

Press Release

Classic Tea Company Private Limited (CTPL)

March 27, 2020

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 8.00 crore
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the 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, Classic Tea Company Private Limited is a Assam based company engaged in processing and blending of tea. The company processes bought tea leaves to manufacture CTC tea with an installed capacity of 2000 MTPA. The company sells to HUL (Hindustan Unilever Limited) through third party agents, which contributes to nearly 50 percent of the revenue. Currently, the company is managed by its directors 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

• Experienced management and established track record of operations

CTPL was incorporated in 1992, thus the company has an operational track record of nearly three decades. The directors Mr. Binod Saharia and Mr. Harpal Singh have more than three decades of experience in the tea processing industry resulting in established relations with the customers and suppliers. Acuité believes that CTPL will sustain its existing business profile backed by established track record of operations and experienced management.

• Comfortable financial risk profile

The financial risk profile of the company is marked by modest network, comfortable gearing level and healthy debt protection metrics. The tangible network stood at Rs 10.05 crore as on 31st March, 2019 as compared to Rs 9.16 crore in the previous year. The increase in network is mainly due to retention of profits. The gearing (debt-equity) decreased to 0.43 times as on 31st March, 2019 as compared to 0.58 times in the previous year. The decrease is on account of improvement in network in FY 2019 as compared to FY 2018. The total debt of Rs 4.29 crore as on 31st March, 2019 consists of long term debt of Rs 0.66 crore and working capital borrowings of Rs 3.63 crore. The coverage indicators stood healthy marked by Interest coverage ratio (ICR) which stood at 4.60 times for FY 2019 as compared to 4.32 times in FY 2018 and DSCR (Debt Service Coverage Ratio) stood at 1.93 times as against 1.46 times in the previous year. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.43 times in FY2019 and 0.38 times in FY2018. Debt to EBITDA stood at 1.71 times in FY2019 as against 1.73 times in FY2018. Acuité believes the financial risk profile of the company will remain at current levels over the medium term in the absence of any major debt funded capex plan.

• Modest working capital operations

The working capital operations of the company are moderate marked by GCA (Gross Current Assets) Days of 112 days in FY2019 in line with 100 days in the previous year. The GCA days are mainly dominated by other current assets of Rs 4.41 crore as on 31st March, 2019 as compared to Rs 4.09 crore in the previous year. The Other Current Assets of Rs 4.41 crore as on 31st March, 2019 consists of Rs 4.25 crore for advances given to green tea leaves suppliers, security deposits of Rs 0.10

crore and other receivable and recoveries of Rs 0.60 crore. The debtor days stood well managed at 2 days in FY 2019 as compared to 4 days in the previous year. Further, the inventory days stood at 35 days in FY 2019 as against 22 days in FY 2018. The working capital limits remained utilized at an average of around 86 percent for 13 months ended February, 2020. The working capital operations are expected to remain at similar levels over the medium term.

Weaknesses

• Modest scale of operations

The company's revenue stood modest at Rs 20.36 crore in FY 2019 as compared to Rs 19.39 crore in the previous year and Rs 18.95 crore in FY 2017 thereby achieving a meagre growth rate of 2.42 percent from FY 2017- FY 2019. Further, the company has booked revenue of Rs 17.24 crore for 11 months ended February, 2020 (Provisional). The ability of the company to improve its scale going forward will remain a key rating sensitivity.

• 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.

Rating Sensitivity

- Steady growth in revenue with sustained profitability levels

Material Covenants

None

Liquidity Profile

CTPL has adequate liquidity marked by adequate cash accruals to its maturing debt obligations. The company generated cash accruals of Rs 1.80-1.87 crore in FY 2017-2019 while its maturing debt obligations were Rs 1.12-0.71 crore during the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 1.60-1.81 crore during 2020-22 against repayment obligation of around Rs. 0.24-0.22 crore during FY2020-22. The company has moderate working capital operations as marked by GCA days of 112 days for FY 2019. The company maintains unencumbered cash and bank balances of Rs. 0.03 crore as on March 31, 2019. The current ratio stood at 1.08 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes CTPL will continue to benefit from its experienced management and comfortable financial risk profile. The outlook maybe revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and profitability metrics from the current levels. Conversely, the outlook maybe revised to 'Negative', if the entity's revenue and profitability declines, while the financial risk profile deteriorates owing to increased working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	20.36	19.39
PAT	Rs. Cr.	0.89	1.12
PAT Margin	(%)	4.37	5.76
Total Debt/Tangible Net Worth	Times	0.43	0.58
PBDIT/Interest	Times	4.60	4.32

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Crore)	Ratings/Outlook
15-March-2019	Cash Credit	Long Term	4.50	ACUITE BB+/ Stable (Assigned)
	Stand by Line of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Term Loan	Long Term	0.50	ACUITE BB+/ Stable (Assigned)
	Proposed Bank Facility	Long Term	2.50	ACUITE BB+/ 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	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs 4.50 crore)	ACUITE BB+/Stable (Reaffirmed)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.48 (Reduced from Rs 0.50 crore)	ACUITE BB+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.02 (Reduced from Rs 2.50 crore)	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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