Press Release

Durrung Tea Estate Limited(erstwhile known as SPBP Tea (India) Limited)

April 17, 2020

Rating Reaffirmed

Total Bank Facilities Rated	Rs. 7.15 crore
Long Term Rating	ACUITE BB-/ Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** to the Rs.7.15 crore bank facilities of Durrung Tea Estate Limited(DTEL). The outlook is **'Stable'**.

SPBP Tea (India) Private Limited was incorporated in 1981 by the Wearit Group. In November 2018, Jalan Industries Private Limited had taken over the company from Wearit Group and the name changed to Durrung Tea Estate Limited. The company is engaged in manufacturing and processing of tea and sells their products under the brand name 'Durrung'. The company owns a tea garden situated in Sonitpur, Assam. The tea estate is named as Durrung Tea estate which is spread across 571 hectares of garden area with 390 hectares of plantation area. Currently, the installed capacity is 12.00 lakh kg per annum

Jalan group has many tea companies owned and operated by the Jalan family for four consecutive generations. Founded in 1939 by Mr. Murleidhor Jalan and presently they manage five tea estates in Upper Assam.

Analytical Approach

Acuité has considered the standalone business and risk profile of DTEL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced Management**

The current directors of the company Mr. Mritunjoy Jalan and Mrs. Avantika Jalan have more than two decades of experience in the tea industry. Acuité believes that the extensive experience of the management has enabled the group to maintain healthy relationships with their key customers and suppliers which will help in efficient management of this entity.

- **Geographically diversified revenue profile**

DTEL has a geographically diversified revenue profile as it caters to customers across locations including Maharashtra, Assam, West Bengal, Gujarat and Chhattisgarh. The company primarily sells its own garden produce in the domestic market through auction and private players. Acuité believes the company's diversified geographical presence will support the revenue growth going forward.

Weaknesses

- **Decline in revenues and profitability**

The company's revenue have decreased in FY2019 to Rs.13.79 crore as compared to Rs.15.50 crore in FY2018 due to decrease in sales from brought tea . The company has recorded revenue of Rs.13.17 crore for 11 months ended February,2020 (provisional). Further the operating margin stood at 5.93 per cent in FY2019 as against 10.70 per cent in FY2018 due to operations getting stalled for some time and incurring fixed expenses. However, the company has achieved operating margin of 7.52 per cent for 11 months ended February, 2020(provisional). Acuité believes growth in their scale of operations and improvement in profitability margins would remain a key credit monitorable.

- **Weak financial risk profile**

The financial risk profile is weak marked by low net worth, high gearing and weak debt protection metrics. The net worth of the company stood at Rs.2.21 crore as on March 31, 2019 as against Rs.2.86 crore as on March 31, 2018. The networth of the company has deteriorated due to losses during the last financial year. The company's gearing stood at 5.77 times as on March 31, 2019 as against 3.69 times as on March 31, 2018.The high gearing is due to unsecured loans taken from directors and corporate bodies which stood at Rs.12.38 crore as on March 31,2019. The debt of Rs.12.76 crore mainly consists of long term debt of Rs.0.28 crore, unsecured loan of Rs.12.38 crore and maturing obligation of Rs.0.09 crore as on 31st March 2019. The weak debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) stood at to 1.45 times in FY2019 as against at 1.68 times in FY2018 and the Debt Service Coverage Ratio (DSCR) stood at 0.97 times in FY2019 as compared to 0.58 times in FY2018. Debt/ EBITDA stood at 16.39 times in FY2019 as compared to 6.26 times in FY2018. Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

- **Volatile tea prices and agro climatic conditions**

The prices of tea are linked to the auctioned prices and further to prices of tea in the international market. Significant price movements in the international market may affect the group's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances in the domestic and international market. Tea is a perishable product and demand for it is relatively price inelastic as it caters to all segments of society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Rating Sensitivity

- Improvement in financial risk profile
- Sustenance of revenue growth while stabilising profitability margins

Material Covenants

None

Liquidity Profile

The company's liquidity is stretched marked by moderate net cash accruals of Rs.0.07 crore in FY2019 as against maturing obligation of Rs.0.09 crore over the same period. The bank limit of the company remains utilized at nearly 80 percent of its working capital facilities for the 11 months ended February 2020.The current ratio stood moderate at 1.05 times in FY 2019.The unencumbered cash and bank balances of the company stood at Rs.0.01 crore as on 31st March 2019. Going forward, Acuité believes the liquidity of the company is expected to improve over the medium term on account of better cash accruals and in absence of any debt funded capex plans.

Outlook: Stable

Acuité believes that, the outlook on DTEL will remain 'Stable' over the medium term on account of their experienced promoters and geographically diversified profile. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any significant debt-funded capital expenditure plan leading to deterioration of the capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	13.79	15.50
PAT	Rs. Cr.	(0.54)	(0.07)
PAT Margin	(%)	(3.90)	(0.48)
Total Debt/Tangible Net Worth	Times	5.77	3.69
PBDIT/Interest	Times	1.43	1.63

Status of non-cooperation with previous CRA (if applicable)
Not applicable

Any other information
Not Applicable

Applicable Criteria
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Application of Financial Ratios and Adjustments- https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition - https://www.acuite.in/criteria-default.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
16-May-2019	Cash Credit	Long Term	7.00	ACUITE BB- (Indicative)
	Proposed Bank Facility	Long Term	0.15	ACUITE BB- (Indicative)
09-Mar-2018	Cash Credit	Long Term	7.00	ACUITE BB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.15	ACUITE BB-/Stable (Reaffirmed)
08-Dec-2016	Cash Credit	Long Term	7.00	ACUITE BB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.15	ACUITE BB-/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore)	Ratings/Outlook
Cash Credit	10/04/2019	Not Applicable	Not Applicable	4.90	ACUITE BB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.