

## B & A Limited

December 05, 2024

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	76.00	CARE BBB+; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited had placed the ratings of B&A Limited (B&A) on credit watch with developing implications in February 2024, 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 its impact on the company's profitability.

CARE Ratings has now removed the rating watch with developing implications and reaffirmed the ratings upon gaining fair amount of clarity from B&A, w.r.t. contours of this acquisition including the future cash flows and its impact on the company's profitability.

The total cost of acquisition including revamping of the garden is expected to be around Rs.27 crore against which the company has availed term loan of Rs.17.52 crore till November 12, 2024 and balance has been funded out of internal accruals. In FY25 (refers to the period April 1 to March 31), the company expects to generate tea of around 4 lakh Kg from Moheema Tea Estate (out of which around 2 lakh kg already done in H1FY25), which is expected to generate additional revenue of around Rs.15 crore for the company. The capital structure and debt coverage indicators are expected to moderate in the medium term due to the debt-funded acquisition. However, comfort is drawn from the improved financial performance of the company in H1FY25 which is likely to lead to overall improvement in the performance of the company in FY25.

The rating assigned to the bank facilities of B & A Limited (B&A), continues to draw comfort from its long and established track record of operations, satisfactory capital structure and 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 FY24 with improvement witnessed in H1FY25.

The rating is, however, constrained by its small scale of operations, moderate exposure to group companies, labour intensive nature of the business 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 10% 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: Stable

The stable outlook reflects that the entity is likely to benefit from its superior quality of tea commanding a premium over industry average levels while maintaining its satisfactory financial risk profile over the medium term.

### Detailed description of 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 Somnath Chatterjee along with a team of experienced professionals. Somnath Chatterjee is associated with the company for over three decades.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### Satisfactory capital structure and debt protection metrics

The capital structure of the company though witnessed some moderation in FY24, remained satisfactory. The overall gearing ratio moderated from 0.24x as on March 31, 2023 to 0.57x as on March 31, 2024 and further to 0.66x as on September 30, 2024 on account of both increase in term loan and working capital borrowings. The company availed term loan to fund its acquisition of the new tea garden. Furthermore, total debt/GCA moderated to 8.64x as on March 31, 2024, from 1.97x as on March 31, 2023, due to decrease in cash accruals and an increase in total debt. The interest coverage ratio also witnessed moderation to 0.33x as on March 31, 2024, vis-à-vis 3.03x as on March 31, 2023, due to decrease in PBILDT level. Going forward, with accretion of profits and repayment of term loan, the capital structure and debt protections metrics are expected to improve.

### Moderation in profitability margins in FY24 with improvement witnessed in H1FY25

The total revenue from operations was stable at Rs.162.02 crore in FY24 vis-à-vis Rs.161.35 in FY23. The sales volume remained more or less stable at 5.18 million kg in FY24 (5.22 million kg in FY23) while the average price realization improved slightly from Rs.308.99 per kg in FY23 to Rs.312.77 per kg in FY24 thereby keeping the revenue at similar levels as in FY23. The PBILDT margin, however, witnessed decline from 4.36% in FY23 to 0.77% in FY24 due to increase in cost of sales which was mainly on account of increase in employee cost which increased from Rs.70.65 crore in FY23 to Rs.75.74 crore in FY24 along with the impact of loss in crop. The increase in wages cost is mainly due to the wage revision which came into effect from October 01, 2023.

The significant decline in PBILDT margin led to decline in GCA level in FY24, however, the same remained satisfactory in comparison to debt repayment obligation.

In H1FY25, the company's revenue witnessed de-growth of 13% y-o-y on account of decline in quantity of tea sold. However, profitability margin witnessed significant improvement from 12.04% in H1FY24 to 24.37% in H1FY25 with reduction in cost of material consumed as company relied more on own leaves than on bought leaves.

### 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 nine 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. The above factors enable the company to produce good quality tea which is sold at a premium. Accordingly, the average realisation of tea manufactured by the company are higher than the average realisations in the tea auctions. From CY21 onwards, the company's Gatoonga Tea Estate ranked as no.1 in Assam followed by Mokrung and Salkathoni Tea Estate in All India Batting Order in terms of price fetched by CTC teas 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 FY24, B&A produced 5.19 million kg of tea accounting for only 0.46% of North India's production for the same period of 1,137.15 million kg (source: Tea Board of India). Moreover, the company is operating at a moderate level of capacity utilization (~58% in FY24) 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 has marginally reduced to Rs.14.15 crore as on March 31, 2024 (accounting for 17.28% of net worth), as against Rs.14.39 crore as on March 31, 2023 (accounting for 18.07% of the net worth). After adjusting for exposure to group companies, adjusted overall gearing stood at 0.62x as on March 31, 2024 (0.27x as on March 31, 2023).

#### Labour intensive nature of business

The nature of the tea industry makes it highly labour intensive, entailing around 47% of total cost of sales in FY24 (46% in FY23) 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 regularly and has increased over the years from Rs.167/day in FY18 to present day Rs.250/day in FY24 as per the revision in wage rate effective from October 01, 2023. Any further 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 exposing production to agro climatic and geographical concentration risks in the state of Assam. Uneven distribution of rainfall and extreme temperature changes may affect the quality and production of tea.

#### Liquidity: Adequate

The liquidity position of the company is adequate, marked by satisfactory average working capital limit utilization of around 65% during the last 12 months period ended September 2024. The company generated GCA of Rs.5.36 crore in FY24 against debt repayment obligation of Rs.1.93 crore. In FY25, the company has a debt repayment obligation of Rs.1.37 crore against which it

is expected to generate sufficient cash accruals. The company has cash and liquid investment amounting to Rs.18.83 crore as on March 31, 2024.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

### About the company and industry

#### Industry classification

Macroeconomic 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 H. P. Barooah in 1950. B&A presently owns nine tea estates in upper Assam (four in Golaghat, two each in Sibsagar & Jorhat districts and one in Sangsua district) encompassing a total area of 2194.12 hectares. These nine gardens include the newly acquired Moheema Tea Estate situated at Golaghat, Assam, which the company acquired in January 2024.

The company also has five tea processing facilities (Gatoonga, Sangsua, Mokrung and Salkathooni, Moheema) in Assam with a total installed capacity of 1 crore kg of tea annually. 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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	161.30	162.00	77.79
PBILDT	6.98	1.23	18.96
PAT	5.89	2.56	15.39
Overall gearing (times)	0.24	0.57	0.66
Interest coverage (times)	3.00	0.33	6.18

A: Audited; UA: Unaudited; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	39.13	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	16.87	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	March 2029	20.00	CARE BBB+; Stable

**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	39.13	CARE BBB+; Stable	1)CARE BBB+ (RWD) (04-Apr-24)	1)CARE BBB+ (RWD) (06-Feb-24) 2)CARE BBB+; Stable (05-Dec-23)	1)CARE BBB+; Stable (07-Nov-22)	1)CARE BBB; Stable (07-Oct-21)
2	Fund-based - LT-Cash Credit	LT	16.87	CARE BBB+; Stable	1)CARE BBB+ (RWD) (04-Apr-24)	1)CARE BBB+ (RWD) (06-Feb-24) 2)CARE BBB+; Stable (05-Dec-23)	1)CARE BBB+; Stable (07-Nov-22)	1)CARE BBB; Stable (07-Oct-21)
3	Fund-based - LT-Term Loan	LT	20.00	CARE BBB+; Stable	1)CARE BBB+ (RWD) (04-Apr-24)	-	-	-

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	Fund-based - LT-Term Loan	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:

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