

Warren Tea Limited

April 22, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based working capital Limits	20.00	20.00	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB (Negative)
Term Loan	19.00	19.00	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB (Negative)
Non-fund based limits	2.64	2.64	[ICRA]A4+; downgraded from [ICRA]A3+
Total	41.64	41.64	

*Instrument details are provided in Annexure-1

Rationale

The ratings downgrade considers the sustained deterioration in Warren Tea Limited's (WTL) cost structure due to a significant rise in wage rates without a commensurate increase in the company's average tea realisation. Decline in tea production to 6.48 million kg (Mkg) in 9M FY2019 from 6.71 Mkg in 9M FY2018 and a modest increase in tea realisation to Rs. 191 per kg (inclusive of trade discount) in 9M FY2019 from Rs. 188 per kg in 9M FY2018 adversely impacted its turnover, profitability and debt coverage indicators on the back of increased wage rate. Continued losses in the last two financial years and the expected losses in FY2019 along with significant repayment obligations also resulted in considerable deterioration in the liquidity position of the company. The ratings, however, continue to draw comfort from the company's premium quality tea, realisations of which are higher than the industry averages. Besides, comfortable yield 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, however, also factor in the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions and the inherent cyclicity of the fixed-cost intensive tea industry that lead to variability in profitability and cash flows of bulk tea producers like WTL. As Indian tea is essentially a price taker in the international market, low global prices affected domestic realisations to some extent as well. ICRA also notes that WTL's significant exposure in an associate company, which is not value accretive to WTL at present, reduces its overall business returns. Going forward, the production level and tea realisations would remain key rating sensitivities given the increased cost of tea production.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that WTL will benefit from its continued focus on improving the quality of its produce, which would support a positive price trajectory going forward. The outlook may be revised to Positive if a sharp increase in tea production volumes or a sharp increase in tea realisations, relative to input costs, leads to a substantial growth in revenue and profitability, strengthening the financial risk profile. The outlook may be revised to Negative if further deterioration in cash accrual and/or increased debt service obligation adversely impact the company's credit profile.

Key rating drivers

Credit strengths

Superior quality of tea as evident from the significant premium commanded by its produce compared to average market prices - WTL's superior quality of tea in the domestic market resulted in a premium of 21.5% (though prices of WTL include a trade discount of Rs. 1-2 per kg) for its produce compared to the average North Indian auction prices in 9M FY2019. Though WTL's average realisation of tea has increased by Rs. 3.13 per kg (inclusive of a trade discount of Rs. 1-2 per kg in 9M FY2019), the extent of increase in realisation remains inadequate to absorb the higher cost of production primarily due to a wage hike from July 2018.

Comfortable yield of tea estates mitigates risk associated with the fixed-cost intensive nature of bulk tea operations to some extent - The favourable age profile of the bushes results in a comfortable tea estate yield (1,680 kg/hectare in FY2018) of WTL, which directly impacts the cost structure due to the fixed-cost intensive nature of the industry. Although tea production improved by 0.68 MKg in FY2018 over the previous year, production of tea in 9M FY2019 was lower at around 6.5 MKg compared to 6.7 MKg in 9M FY2018. Thus, the company's production in FY2019 is likely to be significantly lower than ICRA's earlier expectation.

Credit challenges

Sustained deterioration in cost structure due to significant rise in wage rates, adversely impacting financial profile - WTL's operating income stood at Rs. 118.92 crore in FY2018, which was higher by 8.70% over the previous year, primarily due to an increase in tea production. However, fall in tea realisation by Rs. 2/kg along with the fixed cost intensive nature of operations adversely impacted its profitability, resulting in operating losses of Rs. 4.78 crore in FY2018. ICRA notes that tea production in FY2019 is estimated to be at a similar level as that of FY2018. Tea realisation, though expected to improve to an extent in FY2019, is likely to remain modest. This is likely to result in significant operating and cash losses for the company given the higher cost of production due to increased wage rates of tea plantation workers. ICRA also notes that continued losses over the last two financial years and the expected losses in FY2019 along with significant debt repayment obligations resulted in a considerable deterioration in the liquidity position of the company.

