January 10, 2020

Jay Shree Tea & Industries Limited: Ratings downgraded to [ICRA]BBB-/[ICRA]A3; outlook continues to remain Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	89.49	89.49	Downgraded to [ICRA]BBB-(Negative) from [ICRA]BBB(Negative)
Fund-based - Working Capital Facilities	270.00	270.00	Downgraded to [ICRA]BBB-(Negative)/[ICRA]A3 from [ICRA]BBB(Negative)/[ICRA]A3+
Non-fund based limits	45.18	45.18	Downgraded to [ICRA]A3 from [ICRA]A3+
Total	**404.67**	**404.67**	

**Instrument details are provided in Annexure-1*

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Jay Shree Tea & Industries Limited (JSTIL) and its wholly-owned subsidiary, Majhaulia Sugar Industries Private Limited (MSIPL, rated [ICRA]BBB-, with Negative outlook), given the financial and managerial linkages between the two companies.

The rating action factors in the lower-than-anticipated performance of the consolidated entity in H1 FY2020, owing to a significant decline in average tea realisation during the same period. With tea realisation continuing to remain depressed for the company, ICRA expects the profitability as well as debt-coverage indicators in FY2020 to be much weaker than our earlier expectations for the consolidated entity. The performance of the sugar company (MSIPL) is, however, expected to witness some improvement on a YoY basis, with the commissioning of the distillery unit, in line with ICRA's earlier expectations. The consolidated debt remains high, leading to sizeable repayment obligations, thus further impacting the liquidity position and exposing the company to refinancing risks. In this regard, ICRA notes that the company has received timely promoter support in the form of inter-corporate deposit/advances in the current year, which has eased the liquidity position to an extent. ICRA expects the promoters to provide further support, if required, going forward. ICRA also draws comfort from the financial flexibility that the company enjoys for being a part of the B.K. Birla Group, with established relationships with banks and a history of successful refinancing at competitive terms. Further, ICRA understands that the company has certain asset monetisation plans, which would result in a reduction in consolidated debt, going forward. However, timely fruition of the same will remain a key rating monitorable.

The ratings continue to favourably consider the position of JSTIL as an established producer of bulk tea (in both CTC and orthodox varieties), accounting for around 2% of India's tea production. The tea produced by JSTIL's estates has consistently commanded a premium over the district averages because of better quality. The company's tea estates also provide a relatively high yield, which mitigates the risks arising out of the fixed-cost nature of the industry to some extent. In addition, the geographically diversified location of the tea estates mitigates the risk of unfavourable agro-climatic conditions to some extent. The ratings, however, are constrained by the exposure of the consolidated entity to agro-climatic risks, with both tea and sugar being agricultural commodities. Moreover, the inherent cyclicality of the fixed-cost intensive tea industry, along with the seasonal nature of the sugar industry, leads to variability in the entity's profitability and cash flows. The ratings also consider the regulatory risks associated with the sugar industry, which are susceptible to sudden changes in Government policies. However, with the recent commissioning of the distillery capacity, the operating profile of the sugar company has strengthened.

Key rating drivers

Credit strengths

Established producer of good quality bulk tea, both CTC and orthodox varieties - JSTIL is an established producer of bulk tea (in both CTC and orthodox varieties), accounting for more than 2% of India's tea production. The tea produced by JSTIL's estates has consistently commanded a premium over the district average because of quality.

Geographically diversified tea estates with relatively high yield; sugar mill favourably located in sugar-deficit zone - The company's tea estates provide a relatively high yield, which mitigate the risks arising out of the fixed-cost nature of the industry to some extent. In addition, the geographically diversified location of the tea estates, which are spread over Upper Assam, Cachar, Dooars, Darjeeling and South India, mitigate the risk of unfavourable agro-climatic conditions to some extent. The company also has tea gardens in Uganda and Rwanda, through subsidiary and joint venture companies. The sugar unit also benefits from its location in eastern India, which is a sugar-deficit zone, and faces limited competition from nearby sugar factories.

Commencement of distillery operations in MSIPL likely to support cash flows of the consolidated entity in FY2020 - The commercial production of the distillery operation in the subsidiary entity MSIPL, with a capacity of 56 KLPD of ethanol, began in the current financial year. The total capital cost was around Rs. 125 crore, which was funded through a mix of soft loans, asset monetisation and internal accruals. Given the favourable contribution level expected from the production of ethanol, the same is likely to provide significant support to cash flows of the consolidated entity going forward. Ethanol capacity is also likely to reduce the risks associated with the non-integrated nature of the sugar operations and make MSIPL's performance less susceptible to the Government's policy on cane pricing.

Financial flexibility derived from being a part of the BK Birla Group of Companies - JSTIL derives considerable financial flexibility for being a part of the BK Birla Group of Companies, and also its established relationship with domestic banks, which the company has leveraged to refinance large loan repayments in the past. The presence of a large investment portfolio, which has given modest returns in the past, also provides some cushion.

Credit challenges

Weaker-than-anticipated consolidated financial performance in H1 FY2020 owing to significant decline in tea realisation – The performance of the consolidated entity remained weaker than anticipated in H1 FY2020. While the losses in the sugar company reduced to a large extent, the significant decline in average tea realisation adversely impacted the profitability and net cash accruals during the period. While the tea realisation continues to remain depressed, ICRA notes that the profitability as well as debt-coverage indicators in FY2020 are likely to be much weaker than our earlier expectations for the consolidated entity. However, the non-operating income is likely to support the net profitability and cash flows to an extent.

Continued high debt quantum with sizeable repayment obligation exposes the company to significant refinancing risks The consolidated debt levels remained high, which in turn, resulted in an unfavourable capital structure, with a gearing of over 2.0 times as on September 2019. The repayment obligations of the same remained sizeable and weak profitability and tight liquidity exposes the company to significant refinancing risks. In this regard, ICRA notes that the company has received timely promoter-support in the form of inter-corporate deposit/advances in the current year, which eased the liquidity position to an extent. ICRA expects the promoters to provide further support, if required, going forward. Further, the company has certain asset monetisation plans to pare the overall debt and support liquidity position. However, timely fruition of the same will remain a key rating monitorable.

Continued vulnerability of sugar companies, including MSIPL, to Government policies related to cane pricing – The performance of JSTIL's sugar company is dependant on the Government's policy on cane prices, although the distillery is likely to mitigate the risks to a considerable extent. Also, the recent interventions by both the Central and the state governments, which included revision in minimum support prices, interest subvention loans for ethanol expansion and the recently-approved soft loans (by the Central Government) in addition to the cane subsidy and low-cost soft loans, supported the sugar industry. Besides, the commencement of the distillery operations will strengthen the operating profile of the sugar company to an extent.

Risks associated with tea and sugar for being agricultural commodities – As tea and sugar are agricultural commodities, the company is exposed to agro-climatic risks. Additionally, the inherent cyclicality of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as JSTIL.

Liquidity position - Stretched

Weak profitability and high debt quantum having sizeable repayment obligations are likely to keep the liquidity position stretched. Consequently, the entity's dependence on refinance of debt and cash flows from non-core activities will remain high. The working capital limits remained almost fully utilised. Timely conclusion of the planned asset monetisation will remain a key factor determining the liquidity position going forward.

Rating sensitivities

Positive triggers – ICRA does not foresee any improvement in the rating in the near term.

Negative triggers – Delay in asset monetisation and deleveraging plans, leading to continued higher debt quantum coupled with weak profitability, thus continue to stretch debt-coverage indicators and liquidity position

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Bulk Tea Industry Rating Methodology for Entities in the Sugar Industry Rating Methodology for Entities in the Agrochemicals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on JSTIL's consolidated financial profile. As on March 31, 2019, JSTIL had three Indian subsidiaries and one foreign subsidiary along with two step-down subsidiaries mentioned in Annexure 2.

About the company

JSTIL, a part of the BK Birla Group, produces and sells bulk tea, sugar and chemicals. The tea business accounts for around 65% of the company's revenues, while the rest comes from its chemicals and sugar businesses, which it started in FY2011 through acquisition of the erstwhile MP Chini Industries Limited. ICRA notes that JSTIL has demerged its sugar division into a wholly-owned subsidiary, named Majhaulia Sugar Industries Private Limited (MSIPL), with effect from April 1, 2016. At present, MSIPL has a crushing capacity of 5,000 TCD. The company also has a co-generation plant of 6 MW capacity for captive consumption. In May 2019, MSIPL commenced a distillery with an ethanol production capacity of 60 KLPD.

In FY2019, on a consolidated basis, the entity reported a net loss of Rs. 3.95 crore on an operating income of Rs. 756.92 crore compared to a net profit of Rs.2.24 crore on an operating income of Rs. 755.15 crore in the previous year. On a stand-alone basis, in FY2019, JSTIL reported a net profit of Rs. 3.10 crore on an operating income of Rs. 560.67 crore compared to a net profit of Rs. 3.39 crore on an operating income of Rs. 551.14 crore in the previous year.

Key financial indicators (audited, Consolidated)

	FY2018	FY2019	H1 FY2020
Operating Income (Rs. crore)	755.15	756.92	356.08
PAT (Rs. crore)	2.24	(3.95)	(11.24)
OPBDIT/OI (%)	1.62%	2.93%	6.07%
RoCE (%)	5.05%	5.27%	
Total Debt/TNW (times)	1.61	2.03	2.10
Total Debt/OPBDIT (times)	43.78	29.50	-
Interest coverage (times)	0.29	0.45	0.71

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding As on March 2019 (Rs Crore)	Date & Rating 10-January 2020	Date & Rating 29-July 2019	Date & Rating in FY2019 25-Oct 2018	Date & Rating in FY2018 19-Jan 2018	Date & Rating in FY2017 06-Jan 2017	Date & Rating in FY2017 10-Nov 2016	Date & Rating in FY2016 21-Oct 2015
1	Term Loan	Long Term	89.49	200.31	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]A- (negative)	-	-
2	Fund Based Limits	Fungible b/w LT and ST	270.00	NA	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB (Negative) / [ICRA]A3+	[ICRA]BBB+ (stable) / [ICRA]A2	[ICRA]BBB+ (stable) / [ICRA]A2	[ICRA]A- (negative) / [ICRA]A2+	[ICRA]A- (negative) / [ICRA]A2+	[ICRA]A- (negative) / [ICRA]A2+
3	Non-Fund Based Limits	Short Term	45.18	NA	[ICRA]A3	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

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	Term Loan	Jan-14 – Mar-19	8-10%	FY2020-FY2024	89.49	[ICRA]BBB- (Negative)
NA	Fund Based Limits	NA	NA	NA	270.00	[ICRA]BBB-(Negative)/ [ICRA]A3
NA	Non-fund based Limits	NA	NA	-	45.18	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Majhaulia Sugar & Industries Limited	100.00%	Full Consolidation
North Tukvar Tea Company Limited	90.50%	Full Consolidation
Jayantika Investment and Finance Limited	100.00%	Full Consolidation
Birla Holdings Limited (BHL)	100.00%	Full Consolidation
Kijura Tea Company Limited (Subsidiary of BHL)	100.00%	Full Consolidation
Bondo Tea Estates Limited (Step-down subsidiary of BHL)	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
022-61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents