

B & A Limited

February 06, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	56.00	CARE BBB+ (RWD)	Placed on Rating Watch with Developing Implications

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of B & A Limited (B&A) has been placed on credit watch with developing implication following the acquisition of Moheema Tea Estate situated at Golaghat, Assam from Dhaneswari Wood Products Limited and pending clarity with respect to future cash flows and funding pattern for the acquisition. CARE Ratings Limited (CARE Ratings) would continue to monitor the developments in this regard and will take a view on the rating once the impact of the same on the credit profile of B&A is clear.

The rating continues to draw comfort from its long and established track record of operations, comfortable capital structure and satisfactory debt protection metrics and the superior quality of tea commanding a premium over industry average levels. The rating also factors in the moderation in profitability margins in FY23 (refers to the period April 1 to March 31) albeit recovery in H1FY24.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Deterioration in total operating income below ₹130 crore and operating margin below 8% on a sustained basis.
- Deterioration in capital structure with increase in overall gearing ratio beyond 0.50x on a sustained basis.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers

Key strengths

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.

Comfortable capital structure and satisfactory debt protection metrics

The capital structure of the company though slightly deteriorated, continues to remain comfortable with overall gearing of 0.24x as on March 31, 2023, compared with 0.15x as on March 31, 2022. Total debt increased from ₹11.57 crore as on March 31, 2022, to ₹19.18 crore as on March 31, 2023, due to high utilisation of working capital limits. Also, total debt/GCA deteriorated to 1.97x as on March 31, 2023, from 0.56x as on March 31, 2022, due to decrease in cash accruals and increase in total debt. However, the same continued to remain satisfactory.

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

Moderation in profitability margins in FY23 albeit recovery in H1FY24

The total revenue from operations was stable at ₹161.35 crore in FY23 vis-à-vis ₹163.33 in FY22. The sales volume reduced from 5.53 million in FY22 to 5.22 million in FY23 while the average price realization improved from ₹295.19 per kg in FY22 to ₹308.99 per kg in FY23 thereby keeping the revenue at similar levels as of FY22. The recovery rate of tea has remained consistent at around 22% during the last 5 years ended FY23. The PBILDT margin, however, declined to 4.36% in FY23 vis-à-vis 16.65% in FY22 due to decrease in gross margin by 1.50% on account of increase in cost of leaves vis-à-vis slight increase in sales realization, wage hike, cost of fertilizers & pesticides and energy cost. The company earned GCA of ₹9.74 crore vis-à-vis debt repayment obligation of ₹2.58 crore in FY23.

In H1FY24, the operating margin recovered again to 12.04% on a total operating income of ₹89.79 crore. Going forward, the company expects the price premium of its tea to sustain given the superior quality of tea it produces leading to stable revenue from operations and profitability margins.

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 the company are higher than the average realisations in the tea auctions. From April 22 onwards, company's Gatoonga Tea Estate was ranked as no.1 followed by Mokrung Tea Estate at no.3 and Salkathoni Tea Estate at no.7 in All India Batting Order in terms of price fetched by the company in Assam for CTC tea in the auctions.

Key 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 FY23, B&A produced 5.36 million kg of tea accounting for only 0.47% of North India's production for the same period of 1,149.50 million kg (published by the Tea Board of India). Moreover, the company is operating at moderate level of capacity utilization (~60% in FY23) 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 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 stood at similar level of ₹13.81 crore as on March 31, 2023 as compared with ₹14.10 crore as on March 31, 2022 (accounting for 17.34% of net worth as on March 31, 2023, as against 18.24% as on March 31, 2022). After adjusting for exposure to group companies, adjusted overall gearing works out to be 0.27x as on March 31, 2023 (0.18x as on March 31, 2022).

Labour intensive nature of business

The nature of the tea industry makes it highly labour intensive, entailing around 46% of total cost of sales in FY23 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. Any subsequent 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 46%) of working capital limits during the last 12 months ended August 2023. The company has debt repayment obligation of ₹1.94 crore in FY23 against which the company is expected to generate sufficient cash accruals. The company has cash and liquid investment amounting to ₹19.51 crore as on September 30, 2023.

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 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

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. Recently, the company acquired Moheema Tea Estate situated at Golaghat, Assam which is spread across an area of around 576.74 hectares with around 314.92 hectares of area under cultivation.

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	163.33	161.30	89.79
PBILDT	27.20	6.98	10.81
PAT	17.58	5.89	13.93
Overall gearing (times)	0.15	0.24	0.33
Interest coverage (times)	9.06	3.00	5.17

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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 instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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		-	-	-	39.13	CARE BBB+ (RWD)
Fund-based - LT-Cash Credit		-	-	-	16.87	CARE BBB+ (RWD)

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	Fund-based - LT-Cash Credit	LT	39.13	CARE BBB+ (RWD)	1)CARE BBB+; Stable (05-Dec-23)	1)CARE BBB+; Stable (07-Nov-22)	1)CARE BBB; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)
2	Fund-based - LT-Cash Credit	LT	16.87	CARE BBB+ (RWD)	1)CARE BBB+; Stable (05-Dec-23)	1)CARE BBB+; Stable (07-Nov-22)	1)CARE BBB; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (08-Oct-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/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

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.

Contact us

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About us:

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