December 08, 2020

Jay Shree Tea & Industries Limited: Ratings reaffirmed at [ICRA]BB+/[ICRA]A4+; outlook revised to Stable

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	Reaffirmed at [ICRA]BB+; outlook revised to Stable from Negative
Fund-based - Working Capital Facilities	270.00	270.00	Reaffirmed at [ICRA]BB+/[ICRA]A4+; outlook revised to Stable from Negative
Non-fund based limits	45.18	45.18	Reaffirmed at [ICRA]A4+
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 Stable outlook), given the financial and managerial linkages between the two companies.

The ratings action factors in the improvement in the financial performance of the consolidated entity in H1 FY2021, driven by a sharp increase in tea realisations. The consolidated operating profitability (OPM) and the interest coverage improved to 22% and 3.60 times, respectively in H1 FY2021 compared to 4% and 0.48 times in the corresponding period of the last year. In CY2020, tea production has been adversely impacted during March-May 2020 because of the lockdown and adverse weather conditions including floods in Assam and North Bengal. This resulted in a tea shortage in the market and led to a sharp increase in realisation. While the production loss is likely to result in an increase in the cost of production, a substantially higher increase in realisation is expected to more than compensate for the same.

A sharp increase in tea prices coupled with better capacity utilisation, on an expanded capacity, of the distillery unit in MSIPL is expected to improve the financial performance of the consolidated entity in FY2021. Notwithstanding the improvement, the overall debt coverage indicators and liquidity profile of the company would continue to remain under pressure given the high debt quantum with sizeable scheduled repayment obligations. ICRA, however, notes that the company has the financial flexibility of utilising its sizeable investment portfolio to meet its debt obligations/prepay its term loans in FY2021. The company has already partly liquidated the same in H1 FY2021. In addition, the company has also sold tea estates in the current year, proceeds from which have been utilised to pare debt. Timely liquidation of the investment portfolio as well as fruition of other asset monetisation plans to further reduce the debt quantum would continue to remain the key rating factors. 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. 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 and continued cost pressure 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 a 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.

Key rating drivers and their description

Credit strengths

Improvement in operating profits in H1 FY2021, driven by increased realisation of bulk tea – The financial performance of the consolidated entity has witnessed a sharp improvement in H1 FY2021, driven by a considerable uptick in tea realisation. The operating profits improved to Rs. 93 crore in H1 FY2021 compared to Rs. 15 crore in the corresponding period of the previous year. In CY2020, tea production was impacted during March-May because of the lockdown restrictions and adverse weather conditions, including floods in Assam and North Bengal. This resulted in a tea shortage in the market and led to a sharp increase in tea prices. While the production loss is likely to result in an increase in the cost (of production), substantially higher realisations are expected to more than compensate for the same, leading to an improvement in the operating profits in FY2021.

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 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 the cash flows of the consolidated entity, going forward. Ethanol capacity is also likely to reduce the risks associated with the non-integrated nature of sugar operations and make MSIPL's performance less susceptible to the Government's policy on cane pricing.

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 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, which are spread across 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.

Credit challenges

Debt coverage indicators continue to remain depressed – The debt protection metrics of the consolidated entity, notwithstanding an improvement, are likely to remain under pressure in FY2021. ICRA notes that the capital structure and debt coverage indicators remained unfavourable for the entity owing to weak performance in FY2020. With a likely improvement in realisation, the profits and cash accruals are expected to improve in the current fiscal. Nonetheless, given the high debt quantum with sizeable scheduled repayment obligations, the overall debt coverage indicators and liquidity profile of the company would continue to remain depressed. ICRA, however, notes that the company has the financial flexibility of utilising its sizeable investment portfolio to meet its debt obligations/prepay its term loans in FY2021. The company has already partly liquidated the same in H1 FY2021. In addition, the company has also sold tea estates in the current year, proceeds from which have been utilised to pare debt. Timely liquidation of the investment portfolio as well as fruition of other asset monetisation plans to further reduce the debt quantum would continue to remain the key rating monitorable.

Continued vulnerability of sugar companies, including MSIPL, to Government policies related to cane pricing – The performance of JSTIL's sugar company depends 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

The profits and cash accruals are expected to improve in the current fiscal. However, high consolidated debt quantum having sizeable repayment obligations are likely to keep the liquidity position stretched. The company plans to liquidate its investment portfolio of around Rs. 104 crore as on March 31, 2020 to reduce the total debt in FY2021. Timely liquidation of investment to meet the debt-servicing requirement will remain important. Further, the garden sale proceeds of Rs. 27.50 crore will also support the cash flow position.

Rating sensitivities

Positive triggers – A further improvement in debt coverage and liquidity position of the consolidated entity on the back of a sustained trend of improving profitability could be triggers for ratings upgrade.

Negative triggers – A reversal of tea industry dynamics, leading to a deterioration in the overall credit profile of the consolidated entity, may result in ratings downgrade.

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, 2020, 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 the 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 FY2020, on a consolidated basis, the entity reported a net loss of Rs. 82.66 crore on an operating income of Rs. 717.32 crore compared to a net loss of Rs. 3.95 crore on an operating income of Rs. 756.92 crore in the previous year. On a standalone basis, in FY2020, JSTIL reported a net loss of Rs. 27.88 crore on an operating income of Rs. 486.49 crore compared to a net profit of Rs. 3.10 crore on an operating income of Rs. 560.67 crore in the previous year.

Key financial indicators (audited, Consolidated)

	FY2019	FY2020	H1 FY2020	H1 FY2021
Operating Income (Rs. crore)	756.92	717.32	356.08	421.01
PAT (Rs. crore)	-3.95	-82.66	-11.24	64.89
OPBDIT/OI (%)	2.93%	-5.22%	4.15%	22.15%
PAT/OI (%)	-0.52%	-11.52%	-3.16%	15.41%
Total Outside Liabilities/Tangible Net Worth (times)	2.86	4.49	-	2.78
Total Debt/OPBDIT (times)	29.50	nm	-	-
Interest Coverage (times)	0.45	-0.64	0.48	3.60

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
					08-Dec-2020	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+ (Stable)	[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+ (Stable) / [ICRA]A4+	[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]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 click here

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+ (Stable)
NA	Fund Based Limits	NA	NA	NA	270.00	[ICRA]BB+(Stable)/[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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