

B & A Limited

November 07, 2022

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	56.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total bank facilities	56.00 (₹ Fifty-six crore only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to the bank facilities of B & A Limited (B&A) considers the significant improvement in the financial risk profile with improved profitability in FY22 (refers to the period April 01 to March 31), comfortable capital structure and satisfactory debt protection metrics. The rating also takes note of the reduced loss in Q1FY23 vis-à-vis Q1FY22. The rating continues to derive strength from its long and established track record of operations with superior quality of tea commanding a premium over industry average levels.

The ratings are constrained by small scale of operations, moderate albeit reducing exposure to group companies, labour-intensive nature of the business and possible impact of wage rate increase on the profitability and susceptibility of the business to agro-climatic risk.

Rating sensitivities

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

- Sustained increase in the scale of operations and improvement in operating margin beyond 15% along with significant improvement in the liquidity profile.

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

- Significant deterioration in total operating income below Rs.130 crore and operating margin below 8% on a sustained basis may lead to a negative rating action.
- Deterioration in capital structure with increase in overall gearing ratio to beyond 0.50x may lead to a negative rating action.

Detailed description of the key rating drivers

Key rating strengths

Improvement in financial performance in FY22 with reduction in loss in Q1FY23 vis-à-vis Q1FY22

The total operating income of B&A increased around 9% from Rs.150 crore in FY21 to Rs.163 crore in FY22. The increase in sales value is due to positive price variance wherein tea produced from both own leaf and bought leaf fetched an average selling price of Rs.295/kg in FY22 versus Rs.272/kg in FY21, the volume sold in FY22 was similar to that in FY21. The PBILDT level improved significantly to Rs.27.20 crore (16.65%) in FY22 vis-à-vis Rs.14.68 crore (9.79%) in FY21 on account of higher sales realization. Consequently, PAT improved to Rs.17.58 crore in FY22. Further, the GCA also improved to Rs.20.59 crore in FY22 as compared with Rs.10.23 crore in FY21.

In Q1FY23, the company reported loss of Rs.4.60 crore on total operating income of Rs.27.63 crore as compared with a loss of Rs.6.31 crore on total operating income of Rs.16.71 crore in Q1FY22. The losses incurred are on account of seasonally weak Q1 for the tea industry which sees lower sales during the first quarter leading to lower absorption in fixed costs.

Comfortable capital structure and satisfactory debt protection metrics

The total debt decreased in FY22 due to low utilisation of working capital limits and scheduled repayment of term loans, thereby improving the overall gearing ratio from 0.49x as on March 31, 2021, to 0.15x as on March 31, 2022. The overall gearing also improved due to substantial accretion of profit to reserves. Further, total debt/GCA, witnessed improvement to 0.56x as on March 31, 2022, from 2.94x as on March 31, 2021, due to increase in cash accruals and decrease in total debt. The company is expected to maintain a strong financial risk profile in absence of any major debt funded capex and healthy accruals going forward.

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

Long and established track record of operations

B&A is engaged in the 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 over three decades.

Superior quality of tea commanding a premium over industry average levels

The 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.

Key rating weaknesses**Small size of operations**

B&A's market share continued to remain small in terms of total size of the Indian tea industry. During FY22, B&A produced 5.58 million kg of tea accounting for only 0.050% of north India's production for the same period of 1,113.04 million kg (published by the Tea Board). Moreover, the company is operating at moderate level of capacity utilization (around 62% in FY22) 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.

Moderate albeit reducing exposure to group companies

The company had significant exposure in the group companies in the form of strategic equity investments, loans and advances. The exposure in group companies has reduced to Rs.14.00 crore as on March 31, 2022 (accounting for 18.11% of net worth as on March 31, 2022, as against 25.85% as on March 31, 2021). After adjusting for exposure to group companies, adjusted overall gearing works out to be 0.18x as on March 31, 2022 (0.66x as on March 31, 2021).

Labour intensive nature of business

The nature of the tea industry makes it highly labour intensive, entailing around 45% in FY22 of total cost of sales by way of salaries and 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 the peak season. The wages are revised every 3 calendar years. 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.

Liquidity: Adequate

The liquidity position of the company is adequate, marked by satisfactory utilization (around 42%) of the working capital limits during the last 12 months ended August 2022. The company is expected to generate sufficient GCA in FY23 against debt repayment obligation of Rs.2.58 Crore. The company has cash and bank balance amounting to Rs.9.32 crore as on March 31, 2022 (Rs.8.28 crore as on March 31, 2021). The current ratio has improved from 0.69x as on March 31, 2021, to 1.34x as on March 31, 2022, mainly on account lower working capital borrowings.

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](#)

[Manufacturing Companies](#)

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	149.89	163.33	27.63
PBILDT	14.68	27.20	-3.04
PAT	6.74	17.58	-4.60
Overall gearing (times)	0.49	0.15	NA
Interest coverage (times)	3.91	9.06	NM

A: Audited; UA: Unaudited; NA: Not available; NM: Not meaningful.

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 facilities: 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 (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		-	-	-	56.00	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	Fund-based - LT-Cash Credit	LT	56.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB+; Stable (03-Oct-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (08-Oct-20)	1)CARE BBB+; Stable (03-Oct-19)

Annexure-3: Detailed explanation of the 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 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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