

Luxmi Tea Company Private Limited

May 04, 2018

Summary of rated instruments

Instrument**	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	29.50	29.50	Reaffirmed at [ICRA]A (Stable)
Fund-based – Short term Loan	5.50*	5.50*	Reaffirmed at [ICRA]A1
Total	29.50	29.50	

*sub-limits of cash credit facility, **Instrument details provided in Annexure

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) for the Rs. 29.50-crore¹ fund-based cash credit limits of Luxmi Tea Company Private Limited (LTCPL)². The outlook on the long-term is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 5.50-crore fund-based short-term loans of LTCPL. The short-term loans of Rs. 5.50-crore are sub-limits of the cash-credit facilities.

Rationale

The ratings reaffirmation takes into account LTCPL's established position in the domestic bulk tea industry, relatively diverse presence of the company's tea estates in three different states and its healthy financial risk profile, as reflected by its conservative capital structure, comfortable liquidity position and strong debt coverage indicators. The operating profitability of the company is expected to improve in FY2018, owing to the increase in own leaf production, coupled with the improvement in cost structure due to several cost-reduction initiative undertaken by the company. The ratings also take into consideration the favourable age profile of the tea bushes, leading to better productivity and a favourable cost structure, further mitigating the risks associated with the fixed-cost intensive nature of the bulk tea industry to some extent. During FY2018, LTCPL's production, along with that of its 100% subsidiaries Bhagirathi Greenfield Real Estate Limited (BGREL) and Lengrai Tea Limited (LTL) has been ahead by 9.3 lakh kg (an ~increase of 8%) mainly on account of the increase in its own production by 2.6 lakh kg and the increase in bought leaf operations by 6.71 lakh kg. In addition, the significant non-operating income is likely to further support the net profits of the company. The ratings also incorporate the diversified business interests of the Luxmi Group in the non-tea segments, ranging from manufacturing and export of carpets, to real-estate development. ICRA notes that the favourable liquidity profile of LTCPL's subsidiary, Luxmi Township Limited (in which LTCPL has an 84% equity stake), marked by a closing cash and liquid investment balance of Rs. 154.55 crore as on March 31, 2017, supports the ratings.

The ratings are, however, constrained by the risks associated with tea being an agricultural commodity, which is dependent on agro-climatic conditions, and the cyclical nature inherent in the fixed-cost intensive tea industry, that leads to variability in profits and cash flows of bulk tea producers such as LTCPL. ICRA notes that in Assam, a revision in the wage rates is due from January 2018 and is at present under the process of negotiation. A sharp increase in the wage rates would adversely impact the margins unless there is a commensurate increase in tea prices. ICRA will continue to monitor developments, in this regard, and will review the performance based on the formal wage rate

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

announcement/finalisation of the wage rate negotiations in Assam. 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. ICRA further notes that LTCPL has invested a sum of Rs. 40.92 crore (~26% of the net worth, as on March 31, 2017) to acquire a 100% stake in LUK Hospitalities Limited (LHL) in the United Kingdom, which currently runs two hotel properties. ICRA notes that no further investment is expected in LHL in the medium term and any requirement of fund for renovation/working capital is likely to be borne by LHL through its own cash flows as well as debt taken in its own books.

In addition, ICRA continues to monitor the performance of the newly acquired tea estates – Bhagirathi and Lengrai. A turnaround in the performance of Lengrai tea estate would enable the company to improve its profits.

Outlook: Stable

ICRA believes that LTCPL will continue to benefit from its established position in the domestic bulk tea industry, diverse presence of tea gardens in three states and favourable financial profile, supported by healthy cash accruals, as well as a comfortable liquidity position. The outlook may be revised to Positive if a favourable trend in tea realisations, relative to input costs, leads to a substantial growth in revenue and profitability, strengthening the financial risk profile.

The outlook may be revised to a Negative if there is a sharp increase in input costs, leading to deterioration in profitability on a sustained basis.

Key rating drivers

Credit strengths

Established position in domestic bulk tea industry, with gardens located in Dooars, Assam and Tripura - LTCPL is an established player in the domestic tea industry, accounting for almost 1% of India's tea production with a total production of around 11.08 mkg in FY2018, with production from bought leaves accounting for around 25% of the overall crop in FY2018. The company owns 13 tea estates³ having a total area of ~3891 hectares under mature tea cultivation. Out of the 13 tea estates owned by LTCPL, five are in Assam, six in Tripura, and two in West Bengal. Apart from the aforementioned tea estates, LTCPL has acquired two more tea estates in the Upper Assam region through its investment in BGREL and LTL during FY2017.

