



Infomerics Valuation And Rating Pvt. Ltd.

Press release

Salonah Tea Private Limited

March 24, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	26.00	IVR BB-/Stable Outlook (IVR Double B minus with Stable Outlook)
	Total	26.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Salonah Tea Private Limited (STPL) derives comfort from its experienced promoters, fund infusion by the promoters to support the business, its moderate capacity utilisation and improvement in financial performance in 9MFY20. The rating strengths are partially offset by its small scale of operation in the CTC tea production industry, susceptibility of its profitability to agro-climatic risks, presence in a highly competitive and labour intensive industry. Further, the rating also considers deterioration in STPL's operating performance and weak financial risk profile in FY19.

Key Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation
- Improvement in the capital structure

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators and liquidity
- Moderation in overall gearing to more than 4 times
- Subdued industry scenario



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and fund infusion by the promoters

STPL was promoted by Mr. Sushil Bhuwarka, who has an experience of over 40 years in the tea industry. Experience of Mr. Sushil Bhuwarka has led to established relationship with the clients over the years. Further, the promoters have infused unsecured loans in the past to support the business requirements indicating the promoter's intent to infuse funds if required.

Moderate capacity utilisation

The capacity utilisation of the company remained satisfactory at over 80% during the past three fiscals and in 9MFY20.

Key Weaknesses

Relatively small player in the CTC tea production industry

The company is a small player in the tea industry with a revenue of Rs.34.91 crore in FY19 and accounting for around 0.16% of India's total tea production during FY19. Small scale of its operation restricts the financial risk profile of the company to an extent. During 9MFY20, the company registered a total revenue of Rs.32.04. Notwithstanding the expected growth in business in FY20, Infomerics expects that the scale of operation of the company will continue to remain small.

Profitability susceptible to agro-climatic risks and labour intensive nature of the industry

As tea is an agricultural commodity, the company is exposed to agro-climatic risks. There is risk of adequate availability of green leaf as the tea plantation is prone to erratic weather conditions (such as drought, pest attack, heavy rainfall, delay in monsoon, etc.). Moreover, tea industry is highly labour intensive and prone to labour problems. Further, profitability is susceptible to revision in wage rates as decided by the state government.



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Presence in a highly competitive industry

The tea industry in India is highly fragmented with presence of many established and small to medium players in the market. .

Deterioration in operating performance in FY19 though expected to improve in FY20

STPL's operating income registered a decline of ~9% y-o-y in FY19 driven by both lower sales volumes and lower realisation. EBITDA margin deteriorated from 14.3% in FY18 to 7.38% in FY19 due to decline in sales realisation during the year coupled with upward wage revision during FY19. Lower PBILDT level led to deterioration in interest coverage ratio to below unity in FY19, however the company managed to service its debt obligation on the back of its non-operating incomes and unsecured loans infused by promoters. Further, during FY19 the company written off a claim amounting to Rs.1.24 crore from Assam Company India Ltd (ACIL) on completion of its insolvency proceedings in NCLT under IBC, 2016 as an extraordinary item. Lower EBITDA coupled with loss under extraordinary item led to book loss for STPL though there was no cash loss and the company has earned a gross cash accruals of Rs.0.15 crore in FY19.

Weak financial risk profile in FY19

The financial risk profile of the company remained weak marked by its leveraged capital structure and weak debt protection metrics driven by decline in EBITDA and gross cash accruals. The overall gearing ratio deteriorated from 2.85x as on March 31, 2018 to 3.30x as on March 31, 2019 mainly due to erosion of net worth owing to book loss incurred by the company. The total debt to GCA also deteriorated in light of negligible GCA. To arrive at the net worth, Infomerics has considered Rs.5.01 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Infomerics expects marginal improvement in the financial risk profile of the company in FY20 with improvement in operating profit and cash accruals.

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity profile of the company is stretched marked by its tightly matched accruals owing to low profitability as compared to its repayment obligations. However, the average working capital utilization of cash credit limits for past 10 months ended Jan-20 remained moderate at ~84% indicating moderate liquidity buffer.

About the Company

Incorporate in 2012, Kolkata based Salonah Tea Private Limited (STPL) was promoted by Bhuwarka family. The company is engaged in plantation and processing of Crush-Tear-Curl (CTC) and orthodox tea. Currently company has total processing capacity at 2.5 million Kg. STPL has its tea garden at Nargaon-Assam. The promoters also have a venture in steel industry under U B stainless steel, which is engaged in manufacturing of welded tubes.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	38.37	34.91
EBITDA	5.38	2.58
PAT	-0.45	-2.95
Total Debt	28.52	23.14
Tangible Net worth	5.00	2.01
EBITDA Margin (%)	14.03	7.38
PAT Margin (%)	-1.15	-8.13
Overall Gearing Ratio (x) [#]	2.85	3.30

*Classification as per Infomerics' standard

unsecured loans from directors amounting to RS. 5.01 crore are subordinated to the bank facilities therefore it has been treated as quasi-equity, same has been reflected in the above figures. Further, company has also borrowed the unsecured loan from relatives which has been treated as neither debt nor equity. Outstanding amount of unsecured loans borrowed from relatives reported by company as on 31



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March, 2019 is Rs.8.70 crore, Rs.3.00 crore as on 31 March, 2018 and Rs.2.00 crore. as on 31 March, 2017.

Status of non-cooperation with previous CRA: Issuer not cooperating by India Ratings, vide press release dated January 03, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	8.00	IVR BB-/Stable	-	-	-
2.	Term Loan	Long Term	18.00	IVR BB-/Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio.



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Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/Outlook
Long Term Bank Facilities-Cash Credit	-	-	-	8.00	IVR BB-/Stable
Long Term Bank Facilities-Term Loan	-	-	Feb, 2025	18.00	IVR BB-/Stable