



**Press Release**  
**Kanco Tea And Industries Limited**  
**November 06, 2024**  
**Rating Upgraded**

| Product                                   | Quantum (Rs. Cr) | Long Term Rating             | Short Term Rating    |
|---|------------------|------------------------------|----------------------|
| Bank Loan Ratings                         | 36.82            | ACUITE B   Stable   Upgraded | -                    |
| Bank Loan Ratings                         | 2.10             | -                            | ACUITE A4   Upgraded |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 38.92            | -                            | -                    |
| <b>Total Withdrawn Quantum (Rs. Cr)</b>   | 0.00             | -                            | -                    |

**Rating Rationale**

Acuite has upgraded its long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE D**' (read as **ACUITE D**) and short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.38.92 Cr. bank facilities of Kanco Tea and Industries Limited (KTIL). The outlook is 'Stable'.

**Rationale for rating action**

The rating action considers KTIL meeting the curing period criteria for rating restoration post default in line with Acuite's criteria of recognition of default. Further, it also factors the deterioration recorded in the operating and financial performance of the company in FY2024 and similar trend continuing in Q1FY25 as well. The operating income declined to Rs.77.46 Cr. in FY2024 from Rs.106.05 Cr. in FY2023, primarily on account of lower volumes, combined with lower price realizations. Further, the company incurred operating losses in FY2024 (5.83%) against profit of 10.65% in FY2023 due to lower price realizations and increased labour costs during the year. Further, the subdued operating performance led to deterioration in financial risk profile and liquidity position which remains stretched.

Going ahead, the ability of the company to improve its scale of operations and profitability margins while improving its financial risk profile and liquidity position will remain a 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**

Acuité has taken the standalone view of the business and financial risk profile of KTIL 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). 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.

### **Efficient nature of working capital operations; albeit high reliance on working capital limits**

The working capital operations of the company are efficient in nature marked by Gross Current Assets (GCA) of 51 days in FY2024 as compared to 60 days in FY2023. The GCA days are in low level on account of low collection period and other Current Assets. The Inventory days have marginally decreased to 21 days in FY2024 as against 29 days in FY2023. Further, the debtor period stood comfortable at 6 days in FY2024 as compared to 5 days in FY2023. Further, the creditors cycle of the company stood at 89 days in FY2024 as against 51 days in FY2023. However, the reliance on working capital limits stood high with ~91% utilization over the past 6 months ending September 2024.

Acuite believes that the ability of the company to maintain efficient working capital operations will remain key monitorable over the medium term.

### **Weaknesses**

#### **Deterioration in operating performance**

The company's scale of operations and profitability margins significantly declined in FY2024 compared to FY2023. Revenue declined from Rs. 106.05 Cr. in FY2023 to Rs. 77.46 Cr. in FY2024. This decline was due to crop losses from seasonal changes and the company's decision to stop purchasing bought leaves due to quality issues. Further, lower volumes, combined with lower price realisations resulted in decline in revenues. Also, there was issue of labour shortage as well during the year. The operating profit margin fell from 10.65% in FY2023 to -5.83% in FY2024, impacted by lower price realizations and increased labour costs. In Q1FY25, the company recorded revenue of Rs. 13.06 Cr., down from Rs. 22.77 Cr. in Q1FY24. However, operating profitability improved to 14.70% in Q1FY25 from 12.91% in Q1FY24. The average price realization for tea from April to September 2024 were Rs. 332.12, compared to Rs. 254.13 in the same period the previous year.

Acuite believes that ability of KITL to improve its scale of operations and profitability will remain a key rating sensitivity factor.

#### **Below average financial risk profile**

The company's financial risk profile stood below average marked by average net worth, gearing and debt protection metrics. The tangible net worth of the company decreased to Rs 43.81 Cr. as on March 31, 2024 from Rs.53.06 Cr. as on March 31, 2023 primarily on account of attribution of losses to the reserves. The gearing level stood at 0.85 times as on March 31, 2024 as against 0.59 times as on March 31, 2023. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.19 times as on March 31, 2024 as against 0.88 times as on March 31, 2023. The debt protection metrics of the company deteriorated on account of operating losses and increased debt levels and is marked by Interest Coverage Ratio at (2.10) times for FY2024 as against 5.24 times for FY2023 and Debt Service Coverage Ratio (DSCR) stood at (0.66) times for FY2024 as against 2.83 times for FY2023. Net Cash Accruals/Total Debt (NCA/TD) stood at (0.17) times for FY2024 as against 0.31 times for FY2023.

Going ahead, the ability of the company to improve its financial risk profile will remain a key monitorable.

### **Rating Sensitivities**

- Timely servicing of debt repayment obligations
- Growth in revenue and profitability leading to improvement in financial risk profile and liquidity position
- Any significant elongation in working capital
- Any significant deterioration in revenue and profitability leading to further weakening of the financial risk profile and liquidity position.

