July 20, 2020

Apeejay Tea Limited: Long-term rating downgraded to [ICRA]BBB+; Short-term rating reaffirmed at [ICRA]A2; Outlook continues to remain Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT-Fund Based- CC	135.00	135.00	Downgraded to [ICRA]BBB+(Negative) from [ICRA]A-(Negative)
LT-Term Loans	412.00	412.00	Downgraded to [ICRA]BBB+(Negative) from [ICRA]A-(Negative)
ST-Fund Based Limits	33.75	33.75	[ICRA]A2 reaffirmed
LT/ST-Fund Based Limits	39.00	39.00	Downgraded to [ICRA]BBB+(Negative) from [ICRA]A-(Negative); ST rating reaffirmed at [ICRA]A2
LT/ST- Unallocated	38.25	38.25	Downgraded to [ICRA]BBB+(Negative) from [ICRA]A-(Negative); ST rating reaffirmed at [ICRA]A2
Total	**658.00**	**658.00**	

LT- Long term; ST- Short term; *Instrument Details are provided in Annexure 1

Rationale

The downgrade reflects Apeejay Tea Limited's (ATL) continued high leverage and stretched liquidity position amid delay in deleveraging plans and ICRA's expectation that credit metrics and liquidity are likely to remain depressed and out of line with its current credit ratings in FY2021 as well, despite likely improvement in tea realisation and cost-reduction initiatives being undertaken by the company. In FY2020, the cost structure and cropping yield remained adverse, thus leading to continued net losses estimated for the full year, thereby adversely impacting the company's debt coverage indicators and liquidity position. The lockdown in April and May 2020 has adversely impacted tea production, which in turn is expected to support tea realisations. While current tea prices are substantially higher on a year-on year basis, the same may not be an indicator of the likely trend for the full year, with production trends in the high cropping months from July to September are likely to determine the price trajectory, going forward. Nonetheless, prices are expected to remain high compared to the last year. Such a trend along with continuous focus of the management on improving quality and changing product mix, coupled with various cost-reduction initiatives, are likely to result in an improvement in the company's financial performance in the current year. Nonetheless, notwithstanding the loan moratorium availed till August 2020, the high debt quantum with sizeable interest and repayment obligations, will result in the overall debt coverage indicators and liquidity profile of the company remaining under pressure in FY2021. In addition, contrary to earlier expectation, the delay in group's proposed deleveraging plans has resulted in overall debt quantum of the group as well as the company remaining high. ICRA expects that cash flows from operations are unlikely to be sufficient to meet its debt service obligations, thus exposing the company to refinancing risks. ICRA, however, notes that the company and the Group are under discussion with lenders for refinancing its debt obligations with an extended repayment tenure, which would provide a liquidity cushion to the company in the near term. Timely fruition of the same will remain a key rating factor. Moreover, the company's ability to reduce the overall debt levels and improve profitability will remain key rating sensitivities, going forward.

The ratings continue to favourably factor in the established position of the company in the domestic bulk tea industry with superior quality of tea produced along with a favourable age profile of the tea bushes. Financial flexibility of being a part of the Apeejay Surrendra Group as well as established relationships with banks also provide comfort. The ratings, however, also factor in the risks associated with tea for being an agricultural commodity, which is dependent on agro-climatic conditions, as well as the inherent cyclicality of the fixed-cost intensive tea industry, both of which lead to a variability in profitability and cash flows of bulk tea producers such as ATL. In addition, Indian tea is essentially a price taker in the international market and hence global demand-supply dynamics continue to impact the domestic price levels to an extent. The company is focussing on improving the quality as well as augmenting its orthodox tea production to support the overall realisations, which would mitigate the said risks to an extent.

ATL 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, April, May 2020 and June 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 position of the company in the domestic bulk tea industry – ATL is an established producer of bulk tea (in both CTC and orthodox varieties), accounting for around 2% of India's tea production. ATL's tea commands a premium over auction averages because of its established position in the industry, its better quality with continued focus on improving quality and increasing proportion of orthodox tea production. The company also exports a portion of its production. Such exports, which are of superior quality, command a healthy premium compared to the domestic auction averages.

Focus on increasing share of orthodox teas to support realisations – The company has augmented its orthodox tea production in FY2020, which commands a significant premium over the CTC variety of tea. The orthodox tea production is likely to further increase in the current financial year, which along with continued focus on improving the overall quality of the produce, is likely to support the overall tea realisation of the company.

Financial flexibility for being a part of the diversified Apeejay Surrendra Group – ATL enjoys financial flexibility for being a part of the Apeejay Surrendra Group with diversified business interests, as well as its established relationship with domestic banks. The company and the Group also have demonstrated ability to refinance debt at attractive terms, given its established relationship with domestic banks.

Credit challenges

Delay in deleveraging plans – Contrary to earlier expectations, the overall debt quantum continues to remain high. The company had planned sizeable deleveraging, including prepayment of loans from the proceeds of the proposed IPO of Apeejay Surrendra Park Hotels Limited. However, given the current market situation, an IPO is unlikely in the near term. The same has derailed the deleveraging plans of the company as well as other Group entities in the near to medium term.

