

October 10, 2022

Warren Tea Limited: Long-term rating reaffirmed; short-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	20.50	15.50	[ICRA]BB- (Stable), reaffirmed
Fund-based Limits – Term Loan	4.00	-	-
Non-Fund based Limits – LC/ BG/ Derivatives	2.54	-	[ICRA]A4, reaffirmed and withdrawn
Total	27.04	15.50	

* Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings takes into consideration the long experience of the promoter and Warren Tea Limited's (WTL) established track record of operation in the tea business. ICRA notes that the company incurred operating loss in FY2022, leading to adverse coverage indicators. However, the net profit and cash accruals were supported by a sizeable exceptional gain, arising out of monetisation of asset along with write-back of provisions. ICRA expects that the company would be able to generate operating profit in the current fiscal on the back of comparatively increased production from its existing gardens coupled with improved realisation. The ratings also favourably consider the monetisation of asset in FY2022, which has favourably impacted the overall liquidity position of the company. The sale proceeds have been utilised for plantation/ re-plantation, upgradation of the existing factory assets, which are likely to positively impact the overall operating profile of the company in terms of better yield, quality of crop etc in the medium-to-long term. 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 a declining top line over the past two years. 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 cyclicity 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 four gardens of the company in Assam 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.

ICRA has reaffirmed and withdrawn the short-term rating of [ICRA]A4 assigned to the Rs. 2.54-crore short-term non-fund based bank facilities of WTL as such facilities have been closed by the banks and there is no amount outstanding against the rated instruments, which is in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Monetisation of assets, strengthening liquidity; likely improvement in operating performance – WTL has undertaken monetisation of assets by selling Balijan North Tea Estate in FY2022. This resulted in an exceptional gain of Rs. 2.38 crore during the year, strengthening the overall liquidity position of the company. The sale proceeds have been utilised for plantation/ re-

plantation, upgradation of existing factory assets, which are likely to favourably impact the overall operating profile of the company in terms of better yield, quality of crop etc, in the medium-to-long term.

Improved realisation, likely to favourably impact the operating profitability – The recent hike in wage rate in Assam will have a bearing on the profitability of the company. However, in view of comparatively increased production from its gardens along with improved realisation, the company is likely to register an operating profit in FY2023. The same is also likely to improve the coverage indicators to an extent and would remain at a moderate level in the current fiscal. Nevertheless, the RoCE of the company would continue to 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. 251/ kg during the first quarter of FY2023 compared to the North Indian auction average of around Rs. 217/ 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. Sale of tea gardens in the past two years also impacted the production level and in turn the top line of the company. The turnover of WTL declined to Rs. 89 crore in FY2022 from Rs. 104 crore in FY2021, registering a fall of around 14% compared to the previous fiscal. Decline in the volume of production (~23%) on the back of sale-out of few tea estates in the second half of FY2021 along with moderation in the average realisation of tea led to a decline in the turnover of the company in FY2022. The average realisation of tea is likely to improve in FY2023 compared to FY2022. However, the company's top line is likely to fall by around 20% (YoY) in the current fiscal owing to estimated reduction in the overall volume of production due to sale of one garden in the second half of the last fiscal, along with the absence of trading operations.

Operating loss in FY2022 led to adverse coverage indicators – The company reported operating losses in the four consecutive financial years, starting from FY2017. However, the operating profit margin (OPM) of WTL improved sharply to 6.9% in FY2021 from -20.4% in FY2020, driven by a steep increase in tea prices on the back of a decline in production across the country, which resulted in a supply-demand mismatch. However, production loss along with muted realisation led to an operating loss for the company in FY2022. Hike in wage rate deteriorated the position further. The net margin in FY2022 was supported by a sizeable exceptional gain, arising out of monetisation of asset along with write-back of provisions.

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, 2022) in the form of equity to Group/ associate concerns, which accounted for around 32% of the company's tangible net worth as on March 31, 2022. As the same is not value accretive to the company at present, it adversely impacted the business returns.

Environmental and social risks

Environmental considerations: Tea, being an agricultural commodity, is susceptible to agro-climatic risks, with the production and quality of tea being primarily dependent on rainfall, temperature and humidity. Among the different climatic factors, rainfall plays the most important role. These environmental factors pose supply-side risks. Adverse environmental conditions may potentially affect productivity of tea, the extent of irrigation and pest control activities required, resulting in revenue loss and/or an increase in the cost of production and contraction in margins. Such risks are considered by ICRA as inherent risks in the tea production business.

Social considerations: Tea production is highly manpower intensive. A large proportion of population, particularly women, in the major tea producing regions in the country are involved as workforce for tea production. The stakeholders of a tea production business include, inter alia, local communities and Government authorities who influence the operating environment of the business. The wage rates for tea estate workers are regulated by the Government and are revised regularly as the level of wages and welfare costs for tea estate workers have significant socio-economic implications, giving rise to regulatory risks for the industry, too. Tea-estate costs are primarily fixed, with labour-related costs accounting for a significant portion of the production cost. Hence, any significant increase in wage rates may adversely impact the cost structure of tea producers, impacting the margins. Shortage of workers, due to diminishing interest in the garden-based field work on the back of sociological changes remains a concern. However, the demand side risk is largely protected as tea is one of the most popular, widely consumed and low-cost beverages.

Liquidity position: Adequate

The company is likely to generate positive cash flow from operations in FY2023 on the back of adequate cash accruals from business along with low working capital intensity of operations. The average utilisation of fund-based working capital limits remained at around 61% during the last 15 months ended in August 2022. 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 rating if the entity demonstrates an increase in its scale of operations while improving 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 rating 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 an interest coverage of less than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Bulk Tea Industry Policy on Withdrawal of Credit Ratings
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 four tea gardens located in the Upper Assam region, primarily in Dibrugarh and Tinsukia districts. The gardens are spread over an area of around 2,121 hectares.

Key financial indicators

	FY2021	FY2022	Q1 FY2023	Q1 FY2022
	Audited	Audited	Unaudited	Unaudited
Operating Income (Rs. crore)	105.9	89.7	17.9	17.2
PAT (Rs. crore)	32.4	7.1	1.1	0.1
OPBDIT/OI (%)	6.9%	-4.4%	10.9%	-2.7%
PAT/OI (%)	30.6%	7.9%	5.9%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.3	-	-
Total Debt/OPBDIT (times)	2.6	-5.0	-	-
Interest Coverage (times)	1.5	-1.6	3.4	-0.9

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 (FY2023)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
				Oct 10, 2022	Sep 16, 2021	May 22, 2020	Apr 7, 2020	Feb 24, 2020	Apr 22, 2019	
1 Cash Credit	Long Term	15.50	9.74	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B (Negative)	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	
2 Term Loan	Long Term	-	-	-	[ICRA]BB-(Stable)	[ICRA]B (Negative)	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	
3 LC/ BG/ Derivative	Short Term	2.54	-	[ICRA]A4 Withdrawn	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	
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 facilities	Simple
Short-term non-fund based – working capital facilities	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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit 1	-	-	-	7.50	[ICRA]BB- (Stable)
NA	Cash Credit 2	-	-	-	8.00	[ICRA]BB- (Stable)
NA	LC/ BG/ Derivative	-	-	-	2.54	[ICRA]A4 withdrawn

Source: Warren Tea Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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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.

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