

September 16, 2021

## Warren Tea Limited: Long-term rating upgraded to [ICRA]BB-, outlook revised to Stable; short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	24.00	20.50	[ICRA]BB- upgraded from [ICRA]B; outlook revised to Stable from Negative
Fund-based Limits – Term Loan	14.06	4.00	[ICRA]BB- upgraded from [ICRA]B; outlook revised to Stable from Negative
Non-Fund based Limits – LC/ BG/ Derivatives	2.64	2.54	[ICRA]A4 reaffirmed
Unallocated Limits	0.94	-	-
<b>Total</b>	<b>41.64</b>	<b>27.04</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The upward revision in the long-term rating of Warren Tea Limited (WTL) takes into account the monetisation of few assets in FY2021, which has favourably impacted the overall liquidity position of the company. Moreover, WTL has reported an operating profit in FY2021, after four years, driven by a sharp improvement in tea realisation. Reduction in the employee costs in FY2021, mainly due to sale of two gardens, also had a significant impact on the company's operating profit. ICRA notes that the overall debt level of the company has declined significantly in FY2021 due to scheduled repayment/ prepayment of long-term debt and reduced working capital borrowings, which in turn favourably impacted the coverage indicators of the company. The ratings also factor in the company's focus on production of premium quality tea that commands a premium over the average market realisation. Besides, favourable productivity of WTL's tea estates mitigates the risks associated with the fixed-cost intensive nature of the tea plantation business to some extent.

The ratings are, however, constrained by the company's modest scale of current operations with an estimated production of around 4.5 million kg of tea in FY2022. The ratings continue to be impacted by the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclical nature of the fixed-cost intensive nature of the tea industry that leads to variability in profitability and cash flows of bulk tea producers including WTL. The concentration of all five gardens of the company in the Assam region further accentuates agro-climatic risks. In addition, domestic tea prices are influenced by international prices and hence the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the profitability of Indian players, including WTL. ICRA also notes that WTL's significant exposure towards group/ associate concerns, which is not value accretive till now, reduces its overall business returns.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that WTL will continue to benefit from its established track record of operation in the tea business and adequate cash flows relative to its debt service obligations.

### Key rating drivers and their description

#### Credit strengths

**Monetisation of assets strengthened liquidity position** – WTL has undertaken monetisation of few assets in FY2021, which included selling two of its tea estates (Rupai and Sealkote) and two commercial properties in Kolkata. This resulted in an exceptional gain of Rs. 20.18 crore during the year, thereby strengthening the overall liquidity position of the company. The sale proceeds from disposing of the assets have been primarily utilised to reduce the overall debt level and other outside liabilities of the company.

**Improved realisation favourably impacted the operating profitability** – The company reported operating losses in four consecutive financial years, starting from FY2017. However, the operating margin (OPM) of WTL witnessed a sharp improvement to 6.9% in FY2021, driven by a steep increase in tea prices. Tea prices rose on the back of a decline in production across the country and resulted in a supply-demand mismatch. In addition, reduced employee costs have also favourably impacted the OPM in FY2021 compared to the earlier years. The net margin was further supported by a sizeable exceptional gain, arising out of monetisation of assets along with high deferred tax adjustments. Accordingly, the company reported healthy cash accruals in FY2021. In the current fiscal, reduction in employee costs on the back of sale of two gardens in the second half of FY2021 along with favourable realisation of tea is likely to lead to a moderate level of profitability for the company. Nevertheless, the RoCE of the company would remain at a depressed level, going forward.

**Superior quality of tea, as evident from the premium price commanded by the company's produce compared to average market prices** – WTL's superior quality of tea results in a premium for its produce compared to the industry average. The weighted average realisation of tea produced by the company stood at around Rs. 250/ kg during the first quarter of FY2022 compared to the North Indian auction average of around Rs. 221/ kg. WTL's garden costs are largely fixed, and in line with that of the industry, with labour costs accounting for the major part of the cost of production. The risks associated with the fixed-cost nature of the industry are mitigated, to an extent, by the favourable productivity of the tea estates.

### Credit challenges

**Modest scale of current operations** – Historically, the company's scale of operations remained at a modest level. Moreover, its top line witnessed significant volatility over the past few years, largely depending on the volume of production and realisation of tea. The turnover of WTL declined to Rs. 104 crore in FY2021, registering a fall of around 15% compared to the previous fiscal. Despite a steep rise in the average realisation, a significant fall in the overall production of tea led to a decline in the turnover of the company in FY2021. In view of likely moderation in the price of tea in FY2022 vis-a-vis FY2021 and an expected reduction in the volume of production due to sale of two gardens in the second half of the previous fiscal, the top line of the company is estimated to register a fall of around 5% in the current fiscal.

**Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions** – 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 of production, accounting for around 50% of the production cost. This leads to a variability in profitability and cash flows of bulk tea producers such as WTL.

**Export market performance of Indian tea critical to sustain buoyancy in domestic tea prices** – Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, notwithstanding the large domestic consumption base that India has. 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 pressure on domestic prices.

**Significant investment/advances in group/ associate company, which are not value accretive at present** – ICRA notes that WTL has invested Rs. 33.14 crore (as on March 31, 2021) in the form of equity to group/ associate concerns, which accounted for around 34% of the company's tangible net worth as on March 31, 2021. As the same is not value accretive to the company at present, it adversely impacted the business returns.

### Liquidity position: Adequate

The company generated positive cash flow from operations in FY2021 on the back of monetisation of assets. The average utilisation of fund-based working capital limits remained at around 76% during the last 15 months ended in July 2021. In view of adequate cash flow from operations, undrawn line of credit and absence of any major planned capital expenditure programme, ICRA expects WTL's overall liquidity position to remain adequate, in the near term at least. Nonetheless, the company's business is expected to record a modest growth in the medium term, so efficient management of working capital requirement would remain crucial, going forward.

### Rating sensitivities

**Positive factors** – ICRA may upgrade WTL's ratings if its scale of operations increases while improving its profitability and cash flow position on a sustained basis. Specific credit metrics that may lead to a rating upgrade include DSCR of more than 1.2 times on a sustained basis.

**Negative factors** – Pressure on WTL’s ratings may arise in case of weakening of the financial risk profile owing to a decline in the profitability. Specific credit metrics that may trigger a rating downgrade include interest coverage of less than 2.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Bulk Tea Industry</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

### About the company

Incorporated in 1977, Warren Tea Limited (WTL) produces primarily black tea of crush, tear and curl (CTC) variety, which it sells mainly in the domestic market through a mix of auction and private sales. At present, the company has five tea gardens in the Upper Assam region, primarily in Dibrugarh and Tinsukia districts. The gardens are spread over around 2,922 hectares.

### Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	Q1 FY2021 (Unaudited)	Q1 FY2022 (Unaudited)
Operating Income (Rs. crore)	123.2	105.9	14.5	17.2
PAT (Rs. crore)	-24.2	32.4	-4.2	0.1
OPBDIT/OI (%)	-20.4%	6.9%	-13.1%	-2.7%
PAT/OI (%)	-19.6%	30.6%	-28.7%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.77	0.51		
Total Debt/OPBDIT (times)	-2.04	2.60		
Interest Coverage (times)	-4.70	1.49	-1.13	-0.94

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Warren Tea Limited

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Sep 16, 2021	May 22, 2020	Apr 7, 2020	Apr 22, 2019	Jan 4, 2019	Dec 7, 2018
1	Cash Credit	Long Term	20.50	10.66	[ICRA]BB-(Stable)	[ICRA]B (Negative)	[ICRA]BB-(Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
2	Term Loan	Long Term	4.00	6.50	[ICRA]BB-(Stable)	[ICRA]B (Negative)	[ICRA]BB-(Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
3	LC/ BG/ Derivative	Short Term	2.54	Nil	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	Long Term/ Short Term	-	NA	-	[ICRA]B (Negative)/ [ICRA]A4	[ICRA]BB-(Negative)/ [ICRA]A4	-	-	-

Source: Warren Tea Limited

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Non-Fund Based – Working Capital	Very Simple

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 analyzing 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](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/ Banker Name	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
State Bank India	Cash Credit	-	-	-	10.00	[ICRA]BB- (Stable)
HDFC Bank	Cash Credit				8.00	[ICRA]BB- (Stable)
AXIS Bank	Cash Credit				2.50	[ICRA]BB- (Stable)
HDFC Bank	Term Loan II	Dec, 2016		Feb, 2023	2.50	[ICRA]BB- (Stable)
HDFC Bank	Term Loan III	Nov, 2017		Feb, 2023	1.50	[ICRA]BB- (Stable)
State Bank India	Bank Guarantee	-	-	-	1.00	[ICRA]A4
AXIS Bank	Bank Guarantee	-	-	-	1.00	[ICRA]A4
State Bank India	Letter of Credit	-	-	-	0.50	[ICRA]A4
State Bank India	Derivative	-	-	-	0.04	[ICRA]A4

Source: Warren Tea Limited

**Annexure-2: List of entities considered for consolidated analysis**

Not applicable

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