

Press Release

Soongachi Tea Industries Private Limited (STIPL)

May 18, 2017

Rating Reaffirmed

Total Bank Facility Rated *	Rs.13.16 Crore
Long Term Rating	SMERA BB-/Stable
Short Term Rating	SMERA A4

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long term rating of **'SMERA BB-' (read as SMERA double B minus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the Rs.13.16 crore bank facilities of Soongachi Tea Industries Private Limited (STIPL). The outlook is **'Stable'**.

STIPL was established by the Late Mr. Dalchand Saria in 1970. The company is engaged in manufacturing and blending of tea under its brand name 'Sona'. The tea estate is located in Dooars region of West Bengal with nearly 3,500 acres of gross plantation area of which 1,550 acres are under tea. The company has an annual installed capacity to produce of 45 lacs kg of black tea. Currently, the operations are managed by Mr. Ghanshyam Das Agarwal, Mr. S K Saria and Mr. B K Saria.

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track record of operations- The directors of STIPL have more than three decades of experience in the tea industry.

Established market position – The company has an established market position in northern and central India where the packaged tea is sold under the brand "Sona" since 1983. The company is selling its packaged tea through 25 consignment sellers in the states of Uttar Pradesh, Haryana, Punjab, M.P and Chhattisgarh. In addition the company has penetrated markets in Rajasthan recently.

Moderate financial risk profile- The company's financial risk profile continues to be average marked by gearing (debt-to-equity ratio) of 1.92 times and net worth of Rs.7.39 cr as on March 31, 2016 as against gearing of 1.99 times and net worth of Rs.7.20 cr as on March 31, 2015. The debt protection metrics is moderate with interest coverage ratio (ICR) of 1.73 times in FY2015-16 as against 1.66 times in FY2014-15. The DSCR stood at 1.53 times in FY2015-16 as against 1.67 times in FY2014-15.

Weaknesses:

Working capital intensive nature of operations- STIPL's operations are working capital intensive in nature which is marked by gross current asset (GCA) days of 175 as against 209 days during FY 2015. The high GCA days emanates from the inventory holding period and collection days of 87 and 28 respectively in FY2016. The high inventory levels are mainly a year end phenomena due to the lean period from November to March.

Fall in revenue- STIPL's revenue for the FY 2016-17 declined to Rs ~ 42 crs (provisional) from Rs 48.05 crs in FY 2015-16 on account of lower production in the estate and lower realisation. With a fall in revenue, profitability is likely to get impacted as tea is fixed cost intensive industry with labour cost comprising around 35-40 per cent of cost of production.

Risks inherent in the tea industry - Fluctuations in production due to agro climatic changes, slower pace of re-plantation and increasing competition in the global tea market, coffee as a substitute to tea and government policies are some of the challenges faced by the tea industry.

Analytical approach- For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of STIPL.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook – Stable

SMERA believes that STIPL will maintain a stable business profile backed by its operational track record and experienced management. The outlook may be revised to 'Positive' if STIPL registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' if the company fails to achieve the expected revenues and profitability or if the capital structure declines owing to higher working capital requirement.

About the Rated Entity

For FY2016, STIPL reported Profit after Tax (PAT) of Rs.0.18 crore on total operating income of Rs.48.05 crore as compared with PAT of Rs.0.06 crore on total operating income of Rs.42.32 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Facilities	2017				2016		2015		2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	02 May 2017	12.04	SMERA BB-/Stable (Reaffirmed)	28 May 2016	SMERA BB-/Stable (Assigned)	-	-	-	-
Term Loan	LT	02 May 2017	0.37	SMERA BB/Stable (Reaffirmed)	28 May 2016	SMERA BB-/Stable (Assigned)	-	-	-	-
Bank Guarantee	ST	02 May 2017	0.75	SMERA A4 (Reaffirmed)	28 May 2016	SMERA A4(Assigned)	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Cash Credit	NA	NA	NA	12.04	SMERA BB-/Stable (Reaffirmed)
Term Loan	NA	NA	28.01.2020	0.37	SMERA BB-/Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	0.75	SMERA A4 (Reaffirmed)

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

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ABOUT SMERA

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