



SMERA RATINGS LIMITED

Hindustan Tea Exporters (HTE)

*Rating
Rationale*

February 11, 2015

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

SMERA has reaffirmed the rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.20.00 crore bank facility of Hindustan Tea Exporters (HTE). The rating is constrained by the firm's small-scale operations in a highly competitive segment of the tea industry. The rating is also constrained by the firm's high gearing (debt-to-capital ratio) and working capital-intensive operations. However, the rating is supported by the firm's long track record of operations and experienced management.

Update

HTE reported profit before tax (PBT) of Rs.0.56 crore on operating income of Rs.36.53 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with PBT of Rs.0.63 crore on operating income of Rs.46.80 crore in the previous year. The decline in the firm's revenue was on account of lower export sales. HTE operates in a highly competitive industry. The firm has weak bargaining power against customers. HTE's profit margin (PBT margin) remains moderate at 1.53 per cent in FY2013-14. The firm registered revenue of ~Rs.21.00 crore during April 2014 to December 2014.

HTE's operations are working capital-intensive. The firm sources tea from plantations or through auctions. HTE receives credit of ~30 days from tea planters, while payments for auction purchases are settled within 14 days. The firm provides credit of 80-100 days to its customers. HTE's working capital cycle is thus stretched at 118 days in FY2013-14. Export sales account for ~58 per cent of the firm's total revenues.

HTE's weak financial risk profile is marked by high gearing of 5.88 times as on March 31, 2014. The firm's total debt of Rs.14.19 crore (as on March 31, 2014) includes interest-bearing unsecured loans of Rs.5.40 crore (subordinated to bank loan) from family and friends.

Rating sensitivity factors

- Achieving comfortable capital structure
- Ability to expand scale of operations while achieving a comfortable liquidity position

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 around four decades of experience in the tea industry. Mr. Prafull Shah, partner of HTE, has over two decades of experience in the firm's line of business.

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