

Press Release

Madhuting Tea Private Limited

July 19, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 5.58 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB / Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 5.58 crore bank facilities of Madhuting Tea Private Limited (MTPL). The outlook is 'Stable'.

The rating downgrade reflects continuous decline in profitability levels resulting in losses at the operating level for two consecutive years ending March 31st, 2019.

Incorporated in 1938, MTPL, part of the Dhunseri Group, is promoted by Mrs Tarulika Khaitan. The company operates via an integrated process of growing, harvesting and sale of tea. MTPL has 650 hectare under cultivation and a tea processing capacity of 1.5 million kg p.a. in Dibrugarh, Assam. The company produces CTC (Crush, Tear and Curl) and Orthodox variety of tea, which it sold in the domestic market through a mix of auctions and private sales.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record and experienced management

Incorporated in 1938, MTPL has long track record of operations of more than eight decades in the tea industry. The company's operation are led by Mr Chandra Kumar Dhanuka and Mr Mrigank Dhanuka both of whom possess more than three decades of experience in the tea and beverage industry by virtue of their association with Dhunseri Tea Industries Limited, eight largest producer of tea in India.

• Comfortable financial risk profile

MTPL's financial risk profile remains comfortable with moderate net worth, low gearing and comfortable debt protection metrics. The net worth stood at Rs 31.56 Crore as on March 31, 2019 (P) compared to Rs. 32.33 Crore as on March 31, 2018. Despite incurring losses, the net worth remained healthy. The debt to equity ratio remained low on account of no long term debt obligation and minimal utilization of cash credit as on March 31st, 2019 (Prov). The cash credit utilization also stood 17.54 percent in the last six months ending June, 2019. The debt protection metrics remained strong marked by interest coverage of 130.38 times in FY2019(P).

Weaknesses

• Decline in profitability margins

MTPL's operating margin declined during the last three years ending FY2019 (prov). The operating margin stood at 3.73% for FY2019 (prov) as against 3.97 % for FY2018. Further the same stood at 14.58 percent in FY2017. The sharp decline in profitability was on account of increase in employee cost, fluctuating revenue trends and change in sale composition from orthodox variety of tea to CTC variety of tea. Going forward, company's ability to improve its profitability metrics will remain a key concern monitorable.

Risks inherent in the tea industry

Fluctuations in production due to 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 Profile:

MTPL has adequate liquidity marked by healthy net cash accruals and significant liquid investment in the absence of no maturing debt obligations. The company generated cash accruals of Rs.0.82 crore during FY2018-19 against nil maturing debt obligations. The cash credit limit in the company remains utilised at around 17.54 percent during the last 6-month period ended June, 2019. The company maintains unencumbered cash and bank balances of Rs.0.65 crore as on March 31, 2019 (Prov) apart from fixed deposit of Rs 2.30 Crore. The current ratio of the company stands at 0.91 times as on March 31, 2019 (prov). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual sufficient and absence of long term debt obligation.

Outlook: Stable

Acuité believes that MTPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenue and profitability deteriorates further.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	18.38	16.16	18.38
EBITDA	Rs. Cr.	0.69	0.64	2.68
PAT	Rs. Cr.	(0.77)	(0.75)	2.09
EBITDA Margin	(%)	3.73	3.97	14.58
PAT Margin	(%)	(4.19)	(4.64)	11.37
ROCE	(%)	(1.96)	(2.11)	8.86
Total Debt/Tangible Net Worth	Times	0.00	0.00	0.00
PBDIT/Interest	Times	130.38	14.38	46.04
Total Debt/PBDIT	Times	0.00	0.00	0.00
Gross Current Assets (Days)	Days	54	168	71

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-6.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
26-April-2018	Cash Credit (Tea Hypo)	Long Term	5.54	ACUITE BB / Stable (Upgraded)
	Proposed Bank Facility	Long Term	0.04	ACUITE BB / Stable (Upgraded)
02-Feb-2017	Cash Credit (Tea Hypo)	Long Term	5.54	ACUITE B+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	0.04	ACUITE B+ / Stable (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
Cash Credit (Tea Hypo)	Not Applicable	Not Applicable	Not Applicable	5.54	ACUITE BB- / Stable (Downgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.04	ACUITE BB- / Stable (Downgraded)

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About Acuite Ratings & Research:

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