

## Press Release

### Asian Tea Company Private Limited

October 12, 2021



### Rating Assigned

<b>Total Bank Facilities Rated</b>	Rs. 75.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/ Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A3 (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A Three**) on the Rs. 75.00 Cr. bank facilities of Asian Tea Company Private Limited (ATCPL). The outlook is '**Stable**'.

The rating on ATCPL takes cognizance of the sound business risk profile of the company marked by long standing experience of the promoters, healthy profitability margins and healthy order book position buoyed by repeat orders from its global vintage clientele. The rating also factors in the moderate financial risk profile of the company characterized healthy debt coverage indicators. These strengths are partly offset by the working capital intensity in ATCPL's operations and exposure to seasonal production risks and susceptibility to climatic conditions.

### About the company

Incorporated in 2011, Asian Tea Company Private Limited (ATCPL), the flagship company of the Asian Tea Group. The company is a Kolkata based company, engaged in exporting of premium tea. It has group offices in Coimbatore (India), Colombo (Sri Lanka), Fuzhou (China), Gurúè (Mozambique) and Mombasa (Kenya). ATCPL exports tea to countries like Kazakhstan, Russia, China and Iran. It procures a major portion of tea directly from the tea estates as well as from the tea auction centres of Kolkata, Guwahati and Siliguri and balance requirement is met from domestic market, and imports from Kenya, Sri Lanka, Vietnam and Indonesia. Currently, ATCPL is headed by Sunil Garg & Mr. Mohit Agarwal. The facilities in Kolkata and Mombasa have been fitted with state-of-the-art mechanical blending and cleaning units to ensure high hygiene standards and quality and their products have a shelf life of 3 years after packing.

The other group company is Asian Tea and Exports Ltd (ATEL), which is engaged in the trading and export of agro commodities including pulses and rice.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ATCPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Experienced management and established relationship with customers**

Established in 2011, the company has been operational for a decade. The key promoters, Sunil Garg & Mohit Agarwal have more than 2 decades of experience in the business. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the continents. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

- Healthy scale of operations**

The company has achieved revenues of Rs. 282.63 Cr in FY2021 (prov.) as compared to revenues of Rs. 270.65 Cr in FY2020. The turnover of the company has been growing at a CAGR of more than 10 per cent from FY19 to FY21. Further, the stability in revenue is backed by established market position of the company and global demand for its products. ATCPL has an unexecuted healthy order book position to the tune of about Rs.235.00

Cr. as on 31st March, 2021 which will be executed in the upcoming months, thus providing moderate revenue visibility over the medium term. Even though strict coronavirus curbs resulted in delayed export shipments and upset supply with travel restrictions and non-availability of truckers triggering spike in prices, the company could achieve revenue of Rs 112.05 Cr (Prov.) till August 2021.

The operating margin of the company decreased to 4.17 per cent as on 31st March, 2021 (Provisional) as compared to 4.37 per cent in the previous year and remains susceptible to volatility in tea prices of the auction centres. The PAT margins stood at 1.65 per cent in FY2021 (Provisional) as against 1.62 per cent as on FY2020. The Return on Capital Employed (ROCE) of the company stood comfortable at 14.41 per cent as on FY2021 (Provisional) as compared to 18.50 per cent as on FY2020.

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by modest albeit improving networth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.32.47 Cr as on March 31, 2021 (provisional) from Rs.27.82 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the company stood moderate at 1.83 times as on March 31, 2021 (provisional) as against 1.30 times as on March 31, 2020. The debt of Rs. 59.55 Cr is the working capital borrowing as on March 31, 2021 (provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.65 times as on March 31, 2021 (provisional) as against 1.73 times as on March 31, 2020. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 2.46 times and Debt Service Coverage Ratio at 1.28 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.09 times as on March 31, 2021 (provisional). Acuité believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals and no major debt funded capex plans.

### **Weakness**

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 137 days as on March 31, 2021(provisional) as against 85 days as on March 31, 2020. The high GCA days are on account of high debtor period which stood at 81 days as on March 31, 2021(provisional) as compared to 32 days as on 31st March 2020. In FY20, the significant fall in debtors were in line with the Indian ports facing serious inland service shortages amid a countrywide lockdown, exporters and importers were scrambling to move cargo in and out of terminals across the country. However, the inventory period stood comfortable at 41 days as on 31st March, 2021 (prov.) against 34 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the high debtor level and moderate inventory level.

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

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 price 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**

- Significant ramp up in scale of operations while improving the profitability margin
- Elongation in working capital cycle.

### **Material Covenant**

None

### **Liquidity Profile: Adequate**

The company's liquidity is adequate marked by net cash accruals which stood at Rs. 5.40 Cr as on March 31, 2021 (provisional) as against long term debt repayment of only Rs. 0.62 Cr over the same period. The cash and bank balances of the company stood at Rs.2.88 Cr as on March 31, 2021 (provisional) as compared to Rs. 3.22 Cr as on March 31, 2020. The current ratio stood moderate at 1.43 times as on March 31, 2021 (provisional). However, the fund based limit remained highly utilised at 91 per cent over one year ended July, 2021. Further, the company has applied for additional covid loan of Rs. 9.72 Cr., but did not avail loan moratorium. The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 137 days as on March 31, 2021 (provisional) as against 85 days as on March 31, 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

### **Outlook: Stable**

Acuité believes that the outlook on ATCPL will remain 'Stable' over the medium term on account of the experience of the promoters and comfortable business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further elongation in its working capital cycle.

### **About the Rated Entity - Key Financials (Standalone)**

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	282.63	270.65
PAT	Rs. Cr.	4.65	4.39
PAT Margin	(%)	1.65	1.62
Total Debt/Tangible Net Worth	Times	1.83	1.30
PBDIT/Interest	Times	2.46	2.09

### **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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	PCFC	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB- /Stable (Assigned)
State Bank of India	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Assigned)
State Bank of India	GECL	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- /Stable (Assigned)
Tata Capital Financial Services Ltd	Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)

Tata Capital Financial Services Ltd	WCDL	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- /Stable (Assigned)
Kotak Mahindra Bank	WCDL	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- /Stable (Assigned)
Kotak Mahindra Bank	Term Loan	30-Oct-2020	7.00%	31-August-2022	0.50	ACUITE BBB- /Stable (Assigned)
Not Applicable	Proposed Fund Based facilities	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- /Stable (Assigned)
Not Applicable	Proposed Non-Fund Based facilities	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Assigned)

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### About Acuité Ratings & Research

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