June 02, 2020

# Jay Shree Tea & Industries Limited: Ratings downgraded to [ICRA]BB+/[ICRA]A4+; 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]BB+(Negative) from [ICRA]BBB-(Negative) |
| Fund-based - Working Capital Facilities | 270.00 | 270.00 | Downgraded to [ICRA]BB+(Negative)/[ICRA]A4+ from [ICRA]BBB-(Negative)/[ICRA]A3 |
| Non-fund based limits | 45.18 | 45.18 | Downgraded to [ICRA]A4+ 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]BB+, with Negative outlook), given the financial and managerial linkages between the two companies.

The rating action factors in the weaker-than-previously estimated performance of the consolidated entity in FY2020 and ICRA's expectation that debt coverage indicators are likely to remain depressed in FY2021 as well, despite a likely improvement in the operating performance with the ramp up of MSIPL's distillery operations and a likely improvement in tea realisation. In FY2020, while tea realisation remained depressed, ethanol production in MSIPL also remained sub-optimal, leading to continued net losses and aggressive capital structure estimated for the consolidated entity. Weak profitability and rising debt levels kept the debt coverage indicators under pressure and liquidity stretched. In FY2020, the company is estimated to have incurred losses both at the operating and net levels. The weak performance was already evident in the performance of 9M FY2020. While the current lockdown situation is likely to adversely impact tea production in FY2021, tea realisation is likely to improve compared to the previous year due to production deficit as well as the management's focus on improving quality and adoption of a changed garden management strategy. The capacity utilisation of the distillery unit is also expected to significantly increase, improving the overall operating performance of the consolidated entity. Nonetheless, given the high debt quantum with sizeable repayment obligations, notwithstanding the loan moratorium availed till August 2020, the overall debt coverage indicators and liquidity profile of the company would continue to remain under pressure, exposing the company to refinancing risks. ICRA expects that cash flows from operations are unlikely to be sufficient to meet debt obligations. ICRA, however, notes that the company has sizeable investment portfolio mostly under lien, which the company is planning to liquidate to reduce the debt quantum in FY2021. Further, the company has certain asset monetisation plans, which would also result in a reduction in consolidated debt going forward. Timely liquidation of the investment portfolio as well as fruition of the asset monetisation plans would be critical to meet its debt-servicing requirements. ICRA, however, takes comfort from the track record of timely support from the promoter in the form of inter-corporate deposit/advances and expects the same, if required, going forward.

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, as both tea and sugar are agricultural commodities. Moreover, the inherent cyclicality of the fixed-cost intensive tea industry, along with its seasonal nature, 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 commissioning of the distillery capacity in FY2020, the operating profile of the sugar company has strengthened.

JSTIL has sought a moratorium on payments from its lenders as a part of the Covid-19 Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments for March and April 2020, were deferred by the company. However, as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not recognised this instance as a Default.

## Key rating drivers and their description

## 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 mills 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, through a separate subsidiary. 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.

**Improvement in capacity utilisation of the distillery operation likely to support cash flows of the consolidated entity in FY2021** – The commercial production of distillery operation in the subsidiary, MSIPL, began in May 2019. The installed capacity of the distillery unit is 56 KLPD, for which the capital cost was around Rs. 125 crore, funded through a mix of soft loans, asset monetisation and internal accruals. The capacity utilisation (CU) of the unit remained sub-optimal in FY2020 owing to capacity enhancement done in H2 FY2020. However, a significant ramp-up of the distillery operations is expected in FY2021. Given the favourable contribution level expected from the production of ethanol, the same is likely to support 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.

## Credit challenges

**Weaker-than-anticipated consolidated financial performance likely in FY2020** – The performance of the consolidated entity is likely to remain weaker than anticipated in FY2020. While tea realisation remained depressed, the ethanol production in MSIPL also remained sub-optimal, thus estimated to adversely impact the profitability and net cash accruals during the last financial year. While the tea realisation was impacted owing to certain changes in field practices, low ethanol production was owing to certain teething issues in the first year of operation. However, significant non-operating income from sale of overseas gardens is likely to support the cash flows to an extent. While the current lockdown is likely to adversely impact tea production in FY2021, tea realisation is likely to improve compared to the previous year due to production deficit as well as management's focus on improving quality and adoption of a changed garden management strategy. Also, capacity utilisation of the distillery unit is expected to significantly improve, thus improving the overall operational performance of the consolidated entity. Nonetheless, given the high finance cost and debt repayment obligations, the net profitability and debt-coverage indicators are likely to remain depressed in FY2021.

**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 an estimated gearing of over 2.0 times as of FY2020. The repayment obligations of the same remain sizeable in FY2021, notwithstanding the loan moratorium availed till August 2020. High repayment obligation coupled with depressed profitability and tight liquidity exposes the company to significant refinancing risks. In addition, the company has sizeable investment portfolio mostly under lien, which the company is planning to liquidate to reduce the debt quantum in FY2021. Timely liquidation of the investment to meet its debt-servicing requirement will remain critical. Further, the company has certain asset monetisation plans, which would also result in a reduction in consolidated debt, going forward.

**Continued vulnerability of sugar companies, including MSIPL, to Government policies related to cane pricing** – The performance of JSTIL's sugar company is dependent on the Government's policy on cane prices, although the distillery is likely to mitigate the risks to a considerable extent. Also, the recent support by both the Central and the state governments, which included revision in minimum support prices, interest subvention loans for ethanol expansion and providing soft loans (by the Central Government) in addition to the export subsidy, supported the sugar industry. Besides, the commencement of 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 consolidated 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. The company plans to liquidate its entire investment portfolio of around Rs. 113 crore as on March 31, 2020 to reduce the total debt in FY2021. Timely liquidation of the investment to meet the debt-servicing requirement will remain important.

## Rating sensitivities

**Positive triggers** – An upgrade in the ratings is unlikely in the near term. Nonetheless, sustained improvement in operating metrics and profitability margins of the tea division and the sugar business along with an improvement in debt coverage indicators and liquidity position, could be triggers for a change in the outlook.

**Negative triggers** – Delay in asset monetisation and liquidation of investment portfolio, leading to a continued high debt quantum coupled with weak profitability, thus continue to stretch debt-coverage indicators and liquidity position may result in ratings downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Indian Bulk Tea Industry<br>Rating Methodology for Entities in the Sugar Industry<br>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, as 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 56 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 standalone 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 | 9M FY2020 |
|---|---|---|---|
| Operating Income (Rs. crore) | 755.15 | 756.92 | 558.28 |
| PAT (Rs. crore) | 2.24 | (3.95) | (37.19) |
| OPBDIT/OI (%) | 1.62% | 2.93% | 1.96% |
| RoCE (%) | 5.05% | 5.27% | |
| | | | |
| Total Debt/TNW (times) | 1.61 | 2.03 | - |
| Total Debt/OPBDIT (times) | 43.78 | 29.50 | - |
| Interest coverage (times) | 0.29 | 0.45 | 0.24 |

*Source: Company data*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Rating (FY2021) | | | | Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding (March 31, 2020) | Current Rating | FY2020 | | FY2019 | FY2018 |
| | | | | | 02-June-2020 | 10-Jan-2020 | 29-July-2019 | 25-Oct-2018 | 19-Jan-2018 |
| 1 | Term Loans | LT | 89.49 | 124.00 | [ICRA]BB+ (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB (Negative) | [ICRA]BBB+ (stable) | [ICRA]BBB+ (stable) |
| 2 | Fund-based Limits | LT/ST | 270.00 | - | [ICRA]BB+ (Negative) / [ICRA]A4+ | [ICRA]BBB- (Negative) / [ICRA]A3 | [ICRA]BBB (Negative) / [ICRA]A3+ | [ICRA]BBB+ (stable) / [ICRA]A2 | [ICRA]BBB+ (stable) / [ICRA]A2 |
| 3. | Non-fund-based Limits | ST | 45.18 | - | [ICRA]A4+ | [ICRA]A3 | [ICRA]A3+ | [ICRA]A2 | [ICRA]A2 |

*LT: Long term; ST: Short term*

## 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]BB+ (Negative) |
| NA | Fund Based Limits | NA | NA | NA | 270.00 | [ICRA]BB+(Negative)/[ICRA]A4+ |
| NA | Non-fund based Limits | NA | NA | - | 45.18 | [ICRA]A4+ |

*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 |

*Source: Annual report*

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## About ICRA Limited:

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