

Press Release

Classic Tea Company Private Limited

March 15, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 8.00 crore bank facilities of Classic Tea Company Private Limited (CTPL). The outlook is '**Stable**'.

Incorporated in 1992, CTPL is a Tinsuka (Assam) based company engaged in processing and blending of tea. The company processes bought tea leaves to manufacture CTC black tea with an installed capacity of 2000 MTPA. CTPL primarily supplies to Tea Board of India for auctioning of tea. The company is promoted by Mr. Binod Saharia and Mr. Harpal Singh.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

CTPL has an established track record of more than two decades in tea industry. The promoters, Mr. Binod Saharia and Mr. Harpal Singh of the company have more than three decades of experience in the CTC tea processing industry resulting in established relations with suppliers of green tea leaves.

- **Moderate financial risk profile**

The financial risk profile of CTPL stood moderate with modest net worth, comfortable gearing level and healthy debt protection metrics. Net worth stood at Rs. 9.16 crore as on March 31, 2018 as against Rs. 8.05 crore as on March 31, 2017. The gearing stood at 0.58 times as on March 31, 2018 which improved from 0.74 times as on March 31, 2017. In absence of capex plan in the medium term, Acuité expects the gearing level to remain range bound. The debt protection metric remained healthy marked by interest coverage ratio at 4.32 times FY2018 as against 4.42 times FY2017. Debt service coverage Ratio (DSCR) stood at 1.46 times in FY2018 as against 1.40 times FY2017. NCA/TD stood at 0.38 times for FY2018 which improved from 0.30 times FY2017.

- **Prudent working capital intensive operations**

The working capital operations of CTPL are moderate with gross current asset of 100 days in FY2018 as against 88 days in the previous year. Write about debtors. The GCA days are primarily dominated by other current assets of Rs.4.09 crore consisting of advances to green tea suppliers of Rs.3.94 crore. The inventory stood at 22 days as on March 31, 2018 as against 24 days in the previous year.

Weaknesses

- **Modest scale of operations**

CTPL's scale of operations is modest marked by operating income of Rs.19.39 crore in FY2018 as against Rs.18.95 crore in FY2017. As on January 2019, the company has achieved operating income

of Rs.19.95 Crore (provisional). Owing to intense competition, supply bottleneck and stagnation in tea prices, the company's ability to ramp up scale in a significant manner remains limited.

• Risk inherent to tea industry

CTPL is dependent on purchase of green tea leaves for its manufacturing process. The supply of tea leaves in turn is affected by myriad factors including climatic conditions prevalent during plantation period, demand for tea and government policies.

Liquidity Profile

The liquidity profile of firm is expected to remain adequate over the medium term. The net cash accruals stood at Rs 2.04 Crore in FY2017-2018 as against maturing debt obligations of Rs 0.71 Crore in FY2018-2019. Over the medium term, the net cash accruals are projected to be in range of Rs 2.00-2.50 Crore as against maturing debt obligation of Rs 0.20-0.30 Crore through FY2019-2021. Bank limits utilization stood at 83 percent for the last six months ending January, 2019.

Outlook: Stable

Acuité believes that CTPL will maintain 'Stable' outlook over the medium term on account of the experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.39	18.95	17.95
EBITDA	Rs. Cr.	3.04	2.68	2.70
PAT	Rs. Cr.	1.12	0.92	0.84
EBITDA Margin	(%)	15.66	14.13	15.03
PAT Margin	(%)	5.76	4.85	4.66
ROCE	(%)	14.49	13.11	29.63
Total Debt/Tangible Net Worth	Times	0.58	0.74	0.74
PBDIT/Interest	Times	4.32	4.42	3.38
Total Debt/PBDIT	Times	1.73	2.21	1.92
Gross Current Assets (Days)	Days	100	88	72

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

CRISIL, vide its press release dated July 16, 2018 had denoted the rating of Classic Tea Company Private Limited as 'CRISIL BB+/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

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)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+ / Stable
Stand by line of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+/ Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+/ Stable

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About Acuité Ratings & Research:

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