

## Rating Rationale

April 30, 2022 | Mumbai

### Terai Tea Company Limited

*Ratings Reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.48.46 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank facilities of Terai Tea Company Limited (TTCL; part of Terai group).

Driven by higher realizations for the tea industry, Terai Group has posted robust growth in profitability in FY 21 as compared to FY 20. However, turnover has dipped due to dip in trading sales. Hence, sustenance of scale and margins will be key rating driver.

The ratings continue to reflect the extensive experience of the promoters, their continued funding support and the moderate working capital requirement of the group. These strengths are partially offset by the modest operating efficiency and financial risk profile, amidst exposure to risks posed by volatility in tea prices and change in weather conditions.

#### Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of TTCL, Abhijit Tea Co Pvt Ltd (ATCPL), New Darjeeling Union Tea Co Ltd (NDUTCL), East India Produce Ltd (EIPL), Jaldacca Tea Plantations Pvt Ltd (JTPL), The Kharibari Tea Company Ltd (TKTCL), Terai Dooars Tea Company Pvt Ltd (TDTCL), and Sayedabad Tea Company Ltd (STCL). This is because the companies, collectively referred to as the Terai group, have common management, and are in the same line of business with substantial shareholding in inter-group companies.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key rating drivers & detailed description

##### Strengths:

- **Extensive experience of the promoters:** The Terai group, incorporated in 1973, is a partially integrated player in the tea segment. Over the years, the group acquired seven tea estates, mostly sick units, and successfully turn them around into profitable entities. Regular capital expenditure (capex) incurred to acquire new plantations and refurbish the old machinery, has helped the group maintain a strong position and record substantial growth in revenue.
- **Continued funding support from the promoters:** The promoters have extended significant financial support, via unsecured loans and convertible debentures to facilitate capex and cover working capital and debt obligation. Their ability to provide need-based funding support enhances the overall financial flexibility of the group.
- **Moderate working capital management:** Gross current assets have ranged between 130 and 195 days over the three fiscals ended March 31, 2021, driven by moderate receivables, inventory and advances to suppliers.

##### Weaknesses:

- **Susceptibility to volatility in tea prices and changing weather conditions:** As tea is a seasonal product, its yield depends on weather conditions. Production could be hampered significantly in case of any variation in rains, humidity, and temperature. In case of poor weather conditions, decline in production and quality levels causes volatility in realisations. Moreover, plantation operations are fixed cost in nature, with labour accounting for 50-60% of total cost. Presence of several labour laws and unions restrict the scope to reduce manpower. Hence, in case of a drop in production or realisations, the group may witness a fall in its profitability.
- **Average financial risk profile:** Financial risk profile is constrained by weak debt protection metrics, with interest coverage and net cash accrual to total debt ratios of 4.04 times and 0.32 time, respectively, in fiscal 2021. However, gearing was low at 0.36 time as on March 31, 2021.

#### Liquidity: Adequate

Liquidity is marked by sufficient cash accrual and moderate bank limit utilisation. Expected cash accrual of over Rs 20 crore should suffice to cover the term debt of Rs 6-8 crore in the medium term. Bank limit utilisation averaged around 71% for the

seven months ended March 31, 2022. Current ratio was moderate at 1.06 times on March 31, 2021. The promoters are likely to extend support via equity and unsecured loans to cover the working capital requirement and debt obligation. Low gearing and moderate networth offer the financial cushion to raise additional debt in case of any adverse conditions or downturn in the business.

### **Outlook: Stable**

CRISIL Ratings believes the Terai Tea group will remain constrained by its modest topline, profitability, and cash accrual over the medium term

### **Rating sensitivity factors**

#### **Upward factors:**

- Higher-than-expected revenue and steady operating margin, leading to cash accrual of over Rs 20 crore (from core business operations)
- Efficient working capital management

#### **Downward factors:**

- Interest coverage less than 2 times
- Lower productivity or any other operational issues impacting the business profile
- Any large debt-funded capex affecting the financial risk profile and liquidity

### **About the company**

TTCL was incorporated by the family of present chairman Mr. Ajit Kumar Agarwala in 1973. It is engaged in plantations and tea manufacturing, and undertakes opportunistic trading of agricultural commodities, such as jute, sugar, and yellow peas. It has around 262 hectares of land under plantation at the Bagdogra Tea Estate. Over the years, the group has purchased seven tea estates, covering around 2,000 hectares under tea plantation, and five leaf factories.

### **Key financial indicators - Consolidated**

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	197.63	209.37
Reported profit after tax	Rs crore	16.54	2.93
PAT margin	%	8.37	1.40
Adjusted debt/adjusted networth	Times	0.36	0.65
Interest coverage	Times	3.03	1.80

**Any other information:** Not applicable

### **Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

### **Annexure - Details of instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	25.5	NA	CRISIL BBB-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	21.76	NA	CRISIL BBB-/Stable
NA	Bank Guarantee	NA	NA	NA	1.20	NA	CRISIL A3

### **Annexure – List of entities consolidated**

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
East Indian Produce Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Jaldacca Tea Plantation Pvt Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
The Kharibari Tea Company Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
New Darjeeling Union Tea Co Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Terai Tea Company Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Terai Dooars Tea Company Pvt Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Abhijit Tea Co Pvt Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.
Sayedabad Tea Company Ltd	Full	Same line of business, and significant operational, managerial, and financial linkages.

**Annexure - Rating History for last 3 Years**

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	47.26	CRISIL BBB-/Stable		--	08-02-21	CRISIL BBB-/Stable	23-10-20	CRISIL BBB-/Negative	05-08-19	CRISIL BBB-/Negative / CRISIL A3	CRISIL BBB-/Stable
			--		--		--		--	26-07-19	CRISIL BBB-/Negative	--
<b>Non-Fund Based Facilities</b>	ST	1.2	CRISIL A3		--	08-02-21	CRISIL A3	23-10-20	CRISIL A3	05-08-19	CRISIL A3	CRISIL A3
			--		--		--		--	26-07-19	CRISIL A3	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
<b>Bank Guarantee</b>	<b>1.2</b>	<b>Central Bank Of India</b>	<b>CRISIL A3</b>
<b>Cash Credit</b>	<b>6.73</b>	<b>Bank of India</b>	<b>CRISIL BBB-/Stable</b>
<b>Cash Credit</b>	<b>4.52</b>	<b>Union Bank of India</b>	<b>CRISIL BBB-/Stable</b>
<b>Cash Credit</b>	<b>7.36</b>	<b>Union Bank of India</b>	<b>CRISIL BBB-/Stable</b>
<b>Cash Credit</b>	<b>6.89</b>	<b>Central Bank Of India</b>	<b>CRISIL BBB-/Stable</b>
<b>Proposed Working Capital Facility</b>	<b>9.5</b>	<b>Not Applicable</b>	<b>CRISIL BBB-/Stable</b>
<b>Proposed Working Capital Facility</b>	<b>12.26</b>	<b>Not Applicable</b>	<b>CRISIL BBB-/Stable</b>

This Annexure has been updated on 30-Apr-22 in line with the lender-wise facility details as on 02-Aug-21 received from the rated entity.

**Criteria Details**

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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