Jay Shree Tea & Industries Limited

November 07, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	253.56 (Reduced from 274.00)	CARE BBB-; Stable	Reaffirmed
Long-term/Short-term bank facilities	106.00 (Reduced from 140.00)	CARE BBB-; Stable/CARE A3	Reaffirmed
Short-term bank facilities	10.00	CARE A3	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Jay Shree Tea and Industries Limited (JSTIL) continues to derive strength from the strong promoter group, diversified revenue profile coupled with wide geographical presence, adequate capacity utilisation, strong brand name for bulk tea (in both CTC and orthodox varieties) and fertilisers and improvement in the financial performance in FY23 (refers to the period from April 01 to March 31) albeit moderation in Q1FY24. The ratings, however, remain 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: Factors likely to lead to rating actions

Positive factors

- Improvement in the total operating income (TOI) beyond Rs.1000 crore while maintaining EBIDTA margin of over 8% on a sustained basis.
- Improvement in the overall gearing below unity and debt coverage indicators from current level on a sustained basis.

Negative factors

- Any large debt funded capex leading to deterioration in the capital structure from the current level.
- Deterioration in TOI below Rs.600 crore with profitability margin below 5% on a sustained basis.

Analytical approach: Standalone factoring linkages with the group.

Outlook: Stable

Stable outlook for the company is based on the expectations that the company will continue to benefit from the extensive experience of the promoters and management in the industry which will lead to sustenance and improvement of its revenues going ahead with stable margins while maintaining its capital structure.

Detailed description of the key rating drivers:

Key strengths

Strong promoter group

The company is part of B. K. Birla group. The company has been operating in the bulk tea industry for over seven decades. JSTIL derives strength from the extensive experience of its promoters and the strong and competent management. JSTIL is managed by Ms. Jayashree Mohta, elder daughter of the late Shri B. K. Birla. She has more than two decades of experience in the business of tea, sugar, chemicals, and fertilizers industries. JSTIL is a professionally managed company with board of directors comprising of highly experienced and qualified members.

Diversified revenue mix coupled with wide geographical presence

The company has tea estates for manufacturing of bulk tea (in both CTC and orthodox varieties). The company is also engaged in the manufacturing of sugar, ethanol, and fertilizers. The sugar and ethanol businesses were being carried out in its wholly owned subsidiary Majhaulia Sugar Industries Private Limited (MSIPL), which amalgamated with JSTIL effective from April 01, 2020. Besides this the company is engaged in tea warehousing and investing activities. In FY23, tea accounted for 63%, sugar accounted for 19% and chemicals and fertilizers accounted for 18% of the turnover. Furthermore, 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

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

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. Majority of the company's revenues are generated from domestic sales, with around 10% coming from export of tea products.

Adequate capacity utilisation

The capacity utilisation (CU) for tea division has remained in the range of 68-72% over the last three years. The utilisation in the fertilisers division stood close to 75% in FY23. The utilisation in the fertilisers division for oleum and single super phosphate has increased from 54% and 68%, respectively, in FY22, to 86% and 76%, respectively in FY23. The increase in the CU of the fertilizer division is on account of better marketing and production of quality products leading to growth in the segment. The sugar division utilisation has seen a significant growth from 45% in FY22 to 93% in FY23 due to adequate availability of canes.

Strong brand name for bulk tea and fertilizers

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 their 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" which was launched earlier. These new launches are being publicised through online mediums including its website and various social media platforms. Though majority of its revenues are from the 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 the financial performance in FY23 albeit moderation in Q1FY24

The revenue from operations grew about 12% from 709.59 crore in FY22 to Rs.794.04 crore in FY23. The growth in the revenue was supported by the increase in sales realisation of single super phosphate from Rs.6,375/MT in FY22 to Rs.10,032/MT in FY23 and also increase in the volume sold from 90,862 MT in FY22 to 94,811 MT in FY23. Furthermore, the growth in the turnover was also supported by the increase in the volume of tea sold from 17.56 million kgs in FY22 to 19.60 million kgs in FY23, however, the same was partially offset by the decrease in realisation of tea from Rs.272/kg in FY22 to Rs.230/kg in FY23. The profitability margin of the company also increased slightly from 0.14% in FY22 to 1.39% in FY23 driven by economies of scale. The financial performance though improved in FY23, has fallen short of the envisaged turnover and margins mainly due to the moderation in sales realisation of tea, adverse weather conditions leading to less then expected improvement in the sugar division and lower than expected margin in the chemical division.

During the year, the company has sold a tea estate (Tukvar tea estate) at a net consideration of Rs.50.00 crore and gain on such disposal amounted to Rs.46.71 crore. The company earned a PAT of Rs.15.95 crore in FY23 vis-à-vis Rs.5.92 crore in FY22. During Q1FY24, the company achieved sales of Rs.175.50 crore and the profitability margin dipped to -4.37% mainly on account of low sales of the chemical division. Also, the company had non-operating income of Rs.37.40 crore in Q1FY24 mainly on account of sale of a land adjacent to one of its tea estates.

Furthermore, the company is in the final stages of setting-up of a refinery and enhancing the capacity of its sugar mill from 5,000 TCD to 6,000 TCD at a total cost of around Rs.42 crore in the current financial year. The project is expected to start commercial production from mid-November 2023. The project will aid the company in expanding the production and profitability margin in the sugar division. The project has been financed through internal accruals by way of monetisation of certain assets. The revenues of the company are expected to improve in the near to medium term with the improvement in the sugar and tea divisions, which will also lead to improvement in the operating margins.

Key weaknesses

Moderate financial risk profile

The capital structure of the company improved from 1.81x as on March 31, 2022, to 1.65x as on March 31, 2023, on the back of decrease in the utilisation of working capital loan as on March 31, 2023. The debt coverage indicators marked by interest coverage ratio improved slightly from 0.03x as on March 31, 2022, to 0.32x as on March 31, 2023. Although, a slight improvement was witnessed in the capital structure and debt coverage indicators of the company during FY23, the financial profile continued to remain moderate on account of leveraged structure and moderate operating margin. Furthermore, the company is in the process of monetising certain assets like tea estates, vacant land, etc., by way of sale to aid in deleveraging of the capital structure.

Labour intensive nature of business

The nature of the tea industry makes it highly labour-intensive, entailing around 35% of total cost of sales in FY23 and FY22 by way of salaries and wages and other employee related costs. JSTIL has a total work force of around 18438 employees as on March 31, 2023, of which the majority belong to the tea industry. The rising labor cost is a major cause of concern in the face of stagnating tea prices and any significant increase in the wages with no corresponding increase in tea price realization and/or labour productivity may adversely impact the profitability margin in the future. Further, the labour work force is an integral part of the tea industry, and it is imperative to follow various labour 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 and price volatility risks. Additionally, the inherent cyclicality of the fixed-cost intensive tea industry leads to variability in the profitability and cash flows of bulk tea producers, such as JSTIL. The fertiliser business is also exposed to 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 to a certain extent. 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 the fertiliser segment).

Liquidity: Adequate
The company has adequate liquidity which is characterized by GCA of Rs.39.73 crore in FY23 vis-à-vis debt repayment obligations of Rs.29.29 crore. The liquidity was aided by the sale of Tukvar tea estate for a consideration of Rs.50.00 crore on which the company realised a gain of Rs.46.71 crore. The company is anticipated to earn a GCA of Rs.43.79 crore in FY24 against debt repayment obligation of Rs.31.36 crore. The company will continue to monetize certain assets to garner liquidity thereby improving overall performance. In Q1FY24, the company has already generated GCA of Rs.21.73 aided by sale of land adjacent to one of its tea estates. The current ratio improved to 0.62x as on March 31, 2023, vis-a-vis 0.47x as on March 31, 2022. The working capital limits utilization has been around 85% in the last 12 months ending September 30, 2023. As of March 31, 2023, the company had a free cash, bank balance and liquid investments of Rs 4.15 crores.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Tea & Coffee

Incorporated in October 1945, JSTIL, is a part of the diversified conglomerate of the B. K. Birla group. The company is managed by Jayashree Mohta, elder daughter of the late B. K. Birla. The company is engaged in the manufacturing of tea, chemicals, fertilizers and sugar. JSTIL has four Indian subsidiaries (North Tukvar Tea Company Limited (ceased to be subsidiary w.e.f. December 31, 2022), Jayantika Investment and Finance Limited, Bidhannagar Tea Company and Basant Stays Private Limited (erstwhile Divyajyoti Tea Company Private Limited)) and one foreign subsidiary (Birla Holdings Limited). At present, the company has crushing capacity of 5,000 TCD in the sugar division, annual capacity of 211 lakh kgs in the tea division, 33,000 MT of sulphuric acid and 1,32,000 MT of production capacity of single super phosphate. The company also has a co-generation plant of 6MW for captive consumption and an ethanol production capacity of 56 KLPD.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	709.59	794.04	175.50
PBILDT	0.97	11.06	-7.64
PAT	5.92	15.95	16.37
Overall gearing (times)	1.81	1.65	NA
Interest coverage (times)	0.03	0.32	NM

A: Audited UA: Unaudited; NA: Not available; NM: Not meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the ratings assigned to the bank facilities of JSTIL into 'Issuer not cooperating' category vide press release dated June 02, 2023, on account of non-availability of requisite information from the company.

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	204.00	CARE BBB-; Stable
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	66.00	CARE BBB-; Stable / CARE A3
Fund-based - ST-Bank Overdraft		-	-	-	10.00	CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	40.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term		-	-	01-07-2026	49.56	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 2023-2024	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	40.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jan-23)	-	-
2	Term Loan-Long Term	LT	49.56	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-23)	-	-
3	Fund-based - LT-Cash Credit	LT	204.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Jan-23)	-	-
4	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	66.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (06-Jan-23)	-	-
5	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A3				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:

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