Relatively high yield of tea estates mitigates risk associated with fixed cost intensive nature of bulk tea operations to some extent, increase in production during FY2018 likely to support profitability to an extent - LTCPL's garden costs, in line with that of the industry, are primarily fixed, with labour costs accounting for a major part of the cost of production. Risks associated with high fixed-cost nature of the industry are mitigated to some extent by the significantly high productivity of LTCPL's estates, with the higher yield favourably impacting the cost structure and hence profitability. LTCPL follows a policy of continuous uprooting and re-planting, resulting in a favourable age profile of its bushes, with around 86% of the bushes being less than 50 years old, in turn mitigating the risks arising from the fixed-cost intensive nature of the bulk tea industry. During FY2018, the production of LTCPL (standalone) increased by 4.5% from 10.6 million kg (M Kg) in FY2017 to 11.08 M kg in FY2018, on the back of higher productivity of the company's estates from 2073 kg per hectare to 2148 kg per hectare, in addition to the higher bought leaf operations. The production of BGREL and LTL also increased by 47% from 0.96 M kg to 1.41 M kg, mainly due to the increase in bought leaf operations.

³ The 10 gardens of erstwhile ITP Ltd. has been taken over by LTCPL post the merger, which was effected retrospectively from April 01, 2010 onwards

Healthy financial profile, reflected by conservative gearing, comfortable liquidity position and strong debt coverage indicators - LTCPL's (on a standalone basis) capital structure has historically remained conservative reflected by low gearing in the range of 0.01-0.2 times, owing to healthy accretion to reserves and low debt levels. ICRA notes that LTCPL's healthy profitability, coupled with low debt levels has also resulted in strong debt coverage indicators of the company, as reflected by an interest cover of 61.70 times and total debt/OPBDITA of 0.14 times during FY2017. The liquidity profile of the company also remains comfortable with comfortable cash and bank balance (including liquid investment) and moderate working capital intensity of company's operations with NWC/OI of 15% during FY2017.

Diversified business interests of the Luxmi Group in non-tea segments, ranging from manufacturing and exports of carpet and real estate development – ICRA notes that the Luxmi Group has diversified business interests in non-tea segments ranging from manufacturing and exports of carpet to real-estate development. While the Group is involved in its carpet business through Obeetee Private Limited (Rated at [ICRA]A+ (Stable)/[ICRA]A1) and its subsidiary Obeetee Textiles Pvt. Ltd. (Rated at [ICRA]A+ (Stable)/[ICRA]A1), the real estate business works through Luxmi Township Limited. ICRA notes that the favourable liquidity profile of LTCPL's subsidiary, Luxmi Township Limited (in which LTCPL has an 84% equity stake), marked by a closing cash and liquid investment balance of Rs. 154.55 crore as on March 31, 2017, supports the ratings.

Credit challenges

Increasing cost pressures likely to put some pressure on cost structure - Tea, being a labour intensive industry, around 40% of the cost of production is attributable to employee costs. Increasing cost pressures, particularly wage cost for workers on account of the scheduled increase in wage rate in Assam, is likely to adversely impact the cost-structure of the company. However, the impact of the above on the profitability of bulk tea producers, including LTCPL, would be finally determined by the extent of the increase in tea realisations. Moreover, the company has undertaken various initiatives to effectively manage its cost of production, while continuing to focus on quality of its tea.

Risks associated with tea being an agricultural commodity, dependent on agro-climatic conditions - Tea production is primarily dependent on agro-climatic conditions, subject to various agro-climatic risks. Additionally, the inherent cyclicity of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as LTCPL.

Export market performance of Indian tea a critical factor influencing the performance of the bulk tea industry - Notwithstanding the large domestic consumption base in India, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is also crucial for maintaining domestic realisations, as un-remunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert a downward pressure on domestic prices.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Indian Bulk Tea Industry](#)

About the company:

Luxmi Tea Company Private Limited (LTCPL) was incorporated in 1912 and has 13 tea gardens - spread over Assam, West Bengal, and Tripura. The total area under cultivation is around 4133 hectares, with approximately 47% of the area in Assam, 28% in Tripura, and the remaining in West Bengal. LTCPL is primarily a producer of the CTC variety of tea, which accounts for around 94-95% of the total produce, with the balance being orthodox and green tea.

Key financial indicators

	FY 2017 (Audited)*	FY 2018 (Provisional)*
Operating Income (Rs. crore)	172.03	178.66
PAT (Rs. crore)	13.11	16.87
OPBDIT/ OI (%)	9.60%	12.17%
RoCE (%)	9.18%	11.08%
Total Debt/ TNW (times)	0.01	0.06
Total Debt/ OPBDIT (times)	0.14	0.55
Interest coverage (times)	61.70	17.83
NWC/ OI (%)	15%	13%

*LCTPL Standalone

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
			As on March 31, 2017	May 2018	August 2017	February 2017	Jan 2016
Cash Credit	Long Term	29.50	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
Short-term loans	Short Term	(5.5)*	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

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	Cash Credit	-	-	-	29.50	[ICRA]A (Stable)
NA	Short-term Loan	March 26, 2018	9.00%	-	(5.5)	[ICRA]A1

Source: Luxmi Tea Company Private Limited

ANALYST CONTACTS

K. Ravichandran

+91 33 7150 1100

ravichandran@icraindia.com

Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents