

Press Release

Coochbehar Tea Co Limited

16 April, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	SMERA BB+/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating to '**SMERA BB+** (read as SMERA double B plus) from '**SMERA BB**' (read as SMERA double B) and re-affirmed short term rating to '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 11.00 Cr. bank facilities of Coochbehar Tea Co Limited (CTCL). The outlook is 'Stable'.

Incorporated in 1992, CTCL was promoted by Mr. Shyam Sunder Agarwal. The company is engaged in the cultivation of green tea and blending of black tea by the CTC method. The company owns the Coochbehar Tea Estate at Falakata near Jalpaiguri (West Bengal) with 302 hectares of gross plantation area of which 220 hectares are under tea cultivation. CTCL processes green tea from its own plantation whereas black tea is processed from leaves bought from other tea estates.

The rating upgrade is in view of the consistent improvement in the operating income resulting in improvement in net cash accruals. Further, the rating factors in the improvement in capacity utilization and takes support from the completed capex.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Incorporated in 1992- CTCL has a track record of over two decades. The company was promoted by Mr. Shyam Sundar Agarwal who has over two decades of experience in the tea industry. Currently the business is managed by Mr. Shyam Sundar Agarwal and his son Mr. Sumit Agarwal. Long standing presence of more than two decades has helped the company in maintaining healthy relationship with its customers and suppliers.

Stable growth in revenue

CTCL's revenue has grown at a compounded annual growth rate (CAGR) of ~ 19.04 per cent over the last three years to Rs 18.82 cr in FY2017 from Rs 14.30 crore in FY2015. Also, during FY 2017-18, the company registered revenue of Rs 24.12 cr (provisional). The growth in revenue is on account of improvement in capacity utilization and on account of better average price realization. Going forward, SMERA believes there will further improvement in the topline where CTCL has completed a capex of Rs 3.96 crs to increase its installed capacity further to 23 lakhs kgs per annum from 16 lakhs kgs per annum. The operation from the additional capacity will commence from April'18.

Above average financial risk profile

CTCL's above average financial risk profile is reflected in its comfortable gearing, comfortable debt protection metrics and moderate net worth. The gearing improved and stood at 0.92 times in FY 17 as compare to 1.26 times in FY 16. The debt protection metrics stood comfortable marked by interest coverage ratio of 2.55 times in FY 17 as compare to 2.51 times in FY 16. The DSCR stood at 1.24 times in FY 17 as compare 1.16 times in FY

16. The net worth stood moderate at 7.17 crs in FY 17 as compare to 5.18 crs in FY 16.

Weaknesses

Working capital intensive nature of operations

The operations of CTCL are working capital intensive as marked by gross current asset days of 145 days in FY2017 as compare to 117 days in FY 2016. The high GCA days are on account of inventory days of 113 in FY 17 as compare to 90 days in FY 16. CTCL has to maintain the high inventory due to seasonal availability of tea (March to November). The debtor's days stands moderate at 26 and 29 days in FY 2017 and FY 2016 respectively.

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.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of CTCL.

Outlook: Stable

SMERA believes that the company will continue to benefit over the medium term from its management extensive experience in the tea industry. The outlook may be revised to 'Positive' if there is a substantial and sustained increase in the company revenues, profitability margins and achieving improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues, profitability margins, or significant deterioration in its capital structure most likely because of a stretch in its working capital cycle or large debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	18.82	17.20	14.30
EBITDA	Rs. Cr.	1.98	2.01	1.70
PAT	Rs. Cr.	0.47	0.39	0.12
EBITDA Margin	(%)	10.53	11.68	11.89
PAT Margin	(%)	2.51	2.28	0.87
ROCE	(%)	9.59	11.45	11.23
Total Debt/Tangible Net Worth	Times	0.92	1.26	1.25
PBDIT/Interest	Times	2.55	2.51	2.18
Total Debt/PBDIT	Times	3.19	3.19	3.32
Gross Current Assets (Days)	Days	1.45	117	1.26

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10 th -April-2017	Cash Credit	Long Term	2.94	SMERA BB/Stable (Assigned)
	Term Loan	Long Term	3.50	SMERA BB/Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.73	SMERA BB/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	SMERA A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.05	SMERA BB+/Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB+/Stable (Upgraded)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.45	SMERA BB+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4+ (Re-affirmed)

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ABOUT SMERA

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