September 11, 2019

Siewert and Dholakia Overseas Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/CC	6.24	6.24	[ICRA]BB+(Stable); Reaffirmed
Short Term - Non-fund Based	0.20	0.20	[ICRA]A4+; Reaffirmed
Total	**6.44**	**6.44**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings considers the extensive experience of the promoters in tea-trading business and established relationship with reputed clientele ensuring repeat orders from them. The ratings also consider the limited price risk associated with the inventory as a major portion of purchases are order backed. Further, the ratings factor in the healthy financial risk profile of the company, marked by low gearing and comfortable coverage metrics.

The ratings, however, continue to be constrained by the modest scale of operations with limited economies of scale and thin profit margins due to limited value addition, commoditised product and high competition. The ratings are also constrained by the company's significant dependence on its top customer, which accentuates the risk of order volatility. However, long relationship with the reputed customers mitigates the risk to a large extent. The company has high geographical concentration risks, exposing the company's business to any demand slowdown in key geographies. ICRA also notes the agro-climatic risks and seasonality inherent in the tea business.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's expectation that SDOPL will continue to benefit from the extensive experience of the promoters.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the tea-trading business - The promoters have significant experience in tea trading business, spanning across five decades. They have gained significant expertise in sampling tea from auction centres. Over the years, the promoters have also established strong relationship with dealers/ distributors, which aids in the operations.

Limited price risk as 70-80% of the inventory is order backed - The company follows order-backed procurement strategy, resulting in limited price risk. Any adverse price fluctuations might affect the margins of the company in cases the procurement is not backed by orders.

Healthy gearing and comfortable coverage indicators - The capital structure of the company remained healthy with absence of term-loan and low utilisation of working capital limits as on March 31, 2019. This is reflected by a low gearing of 0.46 times and Total outside liabilities/Total net worth of 0.58 times as on March 31, 2019. The coverage indicators were comfortable with interest coverage of 3.95 times and debt service coverage ratio of 3.09 times in FY2019.

Credit challenges

Relatively modest scale of operations, limiting benefits from economies of scale – The scale of operations remained modest with an operating income of Rs. 39.50 crore in FY2019 against Rs. 36.80 crore in FY2018, restricting economies of scale. The modest scale restricts the market position, ability to influence pricing and operational efficiency of the company.

Modest operating margins due to limited value addition, commoditised product and intense competition – The company's margins remained thin due to limited value addition in its operations and trading in commoditised product in an intensely competitive and fragmented industry. The company not only faces competition from other tea traders in India but also from other tea-exporting nations like Kenya, Indonesia and Sri Lanka, limiting its pricing flexibility. The operating margins stood at 4.94% in FY2019, which increased from 3.14% in FY2018 owing to an increase in incentives.

High customer and geographical concentration risks – The company sells processed tea to tea traders and manufacturers in Europe and Asian countries. The company's revenues continue to be highly concentrated from a customer in Russia, leading to high customer (top 5 customers contributing 99% to the overall revenue in FY2019) and geographical concentration risks (89% of the overall sales made to Russia), which exposes the company's business to any demand slowdown from them. However, the risk is mitigated to an extent by the company's order-backed procurement strategy and long relationship with its customers, resulting in repeat orders.

Operations susceptible to agro-climatic risks and margins susceptible to forex fluctuations – Tea, being an agricultural commodity, relies heavily on rainfall and temperature levels. Any adverse climatic conditions can influence both the quantity and quality of tea produced. Hence the company remains exposed to various weather-associated risks, which could impact the industry dynamics. Further, the company derived more than 90% of its revenues from exports in FY2019, which exposes its revenues and margins to the foreign currency rate fluctuations.

Liquidity position: Adequate

SDOPL's liquidity is **adequate** with no capex commitment and absence of any term loan repayment obligations. Although the cash flow from operations were negative in FY2019 due to increase in working capital requirements, the company had sufficient unutilised working capital limits. SDOPL's inventory requirements are higher in the second half of the year, especially from November to February. However, the company had additional peak season limits of Rs. 2.5 crore to cover this requirement. With an average utilisation of 49% during the last financial year, the liquidity profile remains adequate.

Rating sensitivities

Positive triggers – ICRA could revise SADOPL's rating if the company's scale of operations grows and enhances its competitive position. More diversification of its customer and geographical base, supporting earnings stability, along with a sustained improvement in profitability levels, supported by better pricing position, are also important considerations for ratings upgrade.

Negative triggers – SADOPL's rating may be downgraded if any reduction in incentives or pricing pressure impacts the profitability and leads to weakened coverage indicators. Specific credit metrics that could lead to a downgrade would be

OPBITDA/Interest of less than 2.0 times or TD/OPBITDA of more than 5.0 times. A significant increase in the working capital intensity impacting the liquidity position could also lead to a downgrade of ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Siewert and Dholakia Overseas Private Limited (SDOPL) traces its origin to Siewert and Dholakia Private Limited, founded in 1948 by the Dholakia family and Mr. J.G. Siewert. Subsequently, in 1960s, the company's trading operations were taken over by Dholakia family and in 2006, the company was renamed to its current name. At present, the company is involved in export of tea, which it procures from auction centres in Cochin, Coonoor and Coimbatore (for South Indian tea) and Kolkata (for North Indian tea). The company has warehousing facilities in Cochin (~23,000 sq. ft.) and Kolkata (~8,000 sq. ft.), where the tea is blended and packed using manual procedure. The company sells processed tea to large tea traders and manufacturers in Eastern Europe and Asian countries.

In FY2019, on a provisional basis, the company reported a net profit of Rs. 0.98 crore on an operating income of Rs. 39.50 crore compared to a net profit of Rs. 1.04 crore on an operating income of Rs. 36.80 crore in the previous year.

Key financial indicators

	FY2018	FY2019*
Operating Income (Rs. crore)	36.80	39.50
PAT (Rs. crore)	1.04	0.98
OPBDIT/OI (%)	3.14%	4.94%
RoCE (%)	16.49%	14.77%
Total Outside Liabilities/Tangible Net Worth (times)	0.05	0.58
Total Debt/OPBDIT (times)	0.00	2.47
Interest Coverage (times)	3.09	3.95
DSCR	3.83	3.09

Provisionals, Source: Siewert and Dholakia Overseas Private Limited data and ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020) Type	Amount Rated	Amount Outstanding	Rating 11-Sep-2019	Rating History for the Past 3 Years FY2019 9-Aug-2018	FY2018 17-Aug-2017	FY2017 12-Jul-2016
1	Cash Credit	Long term	6.24	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2	Unallocated	Short term	0.20	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.24	[ICRA]BB+(Stable)
NA	Unallocated	NA	NA	NA	0.20	[ICRA]A4+

Source: Siewert and Dholakia Overseas Private Limited

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About ICRA Limited:

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