

Press Release

Baghmari Tea Company Limited

05 February, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 14.00 crore bank facilities of Baghmari Tea Company Limited (BTCL). The outlook is '**Stable**'.

Incorporated in 1918, Baghmari Tea Company Limited is engaged in the manufacturing and blending of tea at its tea garden spread across 520 hectares in Upper Assam. The installed capacity stands at 14 lakh kg of CTC tea. The business is led by Mr. Bajoria and family in Kolkata.

Key Rating Drivers

Strengths

Experienced management, long track record of operations

Incorporated in 1918, BTCL has long track record of operations of nearly 100 years. The company is led by Mr Bajoria and family. The promoters possess extensive experience in the tea industry. Currently, the operations are headed by the fourth generation of the Bajoria family.

Moderate geographical presence

The company primarily sells its tea in the domestic market (Assam, West Bengal, Kerala, Tamil Nadu, Maharashtra) and through private players. Additionally, tea is also exported to Russia, Egypt, Australia, Pakistan, United Kingdom among others.

Improvement in operating margins

The operating margins improved during the period under review (FY2015 to FY2017) to 5.64 per cent in FY2017 from 1.30 per cent in FY2015. This is on account of better realisation in the domestic market, improvement in plucking, better management and supervision. Going forward, SMERA believes that the margins would improve further as the company has undertaken capex to increase its installed capacity to 24 lakh kg per annum from 14 lakh kgs per annum. The project cost is Rs 4 crore to be funded by internal accruals of Rs 1 crore and term loan of Rs 3 crore.

Weaknesses

Moderate financial risk profile

BTCL's moderate financial risk profile is marked by moderate debt protection metrics, high gearing and low net worth. The Interest coverage and Debt Service Coverage ratios stand moderate at 1.79 times and 1.30 times respectively in FY2017 as compared to 1.92 times and 1.25 times respectively in FY2016. The gearing is high marked by 3.50 times in FY2017 as against 2.72 times in FY2016. The gearing in FY2017 increased on account of higher utilisation of short term working capital facilities in March 2017. This was for procurement of low quality tea (for blending) for the export market. The net worth base stood at a low of Rs 4.01 crore in FY2017 as against Rs 3.42 crore in FY2016.

Modest scale of operations

The scale of operations is modest with revenue of Rs 35.66 crore in FY2017 as against Rs 26.25 crore in FY2016. During the current year the company registered revenue of Rs 27.57 crore till December'17 (Provisional).

Working capital intensive operations

The operations are working capital intensive as reflected in the GCA days of 202 and 127 in FY2017 and FY2016 respectively. The high GCA days are due to inventory days of 132 in FY2017 as against 64 days in FY2016. The debtor days stood at 57 in FY2017 compared to 53 days in FY2016. The rise in inventory days in FY2017 can be attributed to procurement of low quality tea for blending purposes for executing exports orders in March'17. The company on an average utilises ~ 85 per cent of its working capital limit of Rs 14.00 crore.

Volatility in tea prices and agro climatic conditions

The company is exposed to fluctuations in the price of tea with changes in demand and supply in the domestic and international markets. Besides, the agro climatic conditions also have a bearing on tea, impacting profit margins.

Analytical Approach

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

Outlook: Stable

SMERA believes that BTCL will maintain a Stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected revenues leading to a fall in the margins or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	35.66	26.25	16.31
EBITDA	Rs. Cr.	2.01	1.29	0.21
PAT	Rs. Cr.	0.18	0.31	(0.36)
EBITDA Margin	(%)	5.64	4.91	1.30
PAT Margin	(%)	0.50	1.17	(2.21)
ROCE	(%)	11.71	15.15	(9.39)
Total Debt/Tangible Net Worth	Times	3.50	2.72	1.31
PBDIT/Interest	Times	1.79	1.92	0.54
Total Debt/PBDIT	Times	6.53	5.22	15.10
Gross Current Assets (Days)	Days	202	127	103

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

On 16th August' 2017 India Ratings and Research (Ind-Ra) has migrated Baghmari Tea Co. Limited's (BTCL) Long-Term Issuer Rating to the non-cooperating category.

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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB/ Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A4+

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ABOUT SMERA

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