The Grob Tea Company Limited

March 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Working Capital Facility	15.00	15.00	[ICRA]A- (Stable); Reaffirmed
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating considers the management's extensive experience in the tea industry and The Grob Tea Company Limited's (TGTCL) favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators. The rating also derives comfort from the facts that the net debt (total debt less cash and liquid investments) of the company remained negative as on March 31, 2018 which is likely to continue at the end of the current fiscal too and nominal long-term debt service obligations that would keep its cash flow position favourable. The rating also factors in the company's focus on production of premium quality tea that commands a premium over the average market realisation.

The rating, however, continues to be impacted by the risks associated with tea being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of bulk tea producers such as TGTCL. The concentration of all six 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 TGTCL. ICRA notes that the operating margin of the company witnessed a steady decline over the past few years, primarily on the back of increasing labour costs. Despite an improvement in realisation, the profitability of the company is estimated to be adversely impacted in the current fiscal as well due to a steep rise in labour expenses on account of the proposed wage hike effective from March 2018. The ROCE of the company also continued to remain depressed.

Outlook: Stable

ICRA believes that TGTCL will continue to benefit from the extensive experience of its management. With rise in labour costs, the profitability of the company is likely to be adversely impacted in FY2019 over the last fiscal. The outlook may be revised to Positive if a substantial growth in production and realisation strengthen the company's profitability indicators. The outlook may be revised to Negative in case of further weakening of the financial risk profile owing to a drop in tea production and if the realisation does not improve enough to recover the hike in wage rate.

Key rating drivers

Credit strengths

Experience of the management in the tea industry – Incorporated in 1985, the company was taken over by the current management – the Rawalwasia Group – in May 2009. The performance of the company has improved significantly since then due to the expertise of the new management in the business. The day-to-day operations of the company are being managed by Mr. I. B. Saraf, who has been associated with the tea industry for more than four decades.

Superior quality of tea as evident from the premium commanded by the company's produce compared to average market prices – TGTCL'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 was around Rs. 188/ kg during the first half of FY2019 compared to the North Indian auction average of around Rs. 160/ kg during the same period. TGCTL's garden costs are largely fixed, in line with that of the industry, with labour costs accounting for a major part of the cost of production. The risks associated with fixed-cost nature of the industry are mitigated, to an extent, by the favourable productivity of ~1,815 kg per hectare in FY2018.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators – TGTCL continues to have a conservative capital structure on the back of low reliance on external debt. Total outside liabilities relative to tangible net worth of the company stood at 0.45 times (0.38 times as on March 31, 2017) as on March 31, 2018. On account of a decline in profitability and rise in debt level, the coverage indicators of the company have remained at a lower level to an extent during the first nine months of the current fiscal (9M FY2019) compared to the same period (9M FY2018) of the previous fiscal. ICRA notes that the overall capital structure and coverage indicators of TGTCL are likely to witness some deterioration in FY2019 over the previous fiscal on the back of reduced profitability and increase in working capital borrowings. Nevertheless, the same would continue to remain at a comfortable level in the near term, at least. Moreover, ICRA notes that the net debt (total debt less cash and liquid investments) of the company remained negative as on March 31, 2018 which is likely to continue at the end of the current fiscal too.

Credit challenges

Modest scale of current operations; top-line remained volatile during the last few years – TGTCL operates through six gardens, producing around 3.8-4.8 Mkg of tea in the past three to four years. This leads to a moderate scale of operations, which accentuates the agro-climatic as well as the fixed-cost intensive risk for the company. The operating income (OI) of TGTCL has declined from Rs. 76.98 crore in FY2016 to Rs. 74.19 crore in FY2017, registering a de-growth of around 4%. However, the same has again witnessed an increase to Rs. 77.06 crore in FY2018, registering a growth of around 4% over the previous fiscal. During the first nine months of the current fiscal, the top-line of the company has remained at a lower level on the back of lower volume of sales (~8%) corresponding to the same period in the previous fiscal. Nevertheless, the top-line of the company is likely to register a growth of 5-6% in FY2019 over the previous fiscal, primarily driven by improvement in realisation.

Declining operating margin because of increasing labour costs, which is likely to continue in the current fiscal – The operating margin of the company witnessed a steady decline from 13.65% in FY2016 to 7.62% in FY2018 primarily on the back of increasing labour costs. Despite an improvement in realisation, the profitability of the company is estimated to be adversely impacted in the current fiscal as well due to a steep rise in labour expenses on account of the proposed wage hike effective from March 2018. However, the extent of the impact on the profits of TGTCL would be primarily determined by the trend in tea realisation in the fourth quarter of the current fiscal. The ROCE of the company also continued to remain depressed. ICRA expects that overall profits and cash accruals from the business are likely to be adversely impacted in FY2019 compared to FY2018.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions - Tea production depends on agro-climatic conditions, which subjects 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 TGTCL.

Indian tea essentially a price taker in the international market; export market performance of Indian tea critical to sustain buoyancy in domestic tea prices – Notwithstanding the large domestic consumption base that India has, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. 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 a downward pressure on domestic prices.

Liquidity position

On account of healthy cash accruals from the business and low working capital intensity of operations, the company has generated positive fund flow from operations (FFO) during the last few years. The free cash flow of the company has also remained positive over the past two years. The average utilisation of fund-based working capital limits has remained at a moderate level and in trend with tea hypothecation season. In view of adequate cash flows from operations, liquid investments and nominal long-term debt service obligations, ICRA expects TGTCL's liquidity position to remain comfortable, going forward.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Bulk Tea Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financial statement

About the company

Incorporated in 1895, TGTCL produces black tea of CTC (crush, tear, curl) variety, which it sells in the domestic market through a mix of auction and private sales. The company was taken over by the current management – the Rawalwasia Group – in May 2009. The company has six tea gardens, located in upper Assam and Cachar district. The gardens are spread over a total area of 5,676 hectares, of which around 48% is under tea cultivation.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9M FY2018 (Unaudited)	9M FY2019 (Unaudited)
Operating Income (Rs. crore)	74.19	77.06	69.35	66.37
PAT (Rs. crore)	1.67	1.83	15.01	13.05
OPBDIT/ OI (%)	8.21%	7.62%	26.03%	22.85%
RoCE (%)	6.25%	7.14%	-	-
Total Debt/ TNW (times)	0.07	0.11	-	-
Total Debt/ OPBDIT (times)	0.45	0.76	-	-
Interest Coverage (times)	7.27	14.91	58.47	30.43

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) March 31, 2018	Date & Rating March 2019	Date & Rating in FY2018 February 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 January 2016
1	**Fund-based Working Capital Limits**	Long Term	15.00	**4.32**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Letter of Guarantee**	Long Term	-	**NA**	**-**	**-**	**-**	**[ICRA]A- (Stable)**
3	**Unallocated Limits**	Long Term	-	**NA**	**-**	**-**	**-**	**[ICRA]A- (Stable)**

Source: The Grob Tea Company Limited

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	Working Capital Facility	-	-	-	15.00	[ICRA]A- (Stable)

Source: The Grob Tea Company Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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

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