November 06, 2019

The Peria Karamalai Tea and Produce Company Limited: [ICRA]BB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	10.00	[ICRA]BB+ (Stable); Assigned
Fund based- Term Loan	14.45	[ICRA]BB+ (Stable); Assigned
Unallocated	10.55	[ICRA]BB+ (Stable); Assigned
Total	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favorably facts in the extensive experience of the promoters in the tea plantation and processing industry leading to wide network, and reputed customer base. The Peria Karamalai Tea and Produce Company Limited's (TPKTPCL) has an established track record of producing CTC (crush, tear, curl) tea variety, and is now increasing focus on production of premium quality tea (orthodox tea) for exports, which is likely to support overall realization and profitability over the medium term. The rating also derives comfort from the company's liquid investment portfolio of Rs. 83.49 crore as on March 31, 2019 providing comfort to its liquidity profile.

However, the rating is constrained by the company's small scale of current operations with tea-estate operations restricted to Tamil Nadu region. The rating also considers the company's operations characterized by low profitability, and the inherent supply-side cyclicality of the amidst fixed-cost intensive tea industry, leads to variability in profitability and cash flows of bulk tea producers such as TPKTPCL. Further, 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 TPKTPCL.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that TPKTPCL will continue to benefit from the extensive experience of promoters in the tea industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The company's promoters have significant experience in the tea plantation and processing industry which has enabled TPKTPCL to establish healthy relationship with various customers and suppliers.

Substantial liquid investment portfolio – The company has a substantial liquid investment portfolio of Rs. 83.49 crore as on March 31, 2019 in mutual funds resulting into considerable liquid support.

Increasing focus on producing orthodox tea- The company's increased focus on producing orthodox variety of bulk tea is expected to support the overall realisations over the medium term.

Credit challenges

Small scale of operations - The company's scale of operations have remained small with revenues of Rs. 40.4 crore in FY2019. TPKTPCL operates through four tea estates in Tamil Nadu, producing around 3.1-3.9 million kg (mkg) of tea during the past three years. Further, the company's operating margins have been low and stood at 1.3% in FY2019.

Operations characterized by low profitability – The company's profitability have been low on account of volatility in the price realizations, agro-climatic factors and increasing employee expenses. Its operating margin had been subdued and further declined from 5.2% in FY2018 to 1.3% in FY2019. Going forward, sustained improvement in the company's margin from its tea operations will be the key factors for a high rating.

Risks associated with tea for being an agricultural commodity, exposed to agro-climatic conditions - The profitability and cash flows of bulk tea producers remain volatile owing to the risks associated with tea for being an agricultural commodity, as the production volume and quality of tea depend on agro-climatic conditions. Such risks are accentuated by the geographical concentration of TPKTPCL's operations, with all the four tea estates in the Tamil Nadu region. Also, the adverse age profile of TPKTPCL's bushes, with around 70% of the tea bushes more than 80 years, impacting the yield of the company's tea-estate to an extent.

Prices of Indian tea remain vulnerable to price fluctuation in international market– The prices of domestic tea are impacted by international prices to some extent. 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 TPKTPCL.

Liquidity position: Adequate

Given the substantial investments in the mutual funds, the company's liquidity position is likely to be adequate. However, timely employment of the mutual funds in the day to day operations of company, if required, remains critical to support its working capital and debt repayment requirement. Further, the company had high working capital utilization averaging at 92.0% from September 2018 to August 2019 and high repayments of ~Rs. 2.2-2.9 crore p.a. in FY2020-FY2022.

Rating sensitivities

Positive triggers – Sustained improvement in the company's margin from its tea operations will be the key factors for a high rating.

Negative triggers – Downward pressure on the rating could emerge in case of weakening of the financial profile owing to drop in tea production and if the realisation does not improve enough to recover the increase in overall costs. The rating could also be downgraded if any substantial withdrawal in the liquid investments or any large capex/inorganic expansion impact its liquidity.

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	The rating is based on the consolidated financial profile of the rated entity

About the company

Incorporated in 1913, The Peria Karamalai Tea and Produce Company Limited (TPKTPCL) is a part of LNB Group, which is involved in diverse businesses. TPKTPCL is involved in plantation, manufacturing and processing of tea having its own four tea estates in Tamil Nadu with an area of around 1,508 hectares under tea cultivation. It is primarily a producer of CTC variety of tea which accounts for almost its entire production. The total production stood at 3.1 million kg in FY2019, entirely from own leaf. The company sells tea through a mix of auction and private sales, the proportion of which keeps on fluctuating depending upon the market conditions. It also operates a nine wind mills with a combined capacity of 2.28 MW located at Muppandal, Kanyakumari district, Tamil Nadu and a solar power of 3 MW located at Madurai district in Tamil Nadu.

The company reported a net profit of Rs. 2.9 crore on an operating income (OI) of Rs. 40.4 crore in FY2019, compared to a net profit of Rs. 6.3 crore on an OI of Rs. 42.7 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	42.7	40.4
PAT (Rs. crore)	6.3	2.9
OPBDIT/OI (%)	5.2%	1.3%
RoCE (%)	4.5%	3.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	9.9	45.0
Interest Coverage (times)	3.2	0.3
DSCR	2.8	1.2

Source: The Peria Karamalai Tea and Produce Company Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	6-Nov-19	FY2019	FY2018	FY2017
1	Cash Credit	Long Term	10.00	-	[ICRA]BB+ (Stable)	-	-	-
2	Term Loan	Long Term	14.45	14.45	[ICRA]BB+ (Stable)	-	-	-
3	Unallocated	Long Term	10.55	-	[ICRA]BB+ (Stable)	-	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-		10.00	[ICRA]BB+ (Stable)
NA	Term Loan	April 2017	-	March 2027	14.45	[ICRA]BB+ (Stable)
NA	Unallocated	-	-		10.55	[ICRA]BB+ (Stable)

Source: The Peria Karamalai Tea and Produce Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PKT Plantations Limited	100.00%	Full Consolidation
Shivphal Vinimay Private Limited	100.00%	Full Consolidation

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