Weak financial risk profile – ATL had continuously reported operating and cash losses in the last four financial years. In FY2020, the performance continued to remain weak and ATL is estimated to report sizeable losses at the net level for the full year, thus adversely impacting the debt protection metrics and liquidity position of the company. The lockdown in April and May 2020 has adversely impacted tea production, which in turn is expected to support tea realisation. However, the price trajectory will be determined by the production trends in the high cropping months from July to

September. The company also expects significant cost savings to improve the cost structure. Nonetheless, given the high debt quantum with sizeable interest and repayment obligations, notwithstanding the loan moratorium availed till August 2020, the overall debt coverage indicators and liquidity position of the company would continue to remain under pressure in FY2021, exposing ATL to refinancing risks. ICRA, however, notes that the company and the Group are under discussion with lenders for refinancing its debt obligations with an extended repayment tenure, which would provide liquidity cushion in the near term for the company as well. Timely fruition of the same will remain a key rating sensitivity.

Risks associated with tea for being an agricultural commodity as well as the inherent cyclicality of the fixed-cost intensive tea industry – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea estate costs are primarily fixed with labour-related costs, which are independent of the volume produced, accounting for around 50% of the production cost. This leads to variability in profitability and cash flows of bulk tea producers such as ATL. The company's comparatively lower yield in Kg/ha further accentuates the risks associated with the fixed cost intensive nature of operations.

Liquidity position: Stretched

The liquidity of ATL is stretched. Significant operating losses incurred over the years adversely impacted the liquidity position. ICRA notes that the Group has made fund infusion/taken unsecured loans to support the liquidity position in FY2020. However, delay in deleveraging plans and weak profitability are likely to keep the liquidity position stretched in the near to medium term.

Rating sensitivities

Positive triggers – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. The outlook may be revised to Stable in case of a significant improvement in the operating profitability and reduction in the overall debt quantum, thus improving the debt coverage indicators and liquidity position.

Negative triggers – Continued high debt quantum, coupled with weak profitability could be triggers for a downgrade in ratings.

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	ICRA expects other companies in the Apeejay Surrendra Group to continue to extend financial support to ATL, should there be any requirement. ICRA has also factored in the fungibility of cash flows within different businesses of the Group. ATL also shares a common name with other Apeejay Group entities, which in ICRA's opinion would persuade the Apeejay Group to provide financial support to ATL to protect its reputation from the consequences of a Group entity's distress
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Apeejay Tea Limited is a part of the Kolkata-based Apeejay Group, which in addition to tea has interests in shipping, hospitality, real estate and retail. ATL carries out the bulk tea businesses of the Group through its 17 gardens and operates the packet tea business under Apeejay Typhoo brand. The overall operating profile, however, is determined by the performance of the bulk tea operations, which account for ~95% of its income and the entire profits.

In FY2019, ATL recorded a loss after tax of Rs. 80.95 crore on an operating income of Rs. 462.06 crore compared to a loss after tax of Rs. 79.85 crore on an operating income of Rs. 412.98 crore in FY2018.

Key financial indicators (audited)

Standalone financials

	FY2018	FY2019
Operating Income (Rs. crore)	412.98	462.06
PAT (Rs. crore)	-79.85	-80.95
OPBDIT/OI (%)	-12.83%	-16.67%
RoCE (%)	-5.19%	-2.69%
Total Outside Liabilities/Tangible Net Worth (times)	1.09	1.65
Total Debt/OPBDIT (times)	-8.44	-7.66
Interest coverage (times)	-1.73	-1.42
DSCR	-0.13	-0.02

Source: Annual reports of company

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
					20-July-2020	06-Mar-2020	29-Oct-2019	06-May-2019	06-Apr-2018	31-Jan-2018
1	Fund Based- CC	LT	135.00	111.70	[ICRA]BBB+ (Negative)	[ICRA]A-(Negative); RWN removed	-	-	-	-
2	Term Loans	LT	412.00	284.69	[ICRA]BBB+ (Negative)	[ICRA]A-(Negative); RWN removed	-	-	-	-
3	Fund Based Limits	ST	33.75	33.75	[ICRA]A2	[ICRA]A2; RWN removed	-	-	-	-
4	Fund Based Limits	LT/ST	39.00	33.63	[ICRA]BBB+(Negative) / [ICRA]A2	[ICRA]A-(Negative)/ [ICRA]A2; RWN removed	-	-	-	-
5	Unallocated	LT/ST	38.25	NA	[ICRA]BBB+(Negative) / [ICRA]A2	[ICRA]A-(Negative/ [ICRA]A2; RWN removed	-	-	-	-
6	Fund based/ non-fund based interchangeable *	LT/ ST	0.00	NA	-	-	[ICRA]A@/ [ICRA]A2+@	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
7	CP Programme	ST	0.00	NA	-	Withdrawn at [ICRA]A2; RWN removed	[ICRA]A2+@	[ICRA]A2+	[ICRA]A1+	[ICRA]A1+

@ denotes rating watch with negative implications; RWN: rating watch with negative implication

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- CC	NA	NA	NA	135.00	[ICRA]BBB+(Negative)
NA	Term Loans	FY2018-19	9.95%-11.35%	FY2026-FY2029	412.00	[ICRA]BBB+(Negative)
NA	Fund Based Limits	NA	NA	NA	33.75	[ICRA]A2
NA	Fund Based Limits	NA	NA	NA	39.00	[ICRA]BBB+(Negative)/ [ICRA]A2
NA	Unallocated	NA	NA	NA	38.25	[ICRA]BBB+(Negative)/ [ICRA]A2

Source: ATL

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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.

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