September 07, 2021

Apeejay Tea Limited: Ratings downgraded to [ICRA]D/[ICRA]D; remains under Issuer Not Cooperating category

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]D ISSUER NOT COOPERATING*from [ICRA]BB(Negative) ISSUER NOT COOPERATING*
LT- Fund-based- Term Loans	412.00	412.00	Downgraded to [ICRA]D ISSUER NOT COOPERATING*from [ICRA]BB(Negative) ISSUER NOT COOPERATING*
ST- Fund-based -Bank Facilities	33.75	33.75	Downgraded to [ICRA]D ISSUER NOT COOPERATING*from [ICRA]A4 ISSUER NOT COOPERATING*
LT/ST- Fund-based- Bank Facilities	39.00	39.00	Downgraded to [ICRA]D/[ICRA]D ISSUER NOT COOPERATING*from [ICRA]BB(Negative)/[ICRA]A4 ISSUER NOT COOPERATING*
LT/ST- Unallocated	38.25	38.25	Downgraded to [ICRA]D/[ICRA]D ISSUER NOT COOPERATING*from [ICRA]BB(Negative)/[ICRA]A4 ISSUER NOT COOPERATING*
Total	**658.00**	**658.00**	

**Issuer did not cooperate; based on best available information; Instrument details are provided in Annexure-1; LT- Long term; ST- Short term*

Rating Action

ICRA has downgraded the ratings of bank facilities of Apeejay Tea Limited (ATL) to [ICRA]D/[ICRA]D (pronounced ICRA D/D) from [ICRA]BB (pronounced ICRA double B)/[ICRA]A4 (pronounced ICRA A four). The ratings continue to remain in the Issuer Not Cooperating category owing to non-submission of no default declaration.

Rationale

The revision of ratings factors in delays by ATL in meeting its debt obligations in a timely manner. ICRA, in its earlier releases, had highlighted the continued pressure on the liquidity position of the company owing to sizeable interest and repayment obligations due in FY2022 and also noted that ATL's debt coverage indicators and liquidity position are likely to remain depressed in FY2022 and the cash flows from operations are unlikely to be sufficient to meet its debt service obligations, thus exposing the company to refinancing risks.

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

Delay in debt-servicing – ATL has not met its debt obligation in a timely manner. The tight liquidity position owing to its loss-making tea operations and significantly high debt repayment requirements have led to the delay in its debt servicing.

Weak financial risk profile– ATL had reported significant net losses of around Rs. 115.0 crore in FY2020. In FY2021, while the company is estimated to report a slight profit at the operating level, 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. 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.

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: Poor

The liquidity of ATL is Poor as evidenced by the delay in it meeting its debt obligation. Significant operating losses incurred over the years adversely impacted the liquidity position. Sizeable interest and repayment obligations in the current year are likely to keep the liquidity position significantly under pressure in the near to medium term.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to timely service its debt obligations on a sustained basis.

Negative factors – Not applicable.

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	-
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.

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
					Sep 07, 2021	July 14, 2021	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]D ISSUER NOT COOPERATING	[ICRA]BB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative); RWN removed	-	-	-
2	Term Loans	Long-Term	412.00	279.7	[ICRA]D ISSUER NOT COOPERATING	[ICRA]BB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative); RWN removed	-	-	-
3.	Fund Based Limits	Short-Term	33.75	NA	[ICRA]D ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A3	[ICRA]A2	[ICRA]A2; RWN removed	-	-	-
4	Fund Based Limits	Long-Term/ Short-Term	39.00	NA	[ICRA]D/[ICRA]D ISSUER NOT COOPERATING	[ICRA]BB (Negative)/ [ICRA]A4 ISSUER NOT COOPERATING	[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]D/[ICRA]D ISSUER NOT COOPERATING	[ICRA]BB (Negative)/ [ICRA]A4 ISSUER NOT COOPERATING	[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

Instrument	Complexity Indicator
LT-Fund Based- CC	Simple
LT-Term Loans	Simple
ST- Fund Based Limits	Simple
LT/ST Fund Based Limits	Simple
LT/ST Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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]D ISSUER NOT COOPERATING
NA	Term Loans	FY2018-19	9.95%-11.35%	FY2026-FY2029	412.00	[ICRA]D ISSUER NOT COOPERATING
NA	Fund Based Limits	NA	NA	NA	33.75	[ICRA]D ISSUER NOT COOPERATING
NA	Fund Based Limits	NA	NA	NA	39.00	[ICRA]D/[ICRA]D ISSUER NOT COOPERATING
NA	Unallocated	NA	NA	NA	38.25	[ICRA]D/[ICRA]D ISSUER NOT COOPERATING

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 61693300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches