Jay Shree Tea & Industries Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	274.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	100.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Long Term / Short Term Bank Facilities	40.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Total Bank Facilities	**414.00 (₹ Four Hundred Fourteen Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Jay Shree Tea and Industries Limited (JSTIL) factors in the presence of a strong promoter group, diversified revenue profile, adequate capacity utilisation, strong brand name for bulk tea (in both CTC and orthodox varieties) and fertilisers and improvement in financial performance in H1FY23. The ratings are however constrained by a moderate financial risk profile, labour intensive nature of operations, profitability susceptible to price volatility and exposure to agro-climatic risk as both tea and sugar are agricultural commodities and regulatory risks associated with the sugar and fertiliser industries, which are susceptible to sudden changes in Government policies.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in TOI above Rs 1000 crores while maintaining EBIDTA margins of over 8% on a sustained basis.
- Improvement in overall gearing below unity and debt coverage indicators from current levels on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex resulting in a deterioration in the capital structure of the company from the current levels.
- Deterioration in TOI below Rs.600 crores with profitability margins below 5% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Strong Promoter Group: The Company is part of B K Birla group. The Company has been operating in the bulk tea industry for almost 75 years. JTIL derives strength from the extensive experience of its promoters, strong and competent management, reflecting the expertise in its execution capabilities. JTIL is managed by Mrs. Jayashree Mohta, elder daughter of late BK Birla. She has more than 26 years of experience in the business management, tea, sugar, chemicals, and fertilizers industries. JTIL is a professionally managed company with Board of Directors comprising highly experienced and eminent personalities. The company also has a qualified & experienced management team.

Diversified revenue mix coupled with wide geographical presence: The company has tea estates for manufacturing bulk tea (in both CTC and orthodox varieties). The company is also in manufacturing of sugar, ethanol, and fertilizers wherein it generates revenues from. The sugar and ethanol businesses were being carried out in its wholly owned subsidiary Majhaulia Sugar Industries Private Limited (MSIPL), which amalgamated with JSTIPL effective from April 1st, 2020. Besides this the company is engaged in tea warehousing and investing activities. In FY22, out of the total revenues of Rs 631.61 crores, Tea accounted for 57%, sugar accounted for 21% and chemicals & fertilizers accounted 22% of the gross turnover. In addition, the geographically diversified location of the tea estates, which are spread across Upper Assam, Cachar, Dooars, Darjeeling and Terai region, mitigate the risk of unfavourable agro-climatic conditions to some extent. The company also has tea gardens in Uganda through its foreign subsidiaries. The sugar unit also benefits from its location in eastern India, which is a sugar-deficit zone, and faces limited competition from nearby sugar factories. Apart from this the company has two chemical and fertiliser units. Companies' majority of the revenues is generated from domestic sales, with around 10% coming from exports of tea products.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Adequate Capacity Utilisation: The capacity utilisation for Tea division has remained in the range of 70 to 80% over the last three years. However, the utilisation has improved to ~95% in 8MFY23 because of sales of some tea estates during the year which were having low productivity. The utilisation in the fertilisers division stood close to 65% in FY22. The sugar division utilisation has remained sub-optimal in FY22 at around 45% owing to lack of availability of canes because of floods, in turn affecting the production of sugar and ethanol because of lower availability of molasses. The company plans to navigate against this challenging issue of flooding through autumn planting, wherein the canes will be planted in Oct-Nov period which will be available for crushing in Dec – Jan of next year. However, the canes will grow tall enough to withstand the force of flood by rainy season leading to better availability of canes during crushing season.

Strong brand name for bulk tea and fertilisers: JSTIL is an established producer of bulk tea (in both CTC and orthodox varieties). The tea produced by JSTIL's estates has consistently commanded a premium over the district average because of quality. The company offers close to 68 type of tea sub-varieties under its various varieties like oolong, whole leaf, ruby, dust, pekoe, fanning's, organic, white, green tea, and others. In FY22, the Company launched Darjeeling Tea in packets besides "Bagicha-by Jay Shree Tea" launched in FY21. This launch is being amplified through online mediums which includes its website www.bagichatea.com and various social media platforms. Apart from this the company has developed & renovated its heritage bungalow at Puttabong tea estate, Darjeeling which is the longest tea garden in the world with all modern facilities for tea tourism as a home away from home. The estate has tied up with AMA Stays & Trails by Taj Group of hotels for the said venture. Though most of the revenues are from its Tea division, the company also sells Fertilisers through its brand "Annapurna", which is well accepted by the farmers in the state of West Bengal.

Improvement in financial performance in H1FY23: The company has reported EBITDA of Rs 62.30 crores, on a scale of operations of close to Rs 400 crores in H1FY23, with majority of the revenues coming from Tea and Chemical & Fertiliser division. In 8MFY22, the company sold tea worth Rs 316 crores, as compared to Rs 390 crores in full year FY22 buoyed by better sales of conventional tea manufactured by the company. Also, in chemical and fertiliser division the sales stood at around Rs 97 crores as against Rs.89 crore in full year FY22. As of H1FY23, the margins stood at 16%, wherein major contribution was from Tea division where margins were close to 21%, on account of better realisations. Though on an EBITDA level, the sugar division continues to report losses of around Rs 6.84 crores, the same is expected to improve going ahead with the company's efforts to improve sugar cane supply and in turn increase production in coming years. Continuation of improvement in revenue generation from the tea and fertiliser division and turnaround of the sugar division will remain a key monitorable going forward.

Key rating weaknesses

Labour intensive nature of business: The nature of the tea industry makes it highly labor intensive, entailing around 35% of total cost of sales in FY22 by way of salaries & wages, various employee welfare facilities, etc. JSTIL has a total work force of around 19801 employees as of March 2022, of which the majority belong to the tea industry. The rising labor cost becomes a major cause of concern in the face of stagnating tea prices and any significant increase in wages with no corresponding increase in tea price realization may adversely impact the profitability margin in the future. Further, the labor work force is an integral part of the tea industry, and it is imperative to follow labor laws and maintain amicable relationship with the laborers for smooth functioning of the business.

Profitability susceptible to price volatility and exposure to agro-climatic risk: As tea and sugar are agricultural commodities, the company is exposed to agro-climatic risks and price volatility risk. Additionally, the inherent cyclicality of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as JSTIL. The fertiliser business is also exposed to the vagaries of price fluctuations given the volatile pricing of inputs like rock phosphate, sulphuric acid, and sulphur.

Regulatory risks associated with the sugar and fertiliser industries: The performance of JSTIL's sugar division depends on the Government's policies on sugar industry. The recent support by both the Central and the state governments, to sugar producing companies, which included revision in minimum support prices, interest subvention loans for ethanol expansion and providing soft loans (by the Central Government) in addition to the export subsidy, supported the sugar industry.
Further, the Government of India's policy and decisions with respect to subsidy sharing with fertiliser manufacturers has a significant bearing on JSTIL's profitability, cash flows and liquidity position (for fertiliser segment).

Moderate financial risk profile: The capital structure and debt coverage indicators remained moderate for the entity in FY22 post the amalgamation with loss making Sugar company (MSIPL). Though, with a likely improvement in realisation, the profits and cash accruals are expected to improve in the current fiscal leading to improvement in capital structure and debt coverage indicators. Overall gearing stood at 1.81 times as on March 31, 2022 (PY: - 1.76x) owing high debt and higher working capital utilisation. The company has already liquidated some of its assets in FY2022 and plans to liquidate few other assets in midterm to reduce its debt liabilities.

Liquidity: Adequate
The profits and cash accruals are expected to improve in the current financial year, though the GCA in FY22, stood negative owing to amalgamation of the sugar subsidiary, which reported losses in FY22. Further, JSTIL has been steadily reducing term borrowing over the last three years. The company received funds from the garden sale proceeds and from the liquidation of its investment portfolio which helped in reducing the debt in addition to the scheduled repayment. The Company will continue to monetize certain assets to garner liquidity thereby improving overall debt profile. The company has generated accruals of around Rs 35 crores in H1FY23 and is expected to generate sufficient accruals against debt repayment of Rs. 30 crores in FY23. The current ratio stood at 0.47 times for FY22, and the working capital limits utilization has been around 90% for the last 12 months ending Oct'22. As of March 31st, 2022, the company had a free cash and bank balance of Rs 8.45 crores.

Industry Outlook

India is the 2nd largest producer of tea in the world and accounts for the highest tea consumption globally. The demand outlook is expected to be positive in CY2022 and next couple of years on the back of increase in domestic as well as export demand, whereas the growth in the fertiliser business is also expected to remain stable and see a growth of 3% to 4% CAGR.
The consumption volume of sugar in 2021 amounted to 28.5 million metric tons in India, Sugar which comes from sugarcane is an important cash or profit crop across the country. The demand is expected to remain stable. With the government push towards 20% Ethanol blending by 2025, the need for supply houses to fulfil this demand is on the rise. Overall, the expected growth in these sectors is expected to remain stable to positive but being commodity products, the industry is exposed to wide price fluctuations impacting margins.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Fertilizer
Manufacturing Companies
Sugar

About the company

Incorporated in October 1945, Jay Shree Tea & Industries Ltd. is a part of the diversified conglomerate of B.K Birla Group. The Company is controlled by Mrs. Jayashree Mohta, elder daughter of late Mr. BK Birla. The company is engaged in the manufacturing of tea and chemicals & fertilizers and Sugar. JSTIL had four Indian subsidiaries (North Tukvar Tea Company Limited, Jayantika Investment and Finance Limited, Bidhannagar Tea Company and Divyajyoti Tea Company Private Limited) and one foreign subsidiary (Birla Holdings Limited). At present, the Sugar unit under has a crushing capacity of 5,000 TCD. The company also has a co-generation plant of 6 MW capacity for captive consumption and an ethanol production capacity of 60 KLPD. Apart from the above the company has an annual capacity of 211 lakh kgs of Tea and 420 MTPD of production of Single Super Phosphate.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	782.20	709.59	395.87
PBILDT	60.14	0.97	62.30
PAT	9.71	5.92	34.73
Overall gearing (times)	1.76	1.81	NA
Interest coverage (times)	1.26	0.03	3.80

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	195.00	CARE BBB-; Stable
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	100.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	40.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term		-	-	01-07-2026	79.00	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	40.00	CARE BBB-; Stable / CARE A3				
2	Term Loan-Long Term	LT	79.00	CARE BBB-; Stable				
3	Fund-based - LT-Cash Credit	LT	195.00	CARE BBB-; Stable				
4	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	100.00	CARE BBB-; Stable / CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Working Capital Demand loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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