

Press Release

Kanco Tea And Industries Limited

January 04, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.82	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	2.10	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	38.92	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**) to the Rs.38.92 Cr bank facilities of Kanco Tea and Industries Limited (KITL). The outlook is '**Stable**'.

Rationale for the rating

The rating continues to reflect the promoter's extensive industry experience and company's comfortable market presence along with moderate financial risk profile. Furthermore, the rating draws comfort from the adequate liquidity position of the company. These strengths are partially offset by the modest operating efficiency amidst exposure to risks posed by volatility in tea prices and change in weather conditions.

About the Company

Incorporated in 1983, Kanco Tea and Industries Limited (KITL) is a Kolkata based company promoted by Mr. Umang Kanoria and Mrs. Anuradha Kanoria. The company primarily produces black tea of CTC (crush, tear, curl) variety, which it sells in the domestic market through a mix of auction and private sales. The company owns three tea estates in upper valleys of Assam named as Mackeypore, Bamonpookrie and Lakmijan.

Analytical Approach

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

Key Rating Drivers

Strengths

Long operational track record and experienced management

KITL has long operational track record of more than thirty five years in the tea manufacturing business. The company is engaged in the manufacturing of Black tea (CTC). Acuite believes

that the long operational track record of the company has helped it to mechanize the operations like plucking, uprooting and spraying of pesticides which has improved labour productivity and reduced cost. The day to day operations of the company are managed by Mr. Umang Kanoria and Mrs. Anuradha Kanoria, who are the promoter directors and is associated with the company since inception. 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.

Above Average Financial risk Profile

The company's moderate financial risk profile is marked by modest net worth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs 48.56 Cr as on March 31, 2022 from Rs.31.89 Cr as on March 31, 2021. Gearing of the company is healthy which stood at 0.56 times as on March 31, 2022 as against 1.18 times as on March 31, 2021.

The debt of Rs.27.17 Cr consists of term loan of Rs.10.55 Cr, working capital from the bank of Rs.10.57 Cr, unsecured loan of Rs.3.99 Cr and current maturity of term loan of Rs.2.07 Cr as on March 31, 2022.

The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 0.85 times as on March 31, 2022 as against 1.59 times as on March 31, 2021. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 5.65 times as on March 31, 2022 and Debt Service Coverage Ratio (DSCR) at 2.53 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.54 times as on March 31, 2022. Acuite believes that going forward the financial risk profile of the company will improve over the medium term, in absence of any major debt funded capex plans.

Efficient working capital management

The efficient working capital management of the company is marked by Gross Current Assets (GCA) of 57 days in 31st March 2022 as compared to 71 days in 31st March 2021. The GCA days are in low level on account of low debtor levels. However, there is a presence of high inventory levels during the same period. The inventory holding stood at 29 days in 31st March 2022 as against 22 days on 31st March 2021. Further, the debtor period stood comfortable at 4 days in 31st March 2022 as compared to 8 days in 31st March 2021.

Acuite believes that the working capital operations of the firm will remain efficient as evident from efficient collection mechanism over the medium term.

Weaknesses

Sensitivity of profitability to fluctuations in tea prices and changing weather 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. Tea being a seasonal product, the yield mainly depends on rain. Further, the production declines during poor weather conditions. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Decline in operating margin

The company has achieved revenue of 83.45 crore in 2022 as against 81.72 crore in 2021. During the first 6MFY2023, the company achieved a revenue of Rs. 73.3 crore as compared to the revenue Rs 55 crore in 6M FY2022. The PAT margins stood at 14.74 per cent in 2022 as against margins of 10.16 per cent in 2021.

The operating margin declined from 18.85% in FY2021 to 9.11% in FY2022 due to decline in sales

realization during the year, increasing Material and power cost coupled with upward wage revision during FY22. The raw material prices have increased on account of rise in the cost of leaves procured from outside, which makes up almost 30% of the raw material. Further the increase in price of pesticides and fertilizers attributed in the decline of the margins. A significant hike in Wage rates for the Tea Estate Workers in Assam have led to a considerable increase in the overall Cost of Production.

Rating Sensitivities

Sustenance in Revenue growth.

Improvement in Profitability.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.14.75 Cr as on March 31, 2022 as against long term debt repayment of Rs.3.85 Cr over the same period. The fund based limit remains utilised at 35 per cent over the eight months ended November, 2022. The cash and bank balances of the company stood at Rs.0.57 Cr as on March 31, 2022 as compared to Rs.2.30 Cr as on March 31, 2021. However, the current ratio stood low at 0.48 times as on March 31, 2022 as compared to 0.56 times as on March 31, 2021. Further chemicals and other materials are also procured at large during the period. The working capital management of the company is efficient marked by Gross Current Assets (GCA) of 57 days in 31st March 2022 as compared to 71 days in 31st March 2021. Acuite believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on KITL will be 'Stable' over the medium term on account of the long track record of operations, experienced management, improvement in business risk profile and efficient working capital management. 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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	83.45	81.72
PAT	Rs. Cr.	12.30	8.30
PAT Margin	(%)	14.74	10.16
Total Debt/Tangible Net Worth	Times	0.56	1.18
PBDIT/Interest	Times	5.65	3.31

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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
22 Oct 2021	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	0.30	ACUITE A3 (Assigned)
	Term Loan	Long Term	12.32	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	0.30	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
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.30	ACUITE A3 Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.50	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE A3 Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.82	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	3.50	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in
Swagata Bhattacharjee Management Trainee-Rating Operations Tel: 022-49294065 swagata.bhattacharjee@acuите.in	

About Acuité Ratings & Research

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