

Press Release
Rydak Syndicate Limited

November 17, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.29.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 29.00 crore bank facilities of Rydak Syndicate Limited. The outlook is '**Stable**'.

About the company

Incorporated in 1898, Rydak Syndicate Limited (RSL) is engaged in the tea manufacturing business. The company is part of the Jardine Henderson group. Currently, RSL is headed by Mr. Rajvinder Singh. The company mainly cultivates and manufactures black crush, tear, curl (CTC) tea. The company has six tea estates, covering a production area of 3,309 hectares in West Bengal and Assam. It manufactures over 50 lakhs kg of tea annually.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of RSL to arrive at the rating.

Key Rating Drivers

Strengths

• **Long operational track record and experienced management**

RSL has a long operational track record of more than 120 years in the tea manufacturing business. Acuite believes that the long operational track record of the company has helped it to gain expertise in the industry and helps mechanize the operations like plucking, uprooting and spraying of pesticides which have improved labour productivity and reduced cost. The company has been able to save almost 5 percent of the total man days in FY2019-20 deployed, which ultimately contributed in meeting the shortfall of plucking man days in peak season. The day to day operations of the company are managed by Mr. Ravinder Singh, who is the whole time Director and is associated with the company since 1996. In addition to this, the operations are managed by experienced professionals having associated with the company over two decades. Acuite derives comfort from the experience of the Directors and top management of the company.

• **Strong business risk profile**

The strong business risk profile of the company is supported by the diversified production base with three tea gardens in West Bengal and three in Assam; this mitigates the risks arising from adverse agro-climatic conditions to some extent. In addition to this, the revenue of the company has improved marked by operating income of Rs.102.94 Cr in FY2020 as compared to revenues of Rs.89.77 Cr in FY2019, thereby registering y-o-y growth of 15 per cent. Moreover, the company has achieved revenues of around Rs.49.69 Cr till August 2020 (Provisional). The growth in the top line is on account of improved average realization in tea. Acuite believes that sustainability in the revenue growth would be a key monitorable going forward.

• **Above average financial risk profile**

The company's above average financial risk profile is marked by moderate networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs.31.92 Cr as on March 31, 2020 from Rs.28.65 Cr as on March 31, 2019. Acuite has considered unsecured loans to the tune of Rs.10.76 Cr as on March 31, 2020 as part of networth as these loans are subordinated to bank debt. Gearing of the company stood comfortable at 0.71 times as on March 31, 2020 as against 0.74 times as on March 31, 2019. The debt of Rs.22.80 Cr consists mainly of working capital from the bank of Rs.21.20 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.18 times as on March 31, 2020 as against 2.41 times as on March 31, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 1.92 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 1.79 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.18 times as on March 31, 2020. Acuite believes that going forward the financial risk profile of the company will remain above average over the medium term, in the absence of any major debt-funded capex plans.

Weakness

- **Moderate working capital management**

The moderate working capital management of the company is marked by Gross Current Assets (GCA) of 109 days in 31st March 2020 as compared to 115 days in 31st March 2019. The GCA days are at a moderate level on account of moderate inventory levels during the same period. The inventory holding stood at 91 days in 31st March 2020 as against 98 days on 31st March 2019. Further, the debtor period stood comfortable at 13 days in 31st March 2020 as compared to 10 days on 31st March 2019. Acuite believes that the working capital operations of the firm will remain moderate as evident from moderate inventory levels over the medium term.

- **Volatile tea prices and agro climatic conditions**

The prices of tea are linked to the auctioned prices and further to prices of tea in the international market. Significant price movements in the international market may affect the company's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances in the domestic and international market. Tea is a perishable product and demand for it is relatively priced inelastic as it caters to all segments of society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Rating Sensitivity

- Sustenance in revenue growth
- Maintaining capital structure

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.4.04 Cr as on March 31, 2020 as against long term debt repayment of Rs.0.15 Cr over the same period. The fund based limit remains utilised at 80 per cent over the six months ended August, 2020. The company has not availed loan moratorium, but availed additional COVID loan. The cash and bank balances of the company stood at Rs.0.71 Cr as on March 31, 2020 as compared to Rs.0.82 Cr as on March 31, 2019. However, the current ratio stood weak at 0.52 times as on March 31, 2020 as compared to 0.47 times as on March 31, 2019. The current ratio less than unity is inherent to the tea industry. The low current ratio is mainly on account of high creditor days in the year end where the company incurs pruning and other cultivation related works before the start of the tea season. Further, chemicals and other materials are also procured at large during the period. The working capital management of the company is moderate marked by Gross Current Assets (GCA) of 109 days in 31st March 2020 as compared to 115 days in 31st March 2019. Acuite believes that going forward, the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on Rydak Syndicate Limited will remain 'Stable' over the medium term on account of the long operational track record, experienced management, steady business risk profile and above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or elongation in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	102.94	89.77
PAT	Rs. Cr.	1.16	0.61
PAT Margin	(%)	1.13	0.68
Total Debt/Tangible Net Worth	Times	0.71	0.74
PBDIT/Interest	Times	1.92	1.90

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	12.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	2.15	ACUITE BBB-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	1.85	ACUITE BBB-/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Senior Rating Analyst- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022- 67141160 rating.desk@acuite.in</p>

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