

## Koomber Tea Company Private Limited

October 08, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits*	4.10	4.10	[ICRA]A+ (Stable)/A1+; Reaffirmed
Long Term / Short Term – Interchangeable	(4.10)	(4.10)	[ICRA]A+(Stable)/A1+; Reaffirmed
<b>Total</b>	<b>4.10</b>	<b>4.10</b>	

\* KTCPL's fund based facilities are entirely fungible between long term and short term facilities.

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 4.10-crore<sup>1</sup> fund-based bank facilities of Koomber Tea Co. Pvt. Ltd. (KTCPL)<sup>2</sup>. The outlook on the long-term rating is Stable. KTCPL's fund-based bank facilities are entirely fungible between long-term and short-term facilities. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the above bank facilities of KTCPL.

### Rationale

The reaffirmation of the ratings takes into account KTCPL's status as a fellow subsidiary of Goodricke Group Limited (rated at [ICRA]AA- (Stable) and [ICRA]A1+), an established player in the bulk tea industry, along with its consistently debt-free capital structure. The ratings, however, also factor in the risks associated with tea for being an agricultural commodity, which is dependent on agro-climatic conditions as well as the cyclicity inherent in the fixed-cost intensive tea industry that leads to variability in profits and cash flows of bulk tea producers such as KTCPL. The geographical concentration of KTCPL's gardens in the Cachar region of Assam further enhances these risks. Moreover, the realisations for Cachar tea are inherently lower than the average realisation of North Indian teas, primarily on account of quality, thus increasing KTCPL's sensitivity to price fluctuations. However, the average realisations of KTCPL have historically been higher than that of the Cachar district average on account of better quality. Additionally, the high yield of KTCPL's gardens mitigates such risks to an extent, although the slightly adverse age profile of the bushes may impact the productivity of the company, particularly in case of unfavourable weather conditions. KTCPL is trying to address this issue by continuing with its annual re-plantation policy, covering around 2% of its area under cultivation. Although rising input costs, given the sharp increase in wage rates in Assam and West Bengal, would result in a higher cost of production for all the bulk tea players including KTCPL, the same is likely to be mitigated by increasing the average tea realisations, along with an expected rise in production. In the current year, North Indian prices have witnessed a firm trend so far, with auction realisations up by ~Rs. 9.3/kg during 5M FY2019. While ICRA expects cost pressure to continue for bulk tea companies, the trend in average realisations would be a key rating sensitivity for KTCPL, going forward.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA expects KTCPL will benefit from its established presence in the tea industry and the uptrend in tea realisations on the back of favourable demand during the current year. 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 Negative if there is a sharp increase in input costs, leading to deterioration in profitability on a sustained basis.

## Key rating drivers

### Credit strengths

**KTCPL's status as a fellow subsidiary of the Goodricke Group Limited** - Incorporated in 1975, KTCPL is a fellow subsidiary of Goodricke Group Limited, an established player in the bulk tea industry. Camellia Plc, UK, is the ultimate holding company.

**High productivity of tea estates mitigates the risks arising from the fixed-cost intensive nature of the bulk tea industry** - KTCPL's gardens, in spite of a slightly adverse bush age profile, record yields that are comparable with other leading bulk tea players and are superior to the corresponding district averages. The high productivity of the gardens mitigates the risks associated with the fixed-cost intensive nature of the bulk tea industry to an extent, and KTCPL plans to continue with its annual re-plantation policy of 2% to maintain high yields.

**Conservative capital structure** - KTCPL's capital structure continues to remain conservative with nil debt as of end-FY2018, thus lending considerable financial flexibility to the company.

### Credit challenges

**Deterioration in profitability** – Notwithstanding a rise in average realisations, KTCPL's profitability was adversely impacted in the last two years due to an increase in employee expenses, particularly wage cost for workers. In the current year, while rising input costs, given the steep increase in wage rates in Assam, would keep profitability under pressure, an expected increase in average realisations along with sales volumes would mitigate the same to an extent.

**Risks associated with tea for being a cyclical agricultural commodity** - Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Additionally, the inherent cyclical nature of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as KTCPL. Moreover KTCPL's gardens are located in Cachar district in Assam, wherein the realisations are lower than the average North Indian realisations on account of the inherent quality of teas produced in the region, thus increasing KTCPL's sensitivity to price fluctuations. However, average realisations of KTCPL have been historically higher than that of the Cachar district average, reflecting the quality of the tea produced by the company.

**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

KTCPL was incorporated in 1975 and cultivates tea across two tea gardens located in Cachar district in Assam with a total area of around 1,237 hectares. The company operates two factories - one factory associated with each of the gardens. KTCPL is primarily a producer of CTC variety of tea, contributing to ~80-85% of its total tea production. Camellia Plc., UK, is the ultimate holding company, which through its subsidiaries, holds the majority shareholding while the remaining stake is held by Lebong Investments Pvt. Ltd. (a wholly-owned subsidiary of KTCPL) and other investors. KTCPL is a part of the Goodricke Group of Companies, of which Goodricke Group Limited is the flagship entity.

During FY2018, KTCPL reported a net loss of Rs. 1.13 crore on an OI of Rs. 33.29 crore compared to a net loss of Rs. 1.70 crore on an OI of Rs. 32.04 crore in FY2017.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	32.04	33.29
PAT (Rs. crore)	-1.70	-1.13
OPBDIT/ OI (%)	-6.86%	-0.40%
RoCE (%)	-6.41%	-1.59%
Total Debt/ TNW (times)	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.00
Interest coverage (times)	-36.65	-0.64

**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 October 2018	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018 March 2018	FY2017 October 2016	FY2016 September 2015
1	Fund-based limits	4.10*		[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+
2	Long Term / Short Term - Interchangeable	(4.10)		[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+	[ICRA]A+ (Stable)/ A1+

\* KTCPL's fund-based facilities are entirely fungible between long-term and short-term facilities.

### 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](http://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
	Fund-based limits*				4.10	[ICRA]A+ (Stable)/ A1+
	Long Term / Short Term				(4.10)	[ICRA]A+ (Stable)/ A1+
	Interchangeable					

\* KTCPL's fund-based facilities are entirely fungible between long-term and short-term facilities.

Source: Koomber Tea Company Private Limited

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