B & A Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	56.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**56.00 (Rs. Fifty-Six Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Bank Facilities of B & A Limited (B&A) considers its long and established track record of operations with superior quality of tea output commanding a premium over industry average levels, satisfactory financial performance in FY21 (refers to the period from April 01 to March 31) albeit y-oy deterioration witnessed in Q1FY22, satisfactory capital structure and debt protection metrics.

The ratings are constrained by small scale of operations, high exposure to group companies, labour-intensive nature of business and susceptibility of business to agro-climatic risk.

Key Rating Sensitivities

Positive Factors

- Sustained increase in the scale of operations and improvement in operating margin beyond 12%
- Improvement in overall gearing ratio below 0.25x on a sustained basis

Negative Factors

- Significant deterioration in total operating income below Rs.125 crore and operating margin below 5% on a sustained basis
- Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators from the current levels.

Detailed description of the key rating drivers

Key Rating Strengths

Long & established track record of operations

B&A is engaged in cultivation and sale of tea since 1915. The company was subsequently acquired by Late H.P. Barooah in 1950. Presently, the day-to-day operation of the company is looked after by Mr. Somnath Chatterjee along with a team of experienced professionals. Mr. Chatterjee is associated with the company for nearly 33 years.

Superior quality of tea output commanding a premium over industry average levels

Company produces superior quality of tea, which commands a premium over industry average levels. All the eight tea gardens are located in Upper Assam which is well-known for its superior quality of tea due to its favourable climatic conditions and better soil structure. Furthermore, the replantation activities are regularly undertaken by the management, keeping the age of tea bushes under check. Accordingly, the average realisations of tea manufactured by company are higher than the average realisations in the tea auctions.

Satisfactory financial performance in FY21 albeit y-o-y deterioration witnessed in Q1FY22

The total operating income of B&A improved 13.13% from Rs.133 crore in FY20 to Rs.150 crore in FY21. The growth in sales is mainly accountable to positive price variance wherein tea produced from both own leaf and bought leaf fetched an average selling price of Rs.272/kg in FY21 versus Rs.198/kg in FY20, despite being offset by negative volume variance (5.50 m kg in FY21 versus 6.66 m kg in FY21). The PBILDT level improved significantly to Rs.15.43 crore (10.24%) in FY21 vis-à-vis Rs.5.94 crore (4.46%) in FY20 mainly on account of downward movement in power and fuel cost and consumption of stores supported by higher average sales realization. Consequently, PAT improved to Rs.6.74 crore in FY21 versus net loss of Rs.1.16 crore in FY20. Further, GCA also improved to Rs.10.23 crore in FY21 as against Rs.1.50 crore in FY20.

In Q1FY22 the company incurred loss of Rs.6.31 crore on total operating income of Rs.16.71 crore as compared to net loss of Rs.4.17 crore over total operating income of Rs.17.33 crore in Q1FY21 due to erratic weather condition in Assam, the company's crop was substantially lower resulting in lower production of black tea.

Satisfactory capital structure and debt protection metrics

B&A has availed General Emergency Credit Line loan for managing its working capital requirements. The capital structure of the company continues to remain satisfactory. Total debt decreased in FY21 due to low utilisation of working capital limits, thereby improving the overall gearing ratio from 0.61x as on March 31, 2020 to 0.49x as on March 31, 2021. Further, total debt/GCA witnessed improvement to 2.94x as on March 31, 2021 from 21.73x as on March 31, 2020 due to increase in cash accrual.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses
High exposure to group companies
The company has significant exposure in the group companies in the form of strategic equity investments and loans and advances amounting to Rs.12.07 crore (accounting for 19.82% of net-worth as on March 31,2021 as against 27.65% as on March 31,2020). After adjusting for exposure to group companies, adjusted overall gearing works out to be 0.62x as on March 31, 2021 (0.84x as on March 31, 2020).

Small size of operations
B&A's market share continued to remain small in terms of total size of the Indian tea industry. During FY21 B&A produced 5.50 million kg of tea accounting for only 0.052% of North India's production for the same period of 1,050.80 million kg (published by the Tea Board). Moreover, company is operating at moderate level of capacity utilization (~63% in FY21) and its scale of operations continues to remain small which to a greater extent restricts the financial flexibility of the company in times of stress. However, company has set up one new factory in Sangsua with an installed capacity of 1 million kg per annum which has been commenced.

Labour intensive nature of business
The nature of the tea industry makes it highly labour intensive, entailing around 41% in FY21 of total cost of sales by way of salaries & wages, various employee welfare facilities, etc. B&A has a work force of around 3,500 laborers and hires more laborers on a contract basis during peak season. The wages are revised every 3 calendar years (FY19-FY21). Any significant increase in wages with no corresponding increase in tea price realization may adversely impact the profitability margin in the future.
Agro-climatic risks
The profitability and cash flows of B&A remain volatile because of the risks associated with agro-climatic conditions. Moreover, all of its tea gardens are concentrated in Assam thereby leading to agro climatic risks.
Industry Outlook
India's tea industry is expecting a better second quarter (Q2FY22) as retail demand has picked up across the country with the easing of Covid (2nd wave)-led restrictions in most states. First quarter was impacted due to adverse weather conditions.
Tea production, which had suffered due to a long dry spell in the early half of CY21, recovered in June and July 2021. Figures released by the Tea Board show that tea production (All India) in June and July 2021 stood at 168.84 mn kg and 179.01 mn kg respectively, 6.5% higher than the pre-pandemic production level of CY19. However, during January-July 2021, India produced only 622.86 mn kg of tea as against 649.19 mn kg in January-July 2019, putting up an overall fall of ~4% at the very beginning of the tea season (first and second flush). Apart from this crop loss due to rainfall deficit, the drought at the very beginning of the tea season has delayed the application of fertilizers by around two months, and accordingly the same is expected to add to further loss of crop during the ensuing peak harvesting months.

Liquidity Analysis: Adequate
The liquidity position of the company is adequate, marked by satisfactory utilization (~70%) of working capital limits during the last 12 month ended July 2021, indicating average unutilized working capital amount of Rs.16.80 crore. The Company is expected to generate sufficient GCA in FY22 against debt repayment obligation of Rs.4.95 crore. The company has cash and bank balance amounting to Rs.8.28 crore as on March 31, 2021 (Rs.1.51 crore as on March 31, 2020). The company has availed the moratorium facility under RBI's COVID-19 regulatory package till August 2020 with respect to interest on cash credit limit. However, the same has been converted to FITL and has been paid off by March 2021.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity analysis for non-financial sector entities

About the Company
B&A, incorporated in June 1915, was taken over by Late Shri H. P. Barooah in 1950. B&A presently owns eight tea estates in upper Assam (Mokrung, Kuhum, Gatoonga, Samaguri, New Samaguri, Sangsua, Barasali and Salkathoni) covering an area of 1,879.20 hectares. The company also has four tea processing facilities (Gatoonga, Sangsua, Mokrung and Salkathoni) in Assam. The company primarily produces CTC (Crush, Tear and Curl) variety of tea, which it sells in the domestic market through a mix of auctions and private sales.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	133.22	150.64
PBILDT	5.94	15.43
PAT	-1.16	6.74
Overall gearing (times)	0.61	0.49
Interest coverage (times)	1.34	4.11

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*

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

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	56.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	56.00	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (27-Dec-18)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (08-Oct-20)	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (27-Dec-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated 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

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 instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
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