## **Liquidity Position**

### **Stretched**

The company's liquidity is stretched marked by generation of insufficient accruals against repayment obligations. The repayments were met by the support of promoters by way of infusion of funds in the form of unsecured loans. Further, the reliance on fund-based limits remained high marked by average utilization of 96 per cent and non-fund based limits 64 per cent for the last six months ending September, 2024. The cash and bank balances of the company stood at Rs.0.44 Cr. as on March 31, 2024 as compared to Rs.5.71 Cr. as on March 31, 2023. Further, the current ratio stood low at 0.27 times as on March 31, 2024 as compared to 0.47 times as on March 31, 2023. Acuite believes that going forward, the liquidity position of the company is expected to remain stretched on account of expected average accruals generation against its maturing repayment obligations in the near to medium term and limited buffer available from the working capital limits.

### **Outlook: Stable**

### **Other Factors affecting Rating**

None

## Key Financials

| Particulars                   | Unit    | FY 24 (Actual) | FY 23 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 77.46          | 106.05         |
| PAT                           | Rs. Cr. | (9.19)         | 7.05           |
| PAT Margin                    | (%)     | (11.86)        | 6.64           |
| Total Debt/Tangible Net Worth | Times   | 0.85           | 0.59           |
| PBDIT/Interest                | Times   | (2.10)         | 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>
- 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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](http://www.acuite.in).

## Rating History

| Date        | Name of Instruments/Facilities     | Term       | Amount (Rs. Cr) | Rating/Outlook   |
|-------------|------------------------------------|------------|-----------------|--|
| 10 Jun 2024 | Cash Credit                        | Long Term  | 21.50           | ACUITE D (Downgraded from ACUITE BB+   Stable)             |
|             | Working Capital Demand Loan (WCDL) | Long Term  | 3.50            | ACUITE D (Downgraded from ACUITE BB+   Stable)             |
|             | Term Loan                          | Long Term  | 11.82           | ACUITE D (Downgraded from ACUITE BB+   Stable)             |
|             | Letter of Credit                   | Short Term | 1.80            | ACUITE D (Downgraded from ACUITE A4+)                      |
|             | Bank Guarantee (BLR)               | Short Term | 0.30            | ACUITE D (Downgraded from ACUITE A4+)                      |
| 23 Feb 2024 | Letter of Credit                   | Short Term | 1.80            | ACUITE A4+ (Reaffirmed)                                    |
|             | Bank Guarantee (BLR)               | Short Term | 0.30            | ACUITE A4+ (Reaffirmed)                                    |
|             | Cash Credit                        | Long Term  | 21.50           | ACUITE BB+   Stable (Reaffirmed)                           |
|             | Working Capital Demand Loan (WCDL) | Long Term  | 3.50            | ACUITE BB+   Stable (Reaffirmed)                           |
|             | Term Loan                          | Long Term  | 11.82           | ACUITE BB+   Stable (Reaffirmed)                           |
| 23 Nov 2023 | 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)                     |
|             | Cash Credit                        | Long Term  | 21.50           | ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable) |
|             | Working Capital Demand Loan (WCDL) | 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) |
| 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 (WCDL) | 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 (WCDL) | 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        | Quantum (Rs. Cr.) | Complexity Level | Rating   |
|----------------------|----------------------|------------------------------------|----------------------|----------------------|----------------------|-------------------|------------------|--|
| Punjab National Bank | Not avl. / Not appl. | Bank Guarantee (BLR)               | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 0.30              | Simple           | ACUITE A4   Upgraded ( from ACUITE D )         |
| Punjab National Bank | Not avl. / Not appl. | Cash Credit                        | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 30.00             | Simple           | ACUITE B   Stable   Upgraded ( from ACUITE D ) |
| Punjab National Bank | Not avl. / Not appl. | Letter of Credit                   | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 1.80              | Simple           | ACUITE A4   Upgraded ( from ACUITE D )         |
| Not Applicable       | Not avl. / Not appl. | Proposed Long Term Bank Facility   | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 2.35              | Simple           | ACUITE B   Stable   Upgraded ( from ACUITE D ) |
| Punjab National Bank | Not avl. / Not appl. | Term Loan                          | Not avl. / Not appl. | Not avl. / Not appl. | 31 Mar 2026          | 3.80              | Simple           | ACUITE B   Stable   Upgraded ( from ACUITE D ) |
| Punjab National Bank | Not avl. / Not appl. | Working Capital Demand Loan (WCDL) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 0.67              | Simple           | ACUITE B   Stable   Upgraded ( from ACUITE D ) |

## Contacts

|   |   |
|---|---|
| Mohit Jain<br>Senior Vice President-Rating Operations | <b>Contact details exclusively for investors and lenders</b>  |
| Anuja Bele<br>Associate Analyst-Rating Operations     | Mob: +91 8591310146<br>Email ID: <a href="mailto:analyticalsupport@acuite.in">analyticalsupport@acuite.in</a> |

### 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.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.