Risks associated with tea for being an agricultural commodity - The profitability and cash flows of bulk tea producers like WTL remain volatile owing to 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 tea industry. Additionally, given that Indian tea is essentially a price taker in the global market, low international prices may impact the domestic realisations to an extent.

Significant investment/advances in an associate company, which are not value accretive to WTL at present - ICRA also notes that WTL has invested/advanced around Rs. 31.47 crore to an associate company till FY2018, which accounted for around 33% of the company's tangible net worth as on March 31, 2018. As the same is not value accretive to WTL at present, it adversely impacted the business returns.

Liquidity position

WTL's liquidity position remained stretched, as reflected by significant operating and cash losses incurred by the company in FY2017 and FY2018, which is likely to continue in FY2019. This, along with increased debt repayment obligation in the near to medium term may aggravate the company's cash flow position. Nevertheless, the increase in working capital limits from Rs. 18.5 crore to Rs. 24.00 crore from February 2019 provides some comfort.

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	Not Applicable
Consolidation / Standalone	<u>The ratings are based on standalone financials of the company</u>

About the company

Warren Tea Limited (WTL) owns seven tea gardens across a cultivable area of around 4,119 HA under the leadership of Mr. Vinay K. Goenka. The gardens are located in the Upper Assam region, primarily in Dibrugarh and Tinsukia districts. The company's tea production stood at 6.92 Mkg in FY2018 and a major portion of the company's tea comprises the CTC variety.

In 9M FY2019, the company reported a net loss of Rs. 5.29 crore on an operating income of Rs. 102.80 crore compared to a net profit of Rs. 3.89 crore on an operating income of Rs. 105.10 crore in 9M FY2018. In FY2018, the company reported a net loss of Rs. 7.89 crore on an operating income of Rs. 118.92 crore. An actuarial gain of Rs. 4.98 crore on employee obligation during the year led to a lower loss of Rs. 4.15 crore at the total comprehensive income (TCI) level.

Key financial indicators (audited)

	FY2017	FY2018	9MFY2019
Operating Income (Rs. crore)	109.40	118.92	102.80
PAT (Rs. crore)	-16.28	-7.89	-5.29
OPBDIT/OI (%)	-17.92%	-4.02%	0.11%
RoCE (%)	-17.89%	-6.25%	-
Total Debt/TNW (times)	0.26	0.35	-
Total Debt/OPBDIT (times)	-1.32	-7.02	-
Interest coverage (times)	-8.44	-1.27	0.04

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

				Current Rating (FY2020)	Chronology of Rating History for the past 3 years					
								Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs Crore)	Date & Rating in FY2020 April 2019	Date & Rating in FY2019 January 2019	Date & Rating in FY2019 December 2018	January 2018	August 2017	September 2016
1	Fund-based Limits	Long Term	20.00	NA	[ICRA]BB + (Stable)	[ICRA]BB B (Negative)	[ICRA]BB B (Negative)	[ICRA]BBB + (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loan	Long Term	19.00	18.00	[ICRA]BB + (Stable)	[ICRA]BB B (Negative)	[ICRA]BB B (Negative)	[ICRA]BBB + (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-fund based-limit	Short Term	2.64	NA	[ICRA]A4 +	[ICRA]A3 +	[ICRA]A3 +	[ICRA]A2	[ICRA]A 1	[ICRA]A1

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 working capital limits	NA	NA	NA	20.00	[ICRA]BB+ (Stable)
NA	Term Loan I	Oct-2016	-	July 2021	5.50	[ICRA]BB+ (Stable)
	Term Loan II	Dec-2016	-	Feb 2023	8.50	[ICRA]BB+ (Stable)
	Term Loan III	Nov-2017	-	Feb 2023	5.00	[ICRA]BB+ (Stable)
NA	Non-fund based limits	NA	NA	NA	2.64	[ICRA]A4+

Source: Warren Tea Limited

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