Mohurgong And Gulma Tea Estates

November 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	14.50	CARE BB; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	0.50	CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE A4+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

Mohurgong & Gulma Tea Estates has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Ltd.'s rating on Mohurgong & Gulma Tea Estates bank facilities will now be denoted as **CARE BB, Stable / CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings take into account the stable scale of operations albeit dip in profitability margins in FY23 due to higher labour and fertilizer cost. The ratings, however, continues to be constrained by its partnership nature of constitution, volatility associated with tea prices, modest scale of operation with high volatility in profitability, working capital along with labour intensive nature of operations and fragmented and competitive nature of industry. However, the aforesaid constraints are partially offset by its experienced partners and long track record of operation, moderate capacity utilisation albeit satisfactory recovery rate, satisfactory capital structure and debt coverage indicators and backward integration for its raw materials.

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on November 02, 2023, the following were the rating strengths and weaknesses:

Key weaknesses

Partnership nature of constitution

Mohurgong and Gulma Tea Estates, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Furthermore, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders. There has been a capital withdrawal of around Rs.0.13 crores during FY24(prov).

Volatility associated with tea prices

The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in the international market. Hence, significant adverse price movement in the international tea market affects MGTE profitability margins. Further, tea prices fluctuate widely with demand supply imbalances arising out of both domestic and international scenarios. Tea is a perishable product and demand is relatively price inelastic, as it caters to all segments of the society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Fragmented and competitive nature of industry

While the tea industry is an organized agro-industry, it is highly fragmented in India with presence of many small, mid-sized and large players. There are about 1000 of tea brands in India, of which 90% of the brands are represented by regional players while the balance of the 10% is dominated by big corporate houses. This, coupled with the growing shift from loose to branded tea among consumers, would further intense the competition for MGTE.

Working capital along with labour intensive nature of operations

Mohurgong and Gulma Tea Estate's (MGTE) business, being manufacturing and processing of tea, is working capital intensive in nature. Different types of processes involved in tea manufacturing like withering, fixing, oxidation, rolling, drying and aging. This

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

apart, more employees are required. Accordingly, tea manufacturing and processing business is working capital intensive in nature. The moderate operating cycle days are on account of moderate inventory days of 36 days and 40 days in FY23 & FY24 respectively. MGTE has to maintain the requisite inventory due to seasonal availability of tea. The average collection day stands moderate in the range of 4-9 days during the period FY19 to FY24. Furthermore, the perennial nature of the tea industry is highly labour intensive, entailing sizeable expenditure on employees (by way of salaries & wages, various employee welfare facilities, etc.). Though the entity has not experienced any such labour problem during last few years, it remains a key factor in the smooth running of the business.

Key strengths

Experienced partners and long track record of operation

The entity is into the manufacturing of tea business since 1889 and thus has long track record of operation. Mr. Aditya Palchoudhury, Mrs. Nayantara Palchoudhury, Mrs. Sreoshi Palchoudhury and Mrs. Ruby Palchoudhury who have significant experience of around 35 years in similar line of business look after the day-to-day operation of the entity. They are further supported by a team of experienced professionals. The benefit derived from the experience partners and healthy relation with customers and suppliers are continuing to support the entity.

Stable scale of operations albeit dip in profitability margins in FY23

The entity is a small player vis-a-vis other player in the tea manufacturing industry marked by its total operating income of Rs.38.25 crore during FY23 (Rs.37.47 crores in FY22) with a PAT of Rs.1.88 crores during FY23 (FY22: Rs.5.19 crores). The tangible net worth of the entity was at Rs.22.01 crores as on March 31, 2023 (FY22: Rs.20.26 crore). Despite marginal dip in general quality CTC prices in FY23, the company has been able to command premium pricing which is reflected in STAC batting order for tea auction in West Bengal for FY23 (2nd highest pricing across 650+ tea gardens in West Bengal). This is due to firm's policy of using green leaf from its own garden for tea processing to maintain quality and not mixing the same with green leaf purchased from outside.

However, PBIDT margins have deteriorated to 8.15% in FY23 as against 17.71% in FY22 (FY21: 29.70%) majorly due to higher fertilizers and labour cost. The employee cost increased to Rs.18.34 crores (Rs.16.54 crores in FY22). The regulatory wage rate revised from Rs.232/ day to Rs.250/day from April 2023 to till date. PAT margins stood at 4.93% in FY23 (FY22: 13.86% & FY21: 25.00%).

In FY24, total operating income stood at Rs. 34.32 crores mainly on account of the decline in production volume due to drought & pest attacks. However, the company has been able to command premium pricing which is reflected in STAC batting order for tea auction in West Bengal for FY24 (3rd highest pricing across 100+ tea gardens in West Bengal).

PBILDT margins have moderated to 5.16% in FY24 as against 8.15% in FY23 as it continued to be impacted by higher fertilizer & labour cost coupled with dip in production.

IN 5MFY25, the firm reported total operating income of Rs. 10.54 crores.

Moderate Capacity utilisation albeit satisfactory recovery rate

Capacity utilisation of the tea processing unit of Mohurgong and Gulma Tea Estates has remained moderate at 44% in FY23 due to availability of quality green leaves. Furthermore, the recovery rate of green leaf consumed remained at satisfactory levels in the range of 22% to 24% during last four years.

Capacity utilization of the tea processing unit moderated at 38% in FY24 due to lesser availability of quality green leaves impacted by pest attacks & adverse weather conditions. However, recovery rate stood at similar levels.

Satisfactory capital structure and debt coverage indicators

The capital structure of the entity was comfortable marked by overall gearing of 0.23x in FY23 (Audited) as against 0.36x as on March 31, 2022. The long-term debt equity ratio and overall gearing ratio has improved as on March 31, 2023, as compared to March 31, 2022 on account of repayment of loans and reduction in debt along with accretion of profits to net worth. However, debt coverage indicators have deteriorated marked by interest coverage ratio of 8.26x (as against 29.74x in FY21) on account of dip in PBILDT. Further, total debt to GCA ratio was moderated at 1.72x in FY23(Audited) vis-à-vis 1.20x in FY22 on account of deterioration in cash accruals.

Overall gearing stood at 0.28x in FY24. Debt coverage indicators deteriorated marked by interest coverage ratio of 2.29x in FY24 (FY23: 8.26x) on account of dip in PBILDT. Total debt to GCA ratio exhibited a surge at 4.45x in FY24 (Prov) vis-à-vis 1.72x in FY22 on account of deterioration in cash accruals & increase in WC utilization.

Backward integration for its raw material

The entity has its own tea garden at Mohurgong and Gulma tea estate at Terai, West Bengal which provides it the flexibility to produce and supply tea, as per the demand scenario. Most of its requirement of green leaf is met through its own tea estate.

Liquidity: Adequate

The liquidity position of the entity is adequate with average fund-based utilization standing at around 74% for the twelve months ended Oct 2024. The gross cash accruals of the entity stood at Rs.1.41 crore as against debt repayment obligation of Rs.0.38 crore during FY24. In FY25, the firm has debt repayment obligation of Rs.0.25 crores which would be met through cash accruals.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy in respect of non-cooperation by issuers

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Other Beverages

Mohurgong and Gulma Tea Estates was established in April 1889. Since its incorporation the entity is engaged in manufacturing and processing of tea. The manufacturing unit of the entity is located at PO: Gulma, Darjeeling district of West Bengal with an installed capacity of 30,00,000 Kgs per annum. The entity has its own tea garden at Mohurgong and Gulma tea estate at Terai, West Bengal. The Registered office of the entity is located at P-17, Ganesh Chandra Avenue, Kolkata-700013. Mr. Aditya Palchoudhury, Mrs. Nayantara Palchoudhury, Mrs. Sreoshi Palchoudhury and Mrs. Ruby Palchoudhury who have significant experience around 38 years, 38 years, 33 years and 53 years respectively in similar line of business look after the day to day operation of the entity. They are further supported by a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	5MFY25 (UA)
Total operating income	38.25	34.32	10.54
PBILDT	3.12	1.77	NA
PAT	1.88	0.35	NA
Overall gearing (times)	0.23	0.28	NA
Interest coverage (times)	12.41	5.66	NA

A: Audited; UA: Unaudited; P: Provisionals, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	14.50	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	14.50	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (02-Nov-23)	1)CARE BB+; Stable (03-Jan-23)	1)CARE BB; Stable (29-Oct-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (13-Sep-21)
2	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (02-Nov-23)	1)CARE A4+ (03-Jan-23)	1)CARE A4 (29-Oct-21) 2)CARE A4; ISSUER NOT COOPERATING* (13-Sep-21)

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]()

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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