

June 11, 2019

Ethelwold Estate Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based working capital Limits	8.28	8.54	[ICRA]BBB- (Stable) Reaffirmed
Unallocated limits	1.72	1.46	[ICRA]BBB- (Stable) Reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rationale

To arrive at the rating, ICRA has taken into consideration the consolidated operational and financial profile of Ethelwold Estate Pvt. Ltd. (EEPL) along with its Group companies, Limbuguri Tea Estate Pvt. Ltd. (LTEPL, rated at [ICRA]BBB- (Stable)) and Arunachal Tea & Industries Pvt. Ltd. (ATIPL, rated at [ICRA]BBB- (Stable)) because of the managerial, operational and financial linkages among them.

The reaffirmation of the rating considers the conservative capital structure of the Group despite the transfer of assets and liabilities worth Rs. 21.95 crore to Mancotta Holdings Private Limited in FY2019 and its comfortable liquidity position, reflected by significant cash and liquid investments as on March 31, 2019. The rating also draws comfort from the Group's superior quality of tea, realisations of which are higher than the industry averages and the favourable age profile of tea bushes with around 70% of the same being in the productive age group of 5-50 years.

The rating, however, considers the risk associated with tea for being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicity of the fixed cost intensive tea industry that leads to variability in profitability and cash flows of bulk tea producers. Additionally, the Group's small scale of operations and geographical concentration of all its tea estates in the Upper Assam region increase such risks for the companies. ICRA also notes that Indian tea is essentially a price taker in the international market, and hence global supply-demand dynamics would continue to have a bearing on domestic price levels, to an extent. Going forward, the Group's ability to increase the productivity of the estates along with its ability to pass on the higher labour cost would be important determinants of its credit risk profile.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the Group will benefit from its continued focus on improving the quality of its produce, which would support a positive price trajectory, going forward. Additionally, the comfortable liquidity position of the Group is likely to support its overall financial risk profile despite the expected losses in FY2019. The outlook may be revised to Positive if tea production and/or realisation increases substantially relative to input costs, leading to strengthening of the financial risk profile. The outlook may be revised to Negative if further deterioration in profit and cash accrual and/or further transfer of liquid funds from the Group takes place, adversely impacting the company's financial profile.

Key rating drivers

Credit strengths

Conservative capital structure with low external debt and substantial cash and bank balance, NABARD deposits and liquid investment portfolio – The Group has maintained a conservative capital structure historically, as reflected by a gearing of 0.15 times as on March 31, 2018 owing to healthy accretion to reserves in the past along with low debt levels. As on March 31, 2018, the Group had a substantial amount of NABARD deposits, liquid investments and investments in tax-free bonds totalling Rs. 51.42 crore. However, ICRA notes that a significant portion of such investments were transferred from the Group to another company, Mancotta Holdings Private Limited (involved in investment activities), owned by the same promoters, in FY2019. While reduction in investments from these three tea entities (Group) is likely to have a negative impact on the non-operating income earned by these companies, the Group would continue to have an investment portfolio of around Rs. 26 crore (inclusive of tax-free bonds) as on March 31, 2019, providing liquidity comfort. Additionally, EEPL is supposed to receive Rs. 25.0 crore from National Highway Authority of India for the sale of land from Baughpara estate, which once received, would strengthen the Group's liquidity profile further. However, ICRA notes that the timeliness of disbursement of such payment remains uncertain as of now.

Superior quality of tea as evident from significant premium commanded by its produce compared to average auction prices – In FY2019, 51% of the total tea produced by the Group was orthodox variety of black tea and the balance was CTC variety of black tea. The Group's superior quality tea fetched Rs. 181 per kg in FY2019, a premium of 19% compared to the average North Indian auction prices. EEPL is primarily involved in manufacturing of CTC variety of black tea and the average tea realisations for the company stood at Rs. 172 per kg in FY2019. However, CTC realisations remained stagnant up to mid-May 2019.

Credit challenges

Operating losses likely to widen further in FY2019 despite improvement in tea production and realisation – The operating income of the Group is expected to improve marginally in FY2019 because of an improvement in the average tea realisations. In FY2019, the production of tea also stood marginally higher at 2.08 Mkg compared to 2.05 Mkg in FY2018. However, a sharp increase in labour costs in FY2019, with no commensurate increase in realisations, is likely to result in higher losses at the operating level during the year.

Risks associated with tea for being an agricultural commodity - The profitability and cash flows of bulk tea producers remain volatile because of the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions, as well as the inherent cyclicity of the fixed cost-intensive industry. Though the age profile of bushes remains favourable with 70% of the same being in the productive age group of 5-50 years, concentration of all the tea gardens in the Upper Assam region increases risks for the Group.

Prices of Indian tea, in spite of its better quality, remain vulnerable to price fluctuation in the international market – Prices of domestic tea, despite its better quality, are impacted by international prices to some extent. 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 the Group.

Liquidity position

The total liquid cash and bank balance as well as the tax-free bonds of the Group reduced significantly in FY2019, owing to the transfer of investments valuing Rs. 21.95 crore from ATIPL to another company, Mancotta Holdings Private Limited, owned by the same promoters. Nonetheless, the liquidity position of the Group would continue to remain comfortable at an absolute level, reflected by total investments of around Rs. 26 crore as on March 31, 2019. Additionally, moderate utilisation of working capital limits at 78% of the drawing power during the period March 2018 to January 2019 provides some cushion.

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	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

Ethelwold Estate Pvt. Ltd. (EEPL), incorporated in March 1947, owns two tea gardens in Dibrugarh district of Assam and is spread over a cultivable area of 438 HA under the leadership of Mr. Manoj Jalan. The company is mainly involved in plucking of green leaves and processing the same to manufacture crush-tear-curl (CTC) variety of black tea. Additionally, the company purchases leaves from another tea company, Jalannagar Tea Estate Private Limited, owned by the same promoters, which has a tea garden but no processing facility.

Key financial indicators (consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	36.63	35.51
PAT (Rs. crore)	0.54	-0.37
OPBDIT/OI (%)	-4.84%	-3.94%
RoCE (%)	2.96%	1.07%
Total Debt/TNW (times)	0.14	0.15
Total Debt/OPBDIT (times)	-4.69	-6.16
Interest coverage (times)	-2.11	-1.55

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
			As on March, 2018	June 2019	September 2018	-	March 2017
Fund-based-working capital	Long-term	8.54	3.87	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB (Stable)
Unallocated limits	Long-term	1.46	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB(Stable)

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 working capital limits	NA	NA	NA	8.54	[ICRA]BBB- (Stable)
NA	Unallocated limits	NA	-	NA	1.46	[ICRA]BBB- (Stable)

Source: Ethelwold Estate Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation Approach
Limbuguri Tea Estate Pvt. Ltd.	50%	Full Consolidation
Arunachal Tea & Industries Pvt. Ltd.	20.25%	Full Consolidation

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