Joonktollee Tea & Industries Ltd

July 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	31.00 (Reduced from 35.50)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	15.01 (Reduced from 17.00)	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**46.01 (Rs. Forty-Six Crore and One Lakhs Only)**		

Details of facilities/instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Joonktollee Tea & Industries Ltd (JTIL) continues to be constrained by small scale of operations, continued cash losses, albeit losses reduced in FY21 (refers to the period April 1 to March 31) labour intensive nature of operations, agro climatic risk and fragmented and competitive industry prices.

The ratings, however, derives comfort from long experience of the promoters in the tea industry, geographic and product diversification, and satisfactory capital structure. The ratings further derive comfort from the presence of group support to meet the cash flow requirement, in the event of any cash flow mismatch.

Rating Sensitivities

Positive Factor

•Growth in scale of operations as marked by total operating income of above Rs. 200 crores on a sustained basis.

•Increase in profitability margins as marked by PBILDT margins of above 7% and PAT margin of above 2% on a sustained basis

Negative Factor

• Increase in debt levels leading to notable deterioration in the capital structure.

•Any major debt funded capex undertaken by company.

Detailed description of the key rating drivers

Key Rating Weakness

Small scale of Operations

India, being the largest producer of black tea, produced 1167 million kg during FY21. Production scale of JTIL continued to remain small at 4.68 million kgs in FY21.

Continued losses at PAT level, albeit operating profitability witnessed improvement in FY21

TOI of JTIL increased by around 16% yoy in FY21 backed by increase in average realizations of tea whereas volumes has witnessed decline. Increase in realization was due to short supply of tea in the market by on account of decline in overall production due to the lockdown coupled with erratic weather conditions in Assam. Accordingly, it has reported profit at operating level in FY21 as against operating loss in FY20. Despite improvement, it continued to report cash losses. However, it was able to timely meet its interest and principal obligation by way of fund raised from group entities.

Labour intensive nature of industry

The nature of the tea industry makes it highly labour intensive, entailing around 50%-60% of cost of sales by way of salaries and wages and various employee welfare facilities. The Indian Tea Association has recently increased the daily wages in Assam by Rs 38 per day. The increase in wage rates, as notified, would increase the cost of production for Assam gardens. if there is any further increase in wages with no corresponding increase in tea price realization and output, it may negatively impact the profitability margin in the future.

Agro climatic risk

Majority of tea estates are located in Assam, which has witnessed erratic weather conditions in the past. It has experienced drought during 2008, pest attack in 2010, heavy rainfall in 2012, a delay in monsoon during 2014 and floods and waterlogging in FY18. This apart, Assam experienced heavy rains during the month of May -July 2020 led to in the flooding and waterlogging. Further in the current year 2021 extreme weather fluctuations both in terms of temperature and rainfall impacts the growth of tea leaves. Accordingly, JTIL ‘s profitability is highly susceptible to vagaries of nature.

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 intensify the competition.

Liquidity-Stretched
The liquidity position of the company remained stretched owing to cash losses being reported by the company, however servicing of debt obligation is in on time. The liquidity is supported primarily by infusion of loans from group companies and divestment stake in subsidiaries to group entities. The average CC utilization remains around 80%. JTIL has not availed any moratorium, however, it has availed Guarantee Emergency credit Line of Rs.7.66 cr.
Operating cycle increased from 34 days as on Mar 31, 2020, to 54 days as on Mar 31, 2021 due increase in inventory days. Due to the COVID -19 pandemic, operations at its estates were temporarily suspended which led to low inventory as on Mar. 31, 2020 whereas due to increase in prices, the valuation of inventory of tea was higher as on Mar. 31, 2021 and further due to increase in production of coffee, inventory of coffee was also high as on Mar. 31, 2021 as compared to Mar 31, 2020.

Key Rating Strength
Long experience of the promoters in the tea industry
JTIL is promoted by the Bangur family of Kolkata which acquired the company in 1954. Initially company had one Tea estate in upper Assam and gradually acquired other estates, now JTIL owns around five tea estate in North India and around seven estates in South India for production of tea, rubber and coffee. Currently the affairs are looked after by Mr. Hemant Bangur who has an experience of around two decades in the tea industry. He is the past President of Tea Association of India. Apart from tea, rubber and coffee, the group has presence in Jute industry through other group companies.

Continued support from promoter group
JTIL has been reporting cash losses. However, despite such losses, it has been able to timely meet is debt servicing obligation by infusion of fund from its group companies of Rs.12.50 cr. in FY21 (22.25 cr. in FY20). Further, management has also stated that during Q1FY22, the company has further received sum of Rs.10.00 cr. from its group companies to meet its working capital requirements. Thus, the promoters have demonstrated regular support by way of infusion of funds either directly or indirectly to support the debt repayment obligation

Geographic and product diversification
JTIL has presence in East India as well as South India, as it has its estates situated in Assam, Karnataka and Kerala. Since JTIL is exposed to agro climatic risk, geographic diversification helps the company to somewhat mitigate the risk associated with any vagaries of nature or any epidemic which might impact any particular region.
The product profile of the company is moderately diversified with JTIL being involve in the business of tea, coffee and rubber with tea, coffee & rubber account for around 86% (88%), 3% (5%) and 11% (7%) respectively in FY21(FY20).

Satisfactory Capital Structure
Capital structure of the company is satisfactory with overall gearing of 0.96x as on March 31, 2021 as against 0.70x as on March 31, 2020. Overall gearing deteriorated due to increase in total debt on account of availment GECL and increase in loans from group entities. Total Debt/GCA has remained vulnerable due to cash losses reported. Further it has also received approval to raise equity of Rs.24.90 cr. and preference share of Rs.25.00 cr. thus capital structure is expected to improve going forward.

Analytical approach: Consolidated.
While arriving at the rating, consolidated financial statement of JTIL has been considered which includes two subsidiaries, namely, Keshava Plantation Pvt Ltd (KPPL) and Pranav Infradev Company Pvt Ltd and its associate the Cochin Malabar Estates and Industries Ltd (24.68%). While KPPL is engaged in manufacturing of Tea, other subsidiary does not have much of operations and have mostly real estate investments. Cochin Malabar Estates and Industries Ltd has rubberwood factory which is not operational. JTIL and its subsidiaries and associates have a common management and financial linkage.

Applicable Criteria
Criteria on Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Methodology: Consolidation

Rating Methodology: Notching by factoring linkages in Ratings

About the Company
The Joonktollee Tea Co. Ltd. was promoted by John Elliot Esq. in August, 1874 to manage the affairs of a small Tea Estate in Upper Assam. Later in 1920's the John Elliot Esq. handed over the management and control to the managing agency of Kettlewell Bullen & Co. Ltd. Subsequently, in the year 1954, Bangur family acquired the managing agency and the company and since then the company has been under the management of Gopal Das Bangur group. The name of the Company was changed to "Joonktollee Tea & Industries Ltd" (JTIL).The group is primarily into jute, tea, coffee, rubber, and paper businesses. Gloster Limited; the flagship company of the group is engaged in jute business.

Brief Financials (Rs. crore)Consolidated	**FY20(A)**	**FY21(A)**
Total operating income	92.17	107.03
PBILDT	-11.01	5.70
PAT	-24.28	-9.56
Overall gearing (times)	0.70	0.96
Interest coverage (times)	NM	0.59

A: Audited; NM: Not Meaningful

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	Sept. 2022	6.00	CