April 27, 2021

Apeejay Tea Limited: Ratings downgraded; outlook continue to remain Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund-based- Bank Facilities	135.00	135.00	Downgraded to [ICRA]BBB-(Negative) from [ICRA]BBB+(Negative)
LT- Fund-based- Term Loans	412.00	412.00	Downgraded to [ICRA]BBB-(Negative) from [ICRA]BBB+(Negative)
ST- Fund-based -Bank Facilities	33.75	33.75	Downgraded to [ICRA]A3 from [ICRA]A2
LT/ST- Fund-based- Bank Facilities	39.00	39.00	Downgraded to [ICRA]BBB-(Negative)/[ICRA]A3 from [ICRA]BBB+(Negative)/[ICRA]A2
LT/ST- Unallocated	38.25	38.25	Downgraded to [ICRA]BBB-(Negative)/[ICRA]A3 from [ICRA]BBB+(Negative)/[ICRA]A2
Total	**658.00**	**658.00**	

**Instrument details are provided in Annexure-1; LT- Long term; ST- Short term*

Rationale

The downgrade reflects Apeejay Tea Limited's (ATL) continued weak financial risk profile with the company estimated to have suffered cash losses in FY2021. Additionally, ICRA expects that ATL's debt coverage indicators and liquidity position are likely to remain depressed in FY2022 as well. In FY2021, while the tea production loss resulted in an increase in the cost of production, a substantially higher increase in realisation is estimated to have offset the impact of the same, thereby resulting in nominal profits estimated at the operating level against a significant operating loss suffered in FY2020. However, high interest expenses are estimated to have resulted in significant cash losses in FY2021, thus adversely impacting the company's debt coverage indicators and liquidity position. In the current year, while tea prices remained firm in the recent auctions, the same may not be an indicator of the likely trend for the full year, with production in the high cropping months from July to September likely to determine the price trajectory, going forward. An increase in wage rates would result in an increase in costs for all North Indian (NI) bulk tea players, including ATL. In addition, contrary to the earlier expectations, a delay in the Group's proposed deleveraging plans has resulted in the overall debt quantum of the company as well as the Group remaining high. Consequently, high interest expenses are likely to keep ATL's net profitability under pressure. ICRA expects that given the high debt quantum with sizeable interest and repayment obligations, the overall debt coverage indicators and liquidity profile of the company would continue to remain under pressure in FY2022. ICRA expects that cash flows from operations are unlikely to be sufficient to meet its debt service obligations, thus exposing the company to refinancing risks. Timely fund infusion /refinancing will be critical and would remain a key rating factor. Moreover, the company's ability to reduce the overall debt levels and improve profitability will remain key rating sensitivities, going forward.

The ratings continue to favourably factor in the established position of the company in the domestic bulk tea industry with superior quality of tea produced along with a favourable age profile of the tea bushes. 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 inherent cyclicality of the fixed-cost intensive tea industry, both of which lead to a variability in profitability and cash flows of bulk tea producers such as ATL. In addition, Indian tea is essentially a price taker in the international market and hence global demand-supply dynamics continue to impact the domestic price levels to an extent. The company is focussing on improving the quality as well as augmenting its orthodox tea production to support the overall realisations, which would mitigate the said risks to an extent.

Key rating drivers and their description

Credit strengths

Established position of the company in the domestic bulk tea industry – ATL is an established producer of bulk tea (in both CTC and orthodox varieties), accounting for around 2% of India's tea production. ATL's tea commands a premium over auction averages because of its established position in the industry, superior quality and increasing proportion of orthodox tea production. The company also exports a portion of its production. Such exports (~7% of revenues in FY2020), which are of superior quality, command a healthy premium compared to the domestic auction averages.

Focus on increasing share of orthodox teas to support realisations – The company has augmented its orthodox tea production in the recent years, which commands a significant premium over the CTC variety of tea. Also, continued focus on improving the overall quality of the produce, is likely to support the overall tea realisation of the company, going forward.

Credit challenges

Weak financial risk profile – ATL had reported significant net losses of around Rs. 115.0 crore in FY2020. In FY2021, while the production is estimated to be down by ~18%, a substantially higher increase in realisation (ATL's average realisation was higher by ~31% in 9M FY2021 compared to 9M FY2020) had offset the impact of the same, thus resulting in a slight profit estimated at the operating level in FY2021 (against the significant operating loss reported in FY2020). However, high interest expenses are estimated to result in significant cash losses in FY2021 as well.

In the current year, an increase in wage rates, would result in a considerable increase in costs for all the NI bulk tea players, including ATL. While, tea prices in recent auctions remained firm, the price trajectory for the full year would be critical in determining the exact trend in profitability of the company. Any significant reversal in price improvement of the last year would lead to a deterioration in the financial performance of all NI-based bulk tea companies including ATL. In addition, high interest expenses are likely to keep ATL's net profitability under pressure.

Continued high external debt with considerable debt repayment requirement relative to cash accruals stretch the liquidity position – ATL had continuously reported operating and cash losses in the last five financial years. In FY2021, the net performance is estimated to remain weak, adversely impacting the debt coverage indicators and liquidity position of the company. ICRA notes that the Group has infused funds / extended unsecured loans to support the company's liquidity in the previous year. In the current year, given the high debt quantum with sizeable interest and repayment obligations, the overall credit metrics and liquidity position of the company would continue to remain under pressure, exposing ATL to refinancing risks. Thus, timely fund infusion/refinancing would remain a key rating sensitivity, going forward.

Risks associated with tea for being an agricultural commodity as well as the inherent cyclicality of the fixed-cost intensive tea industry – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea estate costs are primarily fixed with labour-related costs, which are independent of the volume produced, accounting for around 60% of the production cost. This leads to variability in profitability and cash flows of bulk tea producers such as ATL. The company's comparatively lower yield in Kg/ha further accentuates the risks associated with the fixed cost intensive nature of operations.

Liquidity position: Stretched

The liquidity of ATL is stretched. Significant operating losses incurred over the years adversely impacted the liquidity position. ICRA notes that ATL has received fund infusion/unsecured loans from other Group companies to support its liquidity position in FY2021. However, delay in group deleveraging plans, resulting in sizeable interest and repayment obligations in the current year are likely to keep the liquidity position stretched in the near to medium term.

Rating sensitivities

Positive factors – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. The outlook may be revised to Stable in case of a significant improvement in the operating profitability and reduction in the overall debt quantum, thus improving the debt coverage indicators and the liquidity position.

Negative factors – Pressure on ATL's ratings may arise owing to continuous high debt quantum and weak profitability. Timely fund infusion/refinancing would also be a key rating sensitivity.

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	ATL enjoys financial flexibility for being part of the Apeejay Surrendra Group
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Apeejay Tea Limited is a part of the Kolkata-based Apeejay Group, which in addition to tea has interests in shipping, hospitality, real estate and retail. ATL carries out the bulk tea businesses of the Group through its 17 gardens and operates the packet tea business under Apeejay Typhoo brand. The overall operating profile, however, is determined by the performance of the bulk tea operations, which account for ~95% of its income and the entire profit.

Key financial indicators (audited)

	Standalone		
ATL	**FY2018**	**FY2019**	**FY2020**
Operating Income (Rs. crore)	412.98	462.06	408.01
PAT (Rs. crore)	-79.85	-80.95	-115.31
OPBDIT/OI (%)	-12.8%	-16.7%	-23.4%
RoCE (%)	-5.2%	-2.7%	-3.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.09	1.65	2.57
Total Debt/OPBDIT (times)	-8.4	-7.7	-6.6
Interest Coverage (times)	-1.7	-1.4	-1.3
DSCR (times)	-0.4	-0.1	-0.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)				Rating History for the Past 3 Years				
		Type	Amount Rated (Rs crore)	Amount Outstanding (March 31, 2021)	Current Rating	FY2021	FY2020			FY2019
					April 27, 2021	July 20, 2020	Mar 06, 2020	Oct 29, 2019	May 06, 2019	Apr 06, 2018
1	Fund Based-CC	Long-Term	135.00	NA	[ICRA]BBB-(Negative)	[ICRA]BBB+(Negative)	[ICRA]A-(Negative); RWN removed	-	-	-
2	Term Loans	Long-Term	412.00	279.7	[ICRA]BBB-(Negative)	[ICRA]BBB+(Negative)	[ICRA]A-(Negative); RWN removed	-	-	-
3.	Fund Based Limits	Short-Term	33.75	NA	[ICRA]A3	[ICRA]A2	[ICRA]A2; RWN removed	-	-	-
4	Fund Based Limits	Long-Term/ Short-Term	39.00	NA	[ICRA]BBB-(Negative)/ [ICRA]A3	[ICRA]BBB+(Negative)/ [ICRA]A2	[ICRA]A-(Negative)/ [ICRA]A2; RWN removed	-	-	-
5	Unallocated	Long-Term/ Short-Term	38.25	NA	[ICRA]BBB-(Negative)/ [ICRA]A3	[ICRA]BBB+(Negative)/ [ICRA]A2	[ICRA]A-(Negative/ [ICRA]A2; RWN removed	-	-	-
6	Fund based/ non-fund based interchangeable	Long-Term/ Short-Term	-		-	-	-	[ICRA]A@/ [ICRA]A2+@	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Stable)/ [ICRA]A1+
7	CP Programme	Short-Term	-		-	-	Withdrawn at [ICRA]A2; RWN removed	[ICRA]A2+@	[ICRA]A2+	[ICRA]A1+

@ denotes rating watch with negative implications; RWN: rating watch with negative implication

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	Fund Based-CC	NA	NA	NA	135.00	[ICRA]BBB-(Negative)
NA	Term Loans	FY2018-19	9.95%-11.35%	FY2026-FY2029	412.00	[ICRA]BBB-(Negative)
NA	Fund Based Limits	NA	NA	NA	33.75	[ICRA]A3
NA	Fund Based Limits	NA	NA	NA	39.00	[ICRA]BBB-(Negative)/ [ICRA]A3
NA	Unallocated	NA	NA	NA	38.25	[ICRA]BBB-(Negative)/ [ICRA]A3

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

NA

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