

January 06, 2020

Luxmi Tea Company Private Limited: [ICRA]BBB+(Stable)/ [ICRA]A2 assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	98.00	98.00	[ICRA]BBB+ (Stable); outstanding
Fund-based – Cash Credit	39.25	39.25	[ICRA]BBB+ (Stable); outstanding
Fund-based – Short term loan*	(5.50)	(5.50)	[ICRA]A2; outstanding
Unallocated	0.25	0.25	[ICRA]BBB+ (Stable)/ [ICRA]A2; outstanding
Non Fund Based- SBLC/ LER	0.00	106.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; assigned
Total	137.50	243.50	

*Instrument details are provided in Annexure-1

**sub-limit of Cash Credit

Rationale

The ratings continue to factor in LTCPL's established position in the domestic bulk tea industry and a relatively diverse presence of the company's tea estates in three different states. The ratings also consider the expected increase in sales volume and overall realisations due to acquisition of seven gardens, which fetch better realisation. Moreover, relatively high yield of tea estates mitigates risk associated with fixed cost intensive nature of bulk tea operations to some extent. In addition, the diversified business interests of the Luxmi Group in the non-tea segments, ranging from manufacturing and export of carpets, to real-estate development support the ratings. ICRA notes that considerable bought leaf operations, along with the favourable age profile of tea bushes, would lead to better productivity and a favourable cost structure, mitigating the risks associated with the fixed-cost intensive nature of the bulk tea industry to some extent.

However, the ratings are constrained by the increased debt level and repayment obligation arising from the large debt-funded acquisitions by Luxmi Tea Company Private Limited (LTCPL) in the recent past. Nonetheless, sizeable unsecured loan from a Group entity, that do not have any pre-defined repayment schedule, compared to the amount of external borrowings ease the repayment burden of the company. However, LTCPL's elevated debt level is likely to adversely impact its ROCE, capital structure and DSCR in the near to medium term. The rating action also considers the guarantee (Standby letter of credit) of Rs. 100 crore given by LTCPL to Rwanda Tea Investments Limited (RTIL) towards a term loan availed by the latter. ICRA further notes the deterioration in LTCPL's profitability in FY2019 on account of increased cost pressure because of a substantial wage hike and deterioration in the overall tea realisation over the previous fiscal. Tea sold from McLeod Russel India Limited's (MRIL) tea estates (purchased in July 2018) fetched lower-than-expected realisations due to delayed sales of its tea produced during September-December 2018. The ratings continue to factor in the risks associated with tea for being an agricultural commodity, which is dependent on the 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 Indian tea is essentially a price taker in the international market and the global supply-demand dynamics would continue to have a bearing on the domestic price levels to some extent. Healthy realisation of the company's tea and adequate production levels would remain crucial in determining the profitability of the company, going forward, given the fixed-cost nature of the company's operations.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that LTCPL will continue to benefit from the extensive experience of its promoters and the company's established position in the tea industry.

Key rating drivers and their description

Credit strengths

Established position in domestic bulk tea industry, with gardens in West Bengal, Assam and Tripura – LTCPL is an established player in the domestic tea industry, accounting for over 1% of India's tea production in FY2019 with a total production of around 15.01 Mkg, including production from bought leaves, which accounted for around 27% of the overall crop. As on September 30, 2019 the company owns 19 tea estates with a total area of around 7,277 hectares under tea cultivation. Out of the 19 tea estates owned by LTCPL, 12 are in Assam, six in Tripura, and one in West Bengal. Additionally, it has one more tea estate through its investments in Bhagirathi Greenfield Real Estate (BGREL). The company has purchased quality tea gardens from MRIL and divested a portion of its own assets. In FY2019, the company sold one of its tea estates, Matelli in West Bengal, and sold its investments in Lengrai Tea Limited (LTL, 100% subsidiary of LTCPL) at a combined value of Rs. 57.00 crore. The company reported profit of around Rs. 26 crore in FY2019 from these transactions.

Recent acquisition to increase scale of operations and average realisations – LTCPL's scale of operation has increased in H1 FY2020 following acquisition of seven tea estates in the recent past. The total production of LTCPL in H1 FY2020 increased by around 36% over the same period previous year. Moreover, the overall realisation of LTCPL is likely to improve significantly because of higher realisation of tea produced from the recently acquired gardens.

Relatively high yield of tea estates mitigates risk to some 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 of over 2,700 kg per hectare favourably impacting the cost structure and hence the profitability. LTCPL follows a policy of continuous uprooting and re-planting, resulting in a favourable age profile of its bushes, in turn mitigating the risks arising from the fixed-cost intensive nature of the bulk tea industry.

Diversified business interests of the Luxmi Group in non-tea segments – 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+ (Negative)/ [ICRA]A1) and its subsidiary, Obeetee Textiles Pvt. Ltd. (rated at [ICRA]A+ (Negative)/[ICRA]A1), the real estate business works through Luxmi Township & Holdings Ltd. While the favourable liquidity profile of LTCPL's subsidiary, Luxmi Township & Holdings Ltd. (in which LTCPL has an 84% equity stake) supported the Group's overall liquidity position in the past, the utilisation of such free cash and bank balance and liquid investments towards funding a substantial portion of LTCPL's acquisition cost, is likely to impact the Group's overall liquidity position, to some extent.

Credit challenges

Increased debt level and repayment obligation arising from the recent debt-funded capital expenditure, however, sizeable unsecured loan from a Group entity limits the overall repayment obligation — LTCPL has undertaken sizeable debt-funded capital expenditure between July 2018 and April 2019, which was quite large compared to its balance sheet size. The company has directly acquired seven tea estates of MRIL in the Upper Assam region (Moran, Sepon, Attabarie, Lepetkatta, Addabarie, Mahakali and Dirai) of which four estates were acquired in July 2018 and three in April 2019. It has also purchased a 60% equity stake in Gisovu Tea Company Limited, Rwanda and a 90% stake in Pfunda Tea Company Limited, Rwanda through its subsidiary, Rwanda Tea Investment Limited (RTIL), in which LTCPL has a 75% stake. Out of the total cash outlay of around Rs. 470 crore towards the acquisition, around Rs. 70 crore has been funded through a term loan availed by RTIL (for which LTCPL has provided a guarantee in the form of SBL to RTIL's lender). The balance is being funded by LTCPL through a mix of unsecured loans from Group companies worth Rs. 231.60 crore (49% of total

capex), term loans worth Rs. 90.00 crore from the bank (19% of total capex; initially Rs. 98.00 crore was availed of which Rs. 8 crore has been prepaid in FY2019), proceeds from the sale of the company's Matelli tea estate in West Bengal and sale of its stake in Lengrai Tea Limited (LTL, 100% subsidiary of LTCPL earlier) at a combined value of Rs. 57 crore. Besides, Rs. 11 crore was funded from the liquidation of mutual fund and internal accruals.

The increased debt levels of the company led to an increased gearing of 0.92 times as on March 31, 2019 (0.06 times as on March 31, 2018) and the same is likely to increase further in the current fiscal due to further addition of debt. LTCPL's debt coverage metrics also deteriorated in FY2019, as reflected by interest coverage of 1.75 times (17.19 times in FY2018) and total debt to OPBITDA of 12.12 times (0.59 times in FY2018).

Risks associated with tea for being an agricultural commodity, dependent on agro-climatic conditions - Tea production is primarily dependent on agro-climatic conditions and is exposed 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 is a critical factor - 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 crucial for maintaining domestic realisations as unremunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would affect domestic prices.

Liquidity position: Adequate

LTCPL's liquidity is likely to remain **adequate** given its healthy net cash accruals vis-a-vis the scheduled repayment. However, significant investment and loans extended to Group companies encumbers the company's liquidity position to an extent.

Rating sensitivities

Positive triggers – ICRA may upgrade LTCPL's ratings if the company demonstrates a sustainable improvement in revenue and profitability and a reduction in debt level.

Negative triggers – Negative pressure on the ratings may arise if there is a deterioration in the financial profile of group entities wherein LTCPL has significant investments and also extended loans, and/or significantly higher-than-anticipated incremental investment in Group entities.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Bulk Tea Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LTCPL and its eight subsidiaries (as mentioned in Annexure-2), including entities involved in other lines of businesses

About the company

Luxmi Tea Company Private Limited (LTCPL) was incorporated in 1912 and has 19 tea gardens spread over Assam, West Bengal and Tripura. The total area under cultivation is around 7,277 hectares, with approximately 63% in Assam, 32% in Tripura and 5% in West Bengal. The company has sold one its estates, Matelli, in FY2019 and sold its stake in Lengrai Tea Limited (a 100% subsidiary of LTCPL) with its estate in the Upper Assam region. LTCPL is primarily a producer of the CTC

variety of tea, which accounts for around 94-95% of the total produce, with the balance consisting of orthodox and green tea.

Key financial indicators (Standalone)

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	178.38	234.55
PAT (Rs. crore)	15.52	23.05
OPBDIT/OI (%)	11.75%	6.91%
RoCE (%)	9.62%	10.20%
Total Outside Liabilities/Tangible Net Worth (times)	0.23	1.18
Total Debt/OPBDIT (times)	0.59	12.12
Interest Coverage (times)	17.19	1.75
DSCR	17.24	4.53

Key financial indicators (Consolidated)

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	785.26	895.64
PAT (Rs. crore)	93.14	104.86
OPBDIT/OI (%)	12.99%	13.56%
RoCE (%)	16.40%	14.53%
Total Outside Liabilities/Tangible Net Worth (times)	0.32	0.52
Total Debt/OPBDIT (times)	1.07	2.58
Interest Coverage (times)	15.70	8.35
DSCR	2.98	2.38

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Rating (FY2020)							Rating History for the Past 3 Years						
			Amount Rated	Amount Outstanding (March 31, 2019)	Current Rating	Earlier Rating				FY2019					FY2018	FY2017
						06-Jan-2020	27-Dec-2019	28-June-2019	17-May-2019	30-April-2019	05-Mar-2019	08-Jan-2019	11-July-2018	12-June-2018	04-May-2018	10-Aug-2017
1	Term Loan	Long Term	98.00	90.00	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A& (under rating watch with developing implications)	[ICRA]A& ; (placed on rating watch with developing implications)	[ICRA]A (Stable) reaffirmed; removed from 'rating watch with developing implications'	[ICRA]A& (under rating watch with developing implications)	-	-	-	-
2	Cash Credit	Long Term	39.25	-	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A& (under rating watch with developing implications)	[ICRA]A& ; (placed on rating watch with developing implications)	[ICRA]A (Stable) reaffirmed; removed from 'rating watch with developing implications'	[ICRA]A& (under rating watch with developing implications)	[ICRA]A& ; placed under rating watch with developing implications)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short term	Short	(5.50)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A1 & (under	[ICRA]A1 &;	[ICRA]A1 reaffirm	[ICRA]A1 & (under	[ICRA]A1 &;	[ICRA]A1	[ICRA]A1	[ICRA]A1

	loan*	Term							rating watch with developing implications)	(placed on rating watch with developing implications)	ed; removed from 'rating watch with developing implications'	rating watch with developing implications)	placed under rating watch with developing implications			
4	Unallocated	Long Term/Short Term	0.25	-	[ICRA]B BB+ (Stable) / [ICRA]A 2	[ICRA]B BB+ (Stable) / [ICRA]A 2	-	-	-	-	-	-	-	-	-	-
5	SBLC/ LER	Long Term/Short Term	106.00	-	[ICRA]B BB+ (Stable) / [ICRA]A 2	-	-	-	-	-	-	-	-	-	-	-

Amount

in

Rs.

Crone

* Sublimit of cash credit **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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	June, 2018	NA	FY2027	58.00	[ICRA]BBB+ (Stable)
NA	Term Loan II	June, 2018	NA	FY2024	40.00	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	39.25	[ICRA]BBB+ (Stable)
NA	Short term loan*	NA	NA	NA	(5.50)	[ICRA]A2
NA	Unallocated	NA	NA	NA	0.25	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	SBLC	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	SBLC/ LER	NA	NA	NA	6.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

*Sublimit of cash credit, Source: Luxmi Tea Company Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership (March 31, 2019)	Consolidated Approach
Luxmi Township & Holdings Ltd	84.00%	Full Consolidation
Obeetee Pvt. Ltd.	51.58%	Full Consolidation
Chandmani Tea Company Ltd.	94.91%	Full Consolidation
Bhagirathi Greenfield Real Estate Limited	100%	Full Consolidation
Lengrai Tea Ltd.*	-	Full Consolidation
Kalyani Tea Co. Ltd.	92%	Full Consolidation
Rugabano Tea Company Pvt. Ltd.	100%	Full Consolidation
Luk Hospitalities Ltd.	100%	Full Consolidation

*LTCPL had 100% stake in Lengrai Tea Ltd. till January 16, 2019.

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