

January 09, 2014

Facility	Amount (Rs. Crore)	Rating
Export Packing Credit	20.00	SMERA A4 (Assigned)

SMERA has assigned a rating of **'SMERA A4' (read as SMERA A Four)** to the Rs.20.00 crore fund-based bank facility of Hindustan Tea Exporters (HTE). The rating is constrained by the firm's small scale of operations in a highly competitive tea trading industry. The rating is also constrained by the firm's high leverage, low coverage indicators and working capital-intensive operations. However, the rating is supported by the firm's long track record of operations and experienced management.

HTE, established in 1976, is a Kolkata-based partnership firm engaged in bulk trading and export of tea. The firm's revenues increased from Rs.19.80 crore in FY2011-12 (refers to financial year, April 01 to March 31) to Rs.46.80 crore in FY2012-13 due to increase in exports to Iran and higher average selling price of tea. HTE operates in a highly competitive industry, which limits the firm's bargaining power with customers. The firm's net profit margin is moderate at 1.35 per cent in FY2012-13 as compared with 0.76 per cent in FY2011-12.

HTE's operations are working capital-intensive. The firm either sources tea directly from tea planters or through tea auctions. While purchases through tea auctions are on cash basis, the firm receives around 10 days credit from tea planters. HTE's inventory holding period is stretched at around 40 days to 50 days owing to the quality checks undertaken to meet the specifications of the Indian Organization for Standardization (ISO) and other international organizations like the Institute of Standards & Industrial Research of Iran (ISIRI). The firm provides credit of around 80 days to 100 days to its customers. HTE's working capital cycle is thus stretched at 109 days in FY2012-13. The firm's export sales account for about 63 per cent of the total revenues. HTE mainly exports to Iran and avails export credit insurance from the Export Credit Guarantee Corporation of India Limited (ECGC).

HTE has weak debt protection metrics with high leverage at 7.01 times as on March 31, 2013 and low interest coverage ratio of 1.34 times in FY2012-13. The firm's total debt of Rs.14.23 crore as on March 31, 2013 includes interest-bearing unsecured loans of Rs.4.44 crore from family and friends.

HTE is promoted and managed by Mr. Ali Abbas Shirazi, Mr. Prafull Shah and Mr. Harkisan Shah. Mr. Ali Abbas Shirazi and Mr. Harkisan Shah have over four decades of experience in the tea trading industry and Mr. Prafull Shah has over two decades of experience in the firm's line of business.

Rating sensitivity factors

- Maintaining a comfortable capital structure
- Ability to expand scale of operations while maintaining a comfortable liquidity position

SMERA 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. SMERA ratings 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA ratings are subject to a process of surveillance which may lead



SMERA RATINGS LIMITED

Hindustan Tea Exporters (HTE)

Rating Rationale

About the firm

HTE, established in 1976, is a Kolkata-based partnership firm engaged in bulk trading and export of tea. Mr. Ali Abbas Shirazi and Mr. Harkisan Shah, Partners of HTE, have over four decades of experience in the tea trading industry. Mr. Prafull Shah, Partner of HTE, has over two decades of experience in the firm's line of business.

For FY2012-13, HTE reported net profit of Rs.0.63 crore on total income of Rs.46.80 crore as compared with net profit of Rs.0.15 crore on total income of Rs.19.80 crore for FY2011-12. The firm registered revenues of Rs.26.16 crore during April 2013 to December 2013. HTE's net worth stood at Rs.2.03 crore as on March 31, 2013.

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