



SMERA RATINGS LIMITED

Soongachi Tea Industries Private Limited (STIPL)

Rating Rationale

May 28, 2016

| Facilities | Amount (Rs. Crore) | Ratings |
|---------------------|--------------------|-----------------------------|
| Term Loan | 0.37 | SMERA BB-/Stable (Assigned) |
| Cash Credit | 12.04 | SMERA BB-/Stable (Assigned) |
| Letter of Guarantee | 0.75 | SMERA A4 (Assigned) |

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs.12.41 crore long term bank facilities and '**SMERA A4** (read as **SMERA A four**) on the Rs.0.75 crore short term facilities of Soongachi Tea Industries Private Limited (STIPL). The outlook is '**Stable**'.

The ratings are strengthened by the established market position of the company and the extensive experience of the promoters in the tea industry. The ratings also draw support from the modest scale of operations and average financial risk profile marked by moderate debt protection indicators. However, the ratings are constrained by the low profitability, small net worth and large working capital requirements.

The West Bengal-based STIPL has an established distribution network in Uttar Pradesh, Madhya Pradesh, Punjab and Haryana and distributes its products under the 'Sona' brand name. The promoters of the company have experience of over three decades in the tea industry.

The modest scale of operations is marked by turnover of Rs.42.22 crore in FY2015 as against Rs.37.98 crore in FY2014. The estimated turnover for FY2016 is Rs.45.00 crore (provisional). However, STIPL reported low net profit of 0.14 per cent in FY2015 as against 0.24 per cent in FY2014.

The company financial risk profile has been average marked by gearing of 1.99 times, interest coverage ratio of 1.66 times and DSCR of 1.67 times. Its liquidity profile has been comfortable with net cash accruals of Rs.1.13 crore as against long term debt obligations of Rs.0.14 crore. However, the bank limit utilisation remains high with an average of 95 per cent through FY2016.

STIPL's working capital intensive operations are marked by gross current assets days of 214 in FY2015 as compared to 208 in the previous year. The inventory and debtors stood at 123 days and 31 days respectively in FY2015.

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**Rating Sensitivity Factors**

- Scaling up profitability
- Improvement in the capital structure

Outlook – Stable

SMERA believes that STIPL will continue to benefit from its established position and experience of its promoters in the tea industry. The outlook may be revised to 'Positive' if the company reports greater than expected revenues or profitability while improving the capital structure and net cash accruals. However, the outlook may be revised to 'Negative' if the company fails to scale up profitability or if the financial profile declines.

About the Company

STIPL was established by the Late Mr. Valchand Saria in 1970. The company is engaged in the manufacturing and blending of tea under the 'Sona' brand name at Dooars, West Bengal. The day-to-day operations are managed by Mr. Bal Kishan Saria, Director.

For FY2014-15 (refers to financial year April 01 to March 31), STIPL reported profit after tax (PAT) of Rs.0.06 crore on operating income of Rs.42.32 crore, as compared with profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.37.98 crore in FY2013-14.

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