



Press Release
Kanco Tea And Industries Limited
February 23, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.82	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	2.10	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	38.92	-	-

Rating Rationale

Acuite 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**) on the Rs.38.92 Cr bank facilities of Kanco Tea and Industries Limited (KITL). The outlook remains '**Stable**'.

Rationale for rating Reaffirmation

The rating reaffirmation continues to factor in the long track record of operations of KITL and the above average financial risk profile of the company. The ratings further consider the continuing moderation in the operating revenues and profitability of the company. In 9MFY2024, KITL has reported revenue of Rs.73.29 Cr against Rs.103.35 Cr in the 9MFY2023. Going ahead, KITL's ability to improve its scale of operations and profitability will remain key monitorable.

About the Company

Incorporated in 1983, Kanco Tea and Industries Limited (KITL) is based in Kolkata and 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.

Unsupported Rating

Not Applicable

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 financial risk profile is marked by improving networth, comfortable gearing and debt protection metrics. The tangible net worth of the company increased to Rs. 53.06 Cr as on March 31, 2023 from Rs. 48.56 Cr as on March 31, 2022. Gearing of the company stood comfortable at 0.61 times as on March 31, 2023 as against 0.58 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a moderate level of 1.05 times as on March 31, 2023 as against 1.00 times as on March 31, 2022. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 5.25 times as on March 31, 2023 and Debt Service Coverage Ratio (DSCR) at 2.83 times as on March 31, 2023. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.28 times as on March 31, 2023.

Acuite believes that going forward the financial risk profile of the company will remain above average over the medium term, in absence of any major debt funded capex plans.

Weaknesses

Weakening of the business risk profile in 9MFY2024

The company's scale of operations and profitability margins deteriorated significantly in 9MFY2024 as compared to 9MFY2023. The revenue came down to Rs. 73.29 Cr in 9MFY24 from Rs.103.35 Cr in 9MFY23. The revenue profile was impacted due to the loss of crops owing to seasonal changes and also due to the company stopped purchasing bought leaves on account of quality issues. In addition to this, the operating income was also hampered due to the prevailing industry scenario whereby the cost of raw materials surged more than the increase in the tea prices.

The profitability margins are also impacted due to the decline in the revenues as against the increase in the cost of materials and labour cost. The operating margin declined to 6.82 per cent in 9MFY24 from 22.15 per cent in 9MFY2023. Also, the PAT margin dipped to 0.16 per cent in 9MFY2024 from 18.85 per cent in 9MFY2023.

Acuite believes that, going forward, improvement in the business risk profile will be a key sensitivity factor.

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.

Rating Sensitivities

Improvement in the scale of operation and profitability margins
Improvement in the financial risk profile

Liquidity Position Adequate

The company's liquidity position is adequate marked by steady net cash accruals of Rs.9.18 Cr as on March 31, 2023 as against long term debt repayment of Rs.2.07 Cr over the same period. The cash and bank balances of the company stood at Rs.5.72 Cr as on March 31, 2023. However, the current ratio stood low at 0.60 times as on March 31, 2023 as compared to 0.62 times as on March 31, 2022. The working capital management of the company is moderate in nature marked by Gross Current Assets (GCA) of 81 days in 31st March 2023

similar to that on 31st March 2022.

Acuite believes that, going forward, the liquidity position is likely to remain adequate due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on KTIL will be 'Stable' over the medium term on account of the long track record of operations, experienced management, the above average financial risk profile and adequate liquidity profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of further 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.	105.89	83.45
PAT	Rs. Cr.	7.05	12.30
PAT Margin	(%)	6.66	14.74
Total Debt/Tangible Net Worth	Times	0.61	0.58
PBDIT/Interest	Times	5.25	5.65

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>
- Entities In Manufacturing Sector:- <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
23 Nov 2023	Cash Credit	Long Term	21.50	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan (WC DL)	Long Term	3.50	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	11.82	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	1.80	ACUITE A4+ (Downgraded from ACUITE A3)
	Bank Guarantee (BLR)	Short Term	0.30	ACUITE A4+ (Downgraded from ACUITE A3)
04 Jan 2023	Letter of Credit	Short Term	1.80	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	0.30	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	21.50	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	3.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	11.82	ACUITE BBB- Stable (Reaffirmed)
22 Oct 2021	Letter of Credit	Short Term	0.30	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	0.30	ACUITE A3 (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	12.32	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE BBB- Stable (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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.30	ACUITE A4+ Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	21.50	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.80	ACUITE A4+ Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.82	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BB+ Stable Reaffirmed

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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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