



Press Release
Asian Tea Company Private Limited
April 24, 2024

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	77.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	28.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	105.00	-	-

Rating Rationale

ACUITE has downgraded the long-term rating to ‘**ACUITE BB+**’ (read as **ACUITE double B plus**) from ‘**ACUITE BBB-**’ (read as **ACUITE triple B minus**) and the short-term rating to ‘**ACUITE A4+**’ (read as **ACUITE A four plus**) from ‘**ACUITE A3**’ (read as **ACUITE A Three**) on the Rs. 105.00 Cr. bank facilities of Asian Tea Company Private Limited (ATCPL). The outlook is ‘**Stable**’.

Rationale for Rating

The rating downgrade reflects the decline in topline of the Company in FY024 at Rs. 247.42 Cr. (Provisional) against Rs. 313.26 Cr. in FY2023. This has been due to lower demand in international market owing to geo-political issues. ATCPL has an healthy unexecuted order book position to the tune of about Rs.115 Cr. as on March 2024 which will be executed in 6-7 months, thus providing revenue visibility over the near term. However, the operating margin of the company improved to 4.73% in FY2023 from 3.53% in FY2022. Furthermore, the liquidity has stretched slightly, as reflected in elongation of working capital cycle of the Company with GCA of 162 days in FY2023 against 125 days in FY2022 mainly due to stretches in receivable cycle wherein payments have stretched from Russia and Kazakstan. The debtor cycle remained at 89 days in March 2023 against 66 days in previous year. Furthermore, the accruals in FY2024 were barely sufficient to meet the repayment of term loans during the year. The Debt Service Coverage Ratio (DSCR) is expected to be weak during FY2024.

The rating further factors in the steady business position of the company as reflected from its current order book position buoyed by repeat orders from its global clientele. The ratings also factor in the established track record of the promoters. However, these strengths are partially offset by intensive working capital operations, moderate financial profile and the volatility in tea prices and agro climatic conditions.

About the Company

Incorporated in 2011, Asian Tea Company Private Limited (ATCPL), the flagship company of the Asian Tea Group. Currently, ATCPL is headed by Mr Mohit Agarwal & Mr. Sunil Garg. The promoter and directors of the company have vast experience in tea export business and have gained great insight into the nature of tea- its cultivation, manufacture, blending and marketing in the international market. The group has grown from tea plantation to tea exports and have proven track record of tea export business. The company is a Kolkata, based company, engaged in exporting of premium tea. It has group offices in Coimbatore (India), ATCPL exports tea to countries like Kazakhstan, UAE, China, Saudi Arabia

, Middle East , Europe and Germany. Tea is sourced from the tea producing areas of Assam and West Bengal 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. The facilities in Kolkata 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite 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 & Mr. 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. Acuite 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.

Repeat orders from overseas client

Acuite draws comfort from the company's diversified geographical presence with exports to countries such as the Kazakhstan, Russia, UAE, China, Iran, Saudi Arabia and Germany and so on. It has a global presence in five to six nations. Having been in business for almost a decade ensures a positive relationship with consumers. Tealand Branch of RG Brand (Kazakistan) and Fuzhou Lianshengfeng International Trade Co. Ltd (China) are two of the company's most important clients accounting for ~64 per cent of its revenues. However, the company enjoys an established relationship with these customers, which have been awarding it with repeat businesses.

Weaknesses

Decline in scale of operations but improved profitability

The company's revenues have declined to Rs. 247.42 Cr. in FY2024 (Provisional) as compared to revenues of Rs. 313.26 Cr. in FY2023, a degrowth by 21 per cent and Rs. 300.02 Cr. in FY2022. This has been a result of lower demand in international market owing to geo-political issues. ATCPL has an unexecuted healthy order book position to the tune of about Rs.115 crores as on March 2024 which will be executed in 6-7 months, thus providing revenue visibility over the near term. The operating margin of the company improved to 4.73% in FY2023 from 3.53% in FY2022. But, the margins remain susceptible to volatility in tea prices of the auction centres as well as open market. The PAT margins stood at 1.38 per cent in FY2023 as against 1.26 per cent as on FY2022. The Return on Capital Employed (ROCE) of the company stood comfortable at 11.73 per cent as on FY2023 as compared to 11.05 per cent as on FY2021. Acuite believes that going forward, the profitability margins are expected to improve over the medium term.

Moderate financial risk profile

The company's financial risk profile is marked by modest networth, high gearing and average debt protection metrics. The tangible net worth of the company stood at Rs.40.55 Cr. as on 31st March, 2023 as compared to Rs.36.25 Cr. as on 31st March, 2022 due to small accretion to profits. Gearing of the company stood moderate at 2.31 times as on March 31, 2023 as against 1.97 times as on March 31, 2022 mainly due to reliance on short term borrowings. The Total Outside Liability/Tangible Net Worth (TOL/TNW) stood at 2.74 times as on March 31, 2023 as compared to 2.17 times in the previous year. The average debt protection metrics of the company is marked by Interest Coverage Ratio of 1.77 times and Debt Service Coverage Ratio at 1.05 times as on March 31, 2023. Net Cash Accruals/Total Debt (NCA/TD) stood at

0.05 times as on March 31, 2023 as against 0.06 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will remain moderate backed by gradually improving accruals and no major debt funded capex plans.

Working capital intensive nature of operations

The working capital intensive nature of operations is high marked by GCA days of 162 days as on March 31, 2023 as compared to 125 days as on March 31, 2022. The high GCA days are high primarily on account of a high other current assets consisting of other receivables and recoveries. Also, the debtor period remained high at 89 days as on March 31, 2023 similar as against 66 days in previous year. Further, the inventory holding period stood at 38 days as on March 31, 2023 as compared to 36 days as on March 31, 2022. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from stretches in collection albeit comfortable 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 perfectly 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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant ramp up in scale of operations while improving the profitability margin
- Working capital cycle

Liquidity Position Stretched

The Company's liquidity position is stretched marked by net cash accruals of approximately Rs.3.06 Cr. in FY2024 as against a long term debt repayment of only Rs.3.58 Cr. over the same period. The Company had infused unsecured loans to met by timely infusion of unsecured loans which stood at Rs.4.92 Cr. over FY2023. The current ratio stood comfortable at 1.44 times as on March 31, 2023 as compared to 1.61 times as on March 31, 2022. The cash and bank balances stood at Rs 0.88 Cr. as on March 31, 2023. Additionally, the fund based limit utilized at only 80.53 per cent for the six-months ended March 2024. However, the working capital intensive nature of operations is marked by high GCA days of 162 days as on March 31, 2023 as compared to 125 days as on March 31, 2022. Acuité believes that going forward the liquidity position of the company will improve due to gradually improving cash accruals.

Outlook: Stable

Acuité believes that the outlook on ATCPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and comfortable business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. 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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	313.26	300.02
PAT	Rs. Cr.	4.31	3.77
PAT Margin	(%)	1.38	1.26
Total Debt/Tangible Net Worth	Times	2.31	1.97
PBDIT/Interest	Times	1.77	1.96

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Jan 2023	Bills Discounting	Short Term	28.00	ACUITE A3 (Reaffirmed)
	PC/PCFC	Long Term	27.00	ACUITE BBB- Stable (Reaffirmed)
	PC/PCFC	Long Term	11.25	ACUITE BBB- Stable (Reaffirmed)
	PC/PCFC	Long Term	13.75	ACUITE BBB- Stable (Assigned)
	Covid Emergency Line.	Long Term	8.75	ACUITE BBB- Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	5.13	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	11.12	ACUITE BBB- Stable (Assigned)
30 Dec 2022	PC/PCFC	Long Term	27.00	ACUITE BBB- Stable (Reaffirmed)
	PC/PCFC	Long Term	11.25	ACUITE BBB- Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	8.75	ACUITE BBB- Stable (Reaffirmed)
	Bills Discounting	Short Term	28.00	ACUITE A3 (Reaffirmed)
12 Oct 2021	Proposed Long Term Bank Facility	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.50	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	7.00	ACUITE BBB- Stable (Assigned)
	PC/PCFC	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Proposed Short Term Bank Facility	Short Term	0.50	ACUITE A3 (Assigned)
	Secured Overdraft	Short Term	2.00	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	23.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	28.00	ACUITE A4+ Downgraded (from ACUITE A3)
State Bank of India	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2024	Simple	5.25	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
State Bank of India	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2026	Simple	3.50	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
State Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	27.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Indusind Bank Ltd	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.56	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Punjab National Bank	Not avl. / Not appl.	Stand By Gold Card	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Punjab National Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	25 Mar 2025	Simple	1.28	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Punjab National Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Mar 2028	Simple	2.41	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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