost of operations – Employee cost has increased significantly in recent years and is expected to rise further going forward, with the implementation of the Seventh Pay Commission. This, in turn, would lead to a rise in the fixed cost of operations, however, such expenses are to be met from the non-plan funds received from the GoI.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

TBI is an apex body under the Ministry of Commerce and Industry, and was established under the Tea Act, 1953, by a notification in the official Gazette of India. The Board is reconstituted every three years and is guided by four standing committees dealing with (i) administrative matters, (ii) export promotion of tea, (iii) developmental activities, and (iv) labour welfare activities. The Board has 20 offices including zonal, regional and sub-regional offices across different parts of the country, apart from its Head Office in Kolkata. At present, it has two overseas offices in Dubai and Moscow.

In FY2017, TBI recorded a net surplus of around Rs. 16.36 crore on a total income of Rs. 88.24 crore against a net surplus of Rs. 0.69 crore on a total income of Rs. 90.52 crore in FY2016.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	90.52	88.24
PAT (Rs. crore)	0.69	16.36
OPBDIT/ OI (%)	-37.85%	-15.96%
RoCE (%)	2.27%	10.78%
Total Debt/ TNW (times)	0.22	0.20
Total Debt/ OPBDIT (times)	-1.45	-2.90
Interest coverage (times)	-6.32	-3.26
NWC/ OI (%)	-56%	-118%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016		Date & Rating in FY2015
					March 2017	March 2016	June 2015	October 2014	
1	Term Loans	21.23	21.23	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2009		FY2025	21.23	[ICRA]AA (Stable)

Source: Tea Board of India

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