February 26, 2020

The Grob Tea Company Limited: Long-term rating downgraded; short-term rating assigned; rated amount enhanced

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	35.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A- (Stable)
Non-fund Based Limits – Bank Guarantee	-	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; Assigned
Total	**15.00**	**45.00**	

** Instrument details are provided in Annexure-1*

Rationale

The downward revision in the long-term rating considers The Grob Tea Company Limited's (TGTCL) unrelated diversification into the business of LED lights, which led to a high working capital requirement for the company, resulting in an elevated debt level and liquidation of investments.

Meanwhile, the ratings continue to derive comfort from the management's extensive experience in the tea industry and the company's favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators. The ratings also factor in the company's focus on production of premium quality tea that commands a premium over the average market realisation.

The ratings, however, 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 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. The company's ability to ramp up its new business of LED lights profitably would be a key rating determinant, going forward, as the company has limited experience in this line of business.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that TGTCL will continue to benefit from its established track record of operation in tea business.

Key rating drivers and their description

Credit strengths

Experience of the management in the tea industry – Incorporated in 1895, 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. Sharaf, who has been associated with the tea industry for more than five 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. 191/ kg during the first half of FY2020 compared to the North Indian auction average of around Rs. 162/ kg during the same period. TGTCL'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 the fixed-cost nature of the industry are mitigated, to an extent, by the favourable productivity of ~1,823 kg per hectare in FY2019.

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 0.57 times (0.45 times as on March 31, 2018) as on March 31, 2019. Despite an improvement in the profitability, rise in debt level led to a deterioration in the coverage indicators of the company to an extent during the first nine months of the current fiscal (9M FY2020) compared to the same period (9M FY2019) of the previous fiscal. ICRA notes that the overall capital structure and coverage indicators of TGTCL are likely to witness some deterioration in FY2020 over the previous fiscal on the back of an increase in working capital borrowings. Nevertheless, the same would continue to remain at a comfortable level in the near term.

Credit challenges

Ventured into unrelated business segment, leading to reduced liquidity comfort – The company has entered into a new venture in FY2019 for supply of LED lights primarily to various Government entities/ departments, which led to high working capital requirement. Accordingly, the overall debt level of TGTCL has increased on the back of additional working capital borrowings in the current fiscal. Additionally, the entire investment in mutual fund (Rs. 4.42 crore as on March 31, 2019) had been liquidated in the current fiscal to meet the enhanced working capital requirement, impacting the entity's liquidity position. The company's ability to ramp up its new business segment as well as to run the same in a profitable manner remains to be seen, as the company has limited experience in this line of business.

Modest scale of current operations, declining profitability over the past few years – TGTCL operates through six gardens, producing around 4.5-4.8 Mkg of tea in the past four years. This leads to a moderate scale of operations, which accentuates the agro-climatic as well as the fixed-cost intensive risks for the company. The operating income (OI) of TGTCL increased to Rs. 79.88 crore in FY2019 from Rs. 77.06 crore in FY2018, registering a growth of around 4%, primarily driven by revenue generated from the sale of LED lights. Although TGTCL is unlikely to record any revenue from its LED light division, the top line of the company is expected to register a growth of around 3% in FY2020 over the previous fiscal, primarily driven by an increase in the volume of tea sold. The overall profitability of the company witnessed a steady decline over the past three years on the back of muted realisation of tea sold and high labour costs. The ROCE of the company also continued to remain depressed. However, with an increase in the volume of production and sale of tea, along with a marginal improvement in the realisation, the profit of the company is likely to be marginally higher in the current fiscal vis-a-vis FY2019.

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.

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.

Liquidity position: Adequate

The company has generated positive fund flow from operations (FFO) during the last few years on account of adequate cash accruals from the business and low working capital intensity of operations. The average utilisation of fund-based working capital limits has remained at a moderate level and in trend with the tea hypothecation season. However, new business line for supply of LED lights to various Government entities/ departments is likely to increase the working capital requirement for the company to a large extent, going forward. In view of adequate cash flows from operations and nominal long-term debt service obligations, ICRA expects TGTCL's liquidity position to remain adequate, going forward.

Rating sensitivities

Positive triggers – ICRA may upgrade TGTCL's ratings if the entity demonstrates a significant improvement in the performance of tea business and/or profitably grows its business of LED lights along with efficient management of working capital cycle.

Negative triggers – Pressure on TGTCL's ratings may arise on the back of lower-than-expected profits as well as cash accruals from business and weakening of the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Bulk Tea Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 1895, TGTCL produces black tea of crush, tear, curl (CTC) 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 47% is under tea cultivation. In FY2019, the company ventured into supply, installation and maintenance of LED lights to various Government entities/ departments.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	9M FY2019 (Unaudited)	9M FY2020 (Unaudited)
Operating Income (Rs. crore)	77.06	79.88	66.37	70.13
PAT (Rs. crore)	1.83	1.40	13.05	16.84
OPBDIT/ OI (%)	7.62%	5.88%	22.85%	27.28%
RoCE (%)	7.14%	5.44%	-	-
Total Outside Liabilities/Tangible Net Worth (times)	0.45	0.57	-	-
Total Debt/ OPBDIT (times)	0.76	1.36	-	-
Interest Coverage (times)	14.91	7.55	30.43	17.49
DSCR	11.26	7.06	-	-

Source: The Grob Tea Company Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
				31-Dec-2019	26-Feb-2020	07-Mar-2019	01-Feb-2018	16-Jan-2017
1	Fund-based Working Capital Facility	Long Term	35.00	10.24	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Bank Guarantee	Long Term/ Short Term	10.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

Amount in Rs. crore
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	-	-	-	35.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: The Grob Tea Company Limited

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

ANALYST CONTACTS

Mr. K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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