

Bengal Tea & Fabrics Limited

September 28,2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.00 (Reduced from 22.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn [^]
Short Term Bank Facilities	-	-	Withdrawn [^]
Total Bank Facilities	8.00 (₹ Eight Crore Only)		

Details of instruments/facilities in Annexure-1; [^]Withdrawal based on no due certificate

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Bengal Tea & Fabrics Limited (BTFL) continues to derive strength from its experienced management and their prudent approach in managing BTFL's leverage, established operations of its tea division with reputed clientele, improvement in profit margins on closure of loss-making textile division and comfortable capital structure and debt coverage indicators on repayment of debt related to textile division in FY22 (FY refers to period from April 01 to March 31). The rating also factors in on-going monetization initiatives for non-core assets with sale materialization of a major asset in FY22 and assets related to textile division as well as adequate liquidity.

The rating, however, remains constrained on account of decline in revenue due to closure of textile division during FY22 coupled with labour-intensive operations of its tea division along with tea production and prices linked to climatic conditions.

Rating Sensitivities

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

- Growth in scale of operations with total operating income (TOI) of more than Rs.150 crore on sustained basis
- Maintaining healthy PBILD margin of more than 18%
- Sustenance of adequate liquidity through maintenance of liquid funds of more than Rs.15 crore

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

- Decline in scale of operations with TOI falling below Rs.45 crore with decline in PBILD margin below 10%
- Large size debt funded capex leading higher than envisaged debt leading to deterioration in overall gearing to greater than 1x
- Elongation of operating cycle for more than 80 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity position of BTFL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

BTFL, incorporated in the year 1983, is promoted by Late Shree B. D. Kanoria. It is now being managed by the next generation promoters Mr. Adarsh B. Kanoria, who has an industry experience of over three decades. He took over the management as Chairman & Managing Director in 2001 and controls the overall affairs of the company. Furthermore, BTFL has well-qualified and experienced second tier management with well-defined organizational structure aided by strong management information system. Historically, the management has remained prudent in controlling the company's leverage which is evident from the gradual improvement in its leverage indicators.

Established operations of its tea division with reputed clientele

BTFL owns three tea estates having plantation area of 626 hectares located in upper Assam and having over four decades of operational track record in the black tea business with having own manufacturing facility. BTFL sells black tea to reputed customers having established brands and good credit risk profile thereby mitigating counter party credit risk to a certain extent. Over the years, BTFL started selling its black tea through auction players on very low credit period with an aim to reduce its dependence on large customers. However, overall scale of operation remained modest.

On-going monetization initiatives of the non-core assets of textile division

The company had monetized a major non-core asset (i.e. a guest house in posh area of Ahmedabad city named 'Asarwa House'), at a consideration of ~Rs.31 crore (with capital gain of ~Rs.30 crore) during FY22 which provided significant boost to its liquidity

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

and capital structure as envisaged. Furthermore, the company also has a land parcel in Dholka, Ahmedabad which is up for sale since last couple of years and now with closure of textile plant it aims to monetize the same which would add to its liquidity going forward. BTFL's board of directors have approved liquidation of assets related to textile division i.e. Asarwa mill in due course. Timely monetization of these assets and utilization of surplus funds would be a key credit monitorable.

Steady performance of tea division and improvement in profitability in FY22

Performance of tea division remained steady over past five years with an average TOI in range of Rs.45-55 crore. During FY22, BTFL registered ~12% Y-o-Y growth in its TOI to Rs.55.12 crore on the back of ~20% increase in sales volume on the back of better yield and post-covid ease in timely labour availability. PBILDT margin decreased by 340 bps owing to moderation in sales realization with normalization of tea supply in the market, though continued to remain healthy at 18.07% in FY22. BTFL registered TOI of Rs.9.58 crore in Q1FY23 which is ~15% decrease compared to Q1FY22 (UA) due to post-covid correction in tea prices, though PBILDT margin improved to 18.92% in Q1FY23 (UA).

BTFL's overall PBILDT margin has improved significantly by 1251 bps Y-o-Y in FY22 on account of closure of its loss-making textile division during the year. On the other hand, PAT margin of BTFL increased significantly in FY22 due to extraordinary income in form of gain on sale of a real estate property (non-core asset). Adjusted loss remained at Rs.11.75 crore in FY22 [PY: PAT: Rs.3.32 crore] adjusted for extraordinary income and adjusted return on capital employed (ROCE) remained low at 9.39% in FY22.

Comfortable capital structure and debt coverage indicators

As on March 31, 2022, BTFL's overall gearing ratio improved and remained comfortable to 0.01 times [0.20 times as on March 31, 2021] with low utilization of working capital limits, healthy net worth base and low debt as on March 31, 2022 on account of repayment of term loans and working capital limits related to textile division. Further, tangible net worth of BTFL augmented to Rs.114.93 crore [Rs. 96.80 crore as on March 31, 2021] on account of accretion of healthy profits of FY22 [backed by extra ordinary income of Rs. 30.03 crore] into reserves.

Debt coverage indicators of BTFL improved over the previous year on the back of improved profitability and remained comfortable as marked by interest coverage ratio 23.10 times and total debt to GCA (TDGCA) of 0.02 years respectively for the year ended March 31, 2022.

Key Rating Weaknesses

Decline in revenue on closure of its loss-making textile division

BTFL has reported degrowth of ~38% during FY22 by achieving TOI of Rs.55.15 crore during FY22 [PY: Rs.88.31 crore] mainly on account of closure of textile division contributing approximately 40%-60% of its TOI. Consequently, BTFL's TOI also reduced in Q1FY23 (UA) by ~55% Y-o-Y to Rs.9.67 crore.

In BTFL's board meeting held on March 10, 2022, its board of directors (BOD) has proposed the closure / sale / transfer / disposal of the Textile (Fabric) Division i.e. processing unit of the Company situated at Asarwa Mills, Ahmedabad and the shareholders' approval has been received through postal ballot on April 25, 2022. As articulated by the management, as per Honourable Gujarat High Court's direction in a suo-moto PIL to disconnect sewage connection, the Ahmedabad Municipal Corporation (AMC) has sealed the sewage pipeline of BTFL's textile mill w.e.f. November 25, 2021, which led to its operations halted. As access to mega pipeline (proposed in Gujarat High Court verdict) was not feasible and operations of textile unit remained loss making, BTFL's BOD approved the closure / sale / transfer / disposal of the Division. The company has already recognized impairment loss related to textile division in its FY22 financials. Afterwards, the company is planning to sale its textile division building in due course. With closure of textile division, the company got unlocked sale potential for approx. 45,000 square meters of land.

Labour-intensive operations of its tea business

Tea is amongst the most labour intensive of all plantation crops. On an average, around 40% to 50% of the total expenditure of the tea division is incurred on labour cost. The wage rate of tea plantation labourers is regulated and revised through bilateral negotiations with worker unions and other parties. As per last wage revision in August 2022, the wage rate by increased by Rs.27 to Rs.232 per day for FY23. Cost of employment also includes the social welfare cost which is mainly incurred on account of statutory provisions like water supply, medical, primary education, etc. that are to be provided to workers in India under the Plantation Labour Act. High labour cost results in high operating leverage for the company.

Production and prices linked to climatic conditions

Tea production and prices are closely linked to the climatic conditions such as droughts, pest attacks, heavy rainfall, delay in monsoon, floods and waterlogging etc. since both quality and quantity of tea produced depend on it. However, BTFL has arrangements to offset these adverse climatic conditions to some extent. High operating leverage along with volatility in the tea production and prices due to adverse climatic can severely impact the profitability of the tea division.

Liquidity: Adequate

Liquidity position of BTFL remained adequate marked by low utilization of working capital limits, moderate GCA against nil debt repayment obligation and comfortable liquidity ratios. It is expected to generate GCA of Rs.11-15 crore in FY23-FY25. Further, current ratio of the company improved and remained at 2.76x times as on March 31, 2022, on the back of increase in liquid funds coupled with reclassification of fixed assets of discontinuing textile division as current assets as against significant decrease in working capital borrowings as well as creditors as on March 31, 2022. Cash flow from operations (CFO) declined on the back of losses from discontinuing textile segment and remained negative at Rs.1.82 crore in FY22 [Rs.5.41 crore in FY21]. The average working capital utilization remained low at 32% during past twelve months ended July, 2022 as compared to 65% during twelve months period ended in June, 2021. Unencumbered cash and bank balance increased to Rs.13.96 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Incorporated in 1983, Bengal Tea & Fabrics Limited (BTFL; CIN: L51909WB1983PLC036542) has business interests in tea segment with having significant investments in real estate properties. In Q1FY23, BTFL got shareholders' approval for closure, and subsequent, disposal of its Textile (Fabric segment) division situated at Asarwa Mills, Ahmedabad. In Tea division, BTFL currently owns three tea estates 1. Ananda Tea Estate 2. Pathalipam Tea Estate and 3. Bordeobam Tea Estate, having plantation area of 626 hectares located in upper Assam. The company processes the green tea leaves at its own plant at Ananda Tea Estate and sells Black tea (CTC and orthodox). Further, it also processes green tea purchased from small growers. The Ananda Tea Estate has been awarded with ISO-9001:2015 and HACCP & ISO 22000:2005 from KVQA Certification services Pvt. Ltd. Accredited with Dubai Accreditation Center, IAF.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	88.31	55.15	9.67
PBILDT	5.01	9.97	1.83
PAT	3.37	39.98	0.81
Overall gearing (times)	0.20	0.01	NA
Interest coverage (times)	2.73	23.10	26.14

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated July 02, 2014 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Fully repaid	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	8.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

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-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (13-Sep-21)	1)CARE BBB-; Stable (01-Sep-20)	1)CARE BBB; Negative (06-Aug-19)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (13-Sep-21)	1)CARE BBB-; Stable (01-Sep-20)	1)CARE BBB; Negative (06-Aug-19)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3 (13-Sep-21)	1)CARE A3 (01-Sep-20)	1)CARE A3+ (06-Aug-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation	
A. Financial covenants	BTFL to maintain following:	
	Covenant	Threshold
	Current Ratio	>=1
	TOL/TNW	<=3
B. Non-financial covenants	Effect any drastic change in their management set up.	

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
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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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About us:

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