Tea Board of India: Rating reaffirmed

Summary of rating action

<table>
<thead>
<tr>
<th>Instrument*</th>
<th>Previous Rated Amount (Rs. crore)</th>
<th>Current Rated Amount (Rs. crore)</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund based – Term loan</td>
<td>15.44</td>
<td>9.30</td>
<td>[ICRA]AA (Stable); reaffirmed</td>
</tr>
<tr>
<td>Total</td>
<td>15.44</td>
<td>9.30</td>
<td></td>
</tr>
</tbody>
</table>

*Rinstrument details are provided in Annexure-1

Rationale

The rating continues to consider the sovereign ownership and status of the Tea Board of India (TBI) as an apex body of the domestic tea industry under the Ministry of Commerce and Industry (MoCI), Government of India (GoI). TBI has a structured payment mechanism for debt servicing through escrow arrangements, which reduces the risk associated with timely servicing of bank debt contracted under the Special Purpose Tea Fund (SPTF) scheme of TBI. In addition, the GoI has provided a corpus of Rs. 90 crore under the SPTF scheme for the capital adequacy requirement. This corpus, along with the default reserve fund, provides further protection against delay/default in recovery of payment from beneficiaries (i.e. tea estates). ICRA notes that TBI has discontinued acceptance of fresh application for loans under the SPTF scheme from FY2013, and the total bank loans outstanding as on March 31, 2020 stood at around Rs. 9.30 crore against a healthy cash and bank balance, providing enough buffer in meeting debt servicing obligation of the TBI.

The rating, however, factors in TBI’s dependence on non-plan allocations from the GoI to meet its administrative expenses. Such fund transfers are not formula driven and could potentially be volatile in nature. The ratings are also constrained by the significant increase in employee costs over the years, which in turn results in high fixed cost of operation.

The Stable outlook on the [ICRA]AA rating reflects ICRA’s opinion that TBI will continue to benefit from the sovereign ownership and its status as an apex body.

Key rating drivers and their description

Credit strengths

Sovereign ownership and status of Tea Board as an apex body for the domestic tea industry – TBI is an apex body under the Ministry of Commerce and Industry, and was established under the Tea Act, 1953, by a notification in the official Gazette of India. The functions of TBI, guided by the Tea Act 1953, primarily include regulating the tea industry by providing permission for growing tea in India, issuing various licences and registrations, carrying out various development and research activities, and promoting tea in both domestic and overseas markets. Further, TBI aids in the form of subsidies granted under various schemes to tea growers to improve productivity and quality of tea.

Structured payment mechanism for servicing debt – The SPTF scheme of TBI was introduced in the Eleventh Plan Period (2007-12) for extending financial support to tea estates (TEs) for undertaking replanting, replacement planting, and rejuvenating aged tea bushes. As per the scheme, TBI used to provide 75% of the assessed unit cost by a term loan (50%) and a subsidy (25%), with the remaining 25% to be borne by the TEs themselves. The GoI had contributed around Rs. 90 crore towards capital adequacy to support TBI’s lending operation under SPTF and the balance amount was taken from banks as a term loan. However, from FY2013, the board discontinued acceptance of fresh application for loans. The total loan given to tea growers under SPTF stood at Rs. 16.70 crore and the outstanding balance of the term loan from bank...
stood at Rs. 9.30 crore as on March 31, 2020. The repayment of the loan to banks is matched to the recovery from the TEs. Moreover, the entire loan disbursement and recovery mechanism is operated through an escrow account in which the TEs are committed to deposit 200% of the annual debt servicing through sale proceeds received from auction sales. After deduction of the annual debt obligation from the escrow account, the Tea Board releases the balance amount to the tea growers. TBI has also created a Default Reserve Fund in which it collects one quarter’s interest payment (at the time of disbursal of loan) and would also collect one quarter’s principal repayment (after the moratorium period of five years).

**Financial flexibility on account of a comfortable liquidity position** — TBI enjoys considerable financial flexibility on account of a low debt burden and a large amount of investments in fixed deposits, along with a significant interest income from the same. The total loan outstanding in its books comprises only SPTF loans, which stood at Rs. 9.30 crore as on March 31, 2020. TBI had an unencumbered cash balance of around Rs. 315 crore as on March 31, 2019 and a significant annual interest income earned from the same provides enough buffer in meeting any debt-repayment obligation of the board. In FY2019, the entity had made a reversal of the provision made for retirement benefits of the employees as per the actuarial valuation, amounting to Rs. 142.52 crore, which supported the net worth to some extent. However, the same is non-cash in nature and no cash inflow is expected from the same.

**Credit challenges**

*Dependence on the GoI for financial assistance as non-plan allocation, which is not formula-based, could be volatile in nature* — TBI is primarily dependent on non-plan allocations from the GoI to cover its operational expenses. The non-plan allocation, in turn, is linked to tea cess collection. For the past few years, the non-plan allocation has been insufficient to meet the employee and general administrative expenses of TBI, particularly after the implementation of the Seventh Pay Commission in FY2016. In the past, TBI had utilised surplus funds available from various schemes to cover the shortfall. Additionally, ICRA notes that any shortfall will be met by the non-plan funds received from the Central Government.

*Significant rise in employee costs in recent years, leading to an increase in fixed cost of operations* — Employee costs have increased significantly in the recent years and are expected to rise further. This would lead to a rise in the fixed cost of operations. However, such expenses are to be met from the non-plan funds received from the GoI as per the budgetary allocations.

**Liquidity position: Strong**

ICRA expects that the liquidity position of the company is likely to remain strong in the absence of any major long-term debt service obligations and high unencumbered cash balance. Further, continuous support from the GoI in terms of grants to meet its revenue expenditure will continue to support its liquidity position.

**Rating sensitivities**

*Positive triggers* — An upgrade in the rating is unlikely, given the business profile of the entity.

*Negative triggers* — Pressure on TBI’s rating may arise if there is a material reduction in the non-plan financial assistance received from the GoI, leading to a deterioration in the financial risk profile of the entity.
Analytical approach

<table>
<thead>
<tr>
<th>Applicable Rating Methodologies</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Credit Rating Methodology</td>
<td>Impact of Parent or Group Support on an Issuer’s Credit Rating</td>
</tr>
</tbody>
</table>

Parent/Group Support

The rating derives comfort from the sovereign ownership of the entity, which provides it with considerable financial flexibility; ICRA expects that the GoI will continue to provide support to the entity.

Consolidation/ Standalone

The ratings are based on the standalone financial statements of the entity.

About the company

TBI is an apex body under the Ministry of Commerce and Industry, and was established under the Tea Act, 1953, by a notification in the official Gazette of India. The board is reconstituted every three years and is guided by four standing committees dealing with (i) administrative matters, (ii) export promotion of tea, (iii) developmental activities, and (iv) labour welfare activities. The board has 20 offices including zonal, regional and sub-regional offices across different parts of the country, apart from its head office in Kolkata. At present, it has two overseas offices in Dubai and Moscow.

Key financial indicators (audited)

<table>
<thead>
<tr>
<th></th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Rs. crore)</td>
<td>71.24</td>
<td>78.74</td>
</tr>
<tr>
<td>PAT (Rs. crore)</td>
<td>-429.11</td>
<td>160.45</td>
</tr>
<tr>
<td>OPBDIT/ OI (%)</td>
<td>-7.09%</td>
<td>-12.41%</td>
</tr>
<tr>
<td>RoCE (%)</td>
<td>-752.12%</td>
<td>-185.11%</td>
</tr>
<tr>
<td>Total Outside Liabilities/Tangible Net Worth (times)</td>
<td>-3.15</td>
<td>-7.81</td>
</tr>
<tr>
<td>Total Debt/OPBDIT (times)</td>
<td>-4.15</td>
<td>-1.53</td>
</tr>
<tr>
<td>Interest Coverage (times)</td>
<td>-2.43</td>
<td>-6.25</td>
</tr>
<tr>
<td>DSCR</td>
<td>3.20</td>
<td>12.69</td>
</tr>
</tbody>
</table>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Current Rating (FY2021)</th>
<th>Amount Rated</th>
<th>Amount Outstanding As on 31-03-2020</th>
<th>Current Rating 23-June-2020</th>
<th>Rating History for the Past 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Loan</td>
<td>[ICRA]AA (Stable)</td>
<td>9.30</td>
<td>9.30</td>
<td>-</td>
<td>[ICRA]AA (Stable) [ICRA]AA (Stable)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>ISIN No</th>
<th>Instrument Name</th>
<th>Date of Issuance/Sanction</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Amount Rated (Rs. crore)</th>
<th>Current Rating and Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>Term loan</td>
<td>FY2019</td>
<td>-</td>
<td>FY2022</td>
<td>9.30</td>
<td>[ICRA]AA (Stable)</td>
</tr>
</tbody>
</table>

*Source: Tea Board of India*

# Annexure-2: List of entities considered for consolidated analysis: Not applicable
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