



Press Release
Kanco Tea And Industries Limited
June 10, 2024
Rating Downgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|-----------------------|-----------------------|
| Bank Loan Ratings | 36.82 | ACUITE D Downgraded | - |
| Bank Loan Ratings | 2.10 | - | ACUITE D Downgraded |
| Total Outstanding Quantum (Rs. Cr) | 38.92 | - | - |

Rating Rationale

Acuite has downgraded its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to '**ACUITE D**' (read as **Acuite D**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to '**ACUITE D**' (read as **Acuite D**) on the Rs.38.92 Cr. bank facilities of Kanco Tea and Industries Limited (KITL).

Rationale for Rating Downgrade

The rating downgrade is on account of delays being reflecting in the credit bureau information report.

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

KTIL 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.

Weaknesses

Deterioration in operating performance

The company's scale of operations and profitability margins deteriorated significantly in FY2024 as compared to FY2023 levels. The revenue has declined to Rs. 76.52 Cr. in FY2024 from Rs.105.84 Cr. in FY2023. 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. Further, there were labour shortage issues during the year. 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 profit margin declined to (7.12) per cent in FY2024 from 10.47 per cent in FY2023.

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

Timely servicing of debt repayment obligations.

Liquidity Position Stretched

The company's liquidity position is stretched as there have been instances of delays in debt repayment in recent months.

Outlook

Not Applicable

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 24 (Actual) | FY 23 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 76.52 | 105.84 |
| PAT | Rs. Cr. | (9.19) | 7.05 |
| PAT Margin | (%) | (12.01) | 6.66 |
| Total Debt/Tangible Net Worth | Times | 0.85 | 0.59 |
| PBDIT/Interest | Times | (2.09) | 5.24 |

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>
- 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 |
|-------------|-------------------------------------|------------|-----------------|--|
| 23 Feb 2024 | Bank Guarantee (BLR) | Short Term | 0.30 | ACUITE A4+ (Reaffirmed) |
| | Cash Credit | Long Term | 21.50 | ACUITE BB+ Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 1.80 | ACUITE A4+ (Reaffirmed) |
| | Term Loan | Long Term | 11.82 | ACUITE BB+ Stable (Reaffirmed) |
| | Working Capital Demand Loan (WC DL) | Long Term | 3.50 | ACUITE BB+ Stable (Reaffirmed) |
| 23 Nov 2023 | Bank Guarantee (BLR) | Short Term | 0.30 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Cash Credit | Long Term | 21.50 | ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable) |
| | Letter of Credit | Short Term | 1.80 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Term Loan | Long Term | 11.82 | 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) |
| 04 Jan 2023 | Bank Guarantee (BLR) | Short Term | 0.30 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 21.50 | ACUITE BBB- Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 1.80 | ACUITE A3 (Reaffirmed) |
| | Term Loan | Long Term | 11.82 | ACUITE BBB- Stable (Reaffirmed) |
| | Working Capital Demand Loan (WC DL) | Long Term | 3.50 | ACUITE BBB- Stable (Reaffirmed) |
| 22 Oct 2021 | Bank Guarantee (BLR) | Short Term | 0.30 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 20.00 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 0.30 | ACUITE A3 (Reaffirmed) |
| | 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 D Downgraded (from ACUITE A4+) |
| 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 D Downgraded (from ACUITE BB+) |
| 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 D Downgraded (from ACUITE A4+) |
| 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 D Downgraded (from ACUITE BB+) |
| 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 D Downgraded (from ACUITE BB+) |

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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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