

Press Release

Soongachi Tea Industries Private Limited

June 19, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.16 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

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

STIPL was incorporated in 1970 and is engaged in manufacturing and blending of tea under the brand name 'Sona'. STIPL owns a tea estate at Mal Bazar in Jalpaiguru District (West Bengal) with ~ 3500 acres of gross plantation area of which ~1550 acres are under tea. The company, in addition to own plantation, procures green leaves from other estate in the vicinity and readymade tea from auction centers for blending. The company has an annual installed capacity to produce ~40 lac kg of tea. Currently, the operations are managed by Mr. B K Saria, Mr. Ghanshyam Das Agarwal, Mr. S K Saria and Mr. S. M. Changoiwala.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of STIPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The company was incorporated in 1970, thus the company has an operational track record of around five decades in tea industry. The directors of the company have an experience of over four decades in the aforementioned line of business. The long track record of operations and experience of management have helped the company develop healthy relationships with its customers and suppliers. Acuite believes that STIPL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Moderate working capital operations**

The company's working capital operations are moderate marked by Gross Current Assets (GCA) of 141 days for FY2019 (Provisional) as against 143 days in the previous year. Debtors stood at 43 days for FY2019 (Provisional) as against 46 days for FY2018. Inventory level stood at 64 days for FY2019 (Provisional) as against 48 days for FY2018.

Weaknesses

- **Moderate scale of operations and profitability**

The company has moderate scale of operations marked by operating income of Rs. 48.24 crore in FY2019 (Provisional) as against Rs. 46.89 crore in FY2018. Further, EBITDA margins stood at 5.37 percent in FY2019 (Provisional) as against 6.28 percent in FY2018. Profit after Tax (PAT) margin stood low at 0.39 percent in FY2019 (Provisional) as against 0.93 percent in FY2018.

- **Average financial risk profile**

The financial risk profile of the company stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of STIPL stood at Rs. 8.02 crore as on 31 March, 2019 (Provisional) as against Rs. 7.83 crore as on 31 March, 2018. The gearing (debt-equity)

stood at 1.63 times as on 31 March, 2019 (Provisional) as against 1.84 times as on 31 March, 2018. The total debt of Rs. 13.07 crore as on 31 March, 2019 (Provisional) mainly comprises Rs. 13.02 crore of working capital borrowings and Rs. 0.05 crore of long-term debt. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 1.57 times for FY2019 (Provisional) as against 1.84 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.06 times in FY2019 (Provisional) as against 0.08 times in FY2018. Debt to EBITDA stood high at 5.05 times in FY2019 (Provisional) as against 4.87 times in FY2018. Acuite believes that the financial risk profile of the company is expected to remain average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

• 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.

Liquidity Position

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.84 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 0.12 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 0.90 crore to Rs. 1.25 crore during 2020-22 against no repayment obligation. The company's working capital operations are moderate marked by gross current asset (GCA) of 141 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.22 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.21 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that STIPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	48.24	46.89	42.79
EBITDA	Rs. Cr.	2.59	2.95	2.42
PAT	Rs. Cr.	0.19	0.44	0.01
EBITDA Margin	(%)	5.37	6.28	5.65
PAT Margin	(%)	0.39	0.93	0.03
ROCE	(%)	8.96	10.28	16.10
Total Debt/Tangible Net Worth	Times	1.63	1.84	2.00
PBDIT/Interest	Times	1.57	1.84	1.53
Total Debt/PBDIT	Times	5.05	4.87	5.79
Gross Current Assets (Days)	Days	141	143	168

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
11-Jul-2018	Term Loan	Long Term	0.37	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	12.04	ACUITE BB- / Stable (Reaffirmed)
18-May-2017	Cash Credit	Long Term	12.04	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	0.37	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A4 (Reaffirmed)
28-May-2016	Term Loan	Long Term	0.37	ACUITE BB- / Stable (Assigned)
	Cash Credit	Long Term	12.04	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	0.37	ACUITE BB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.04	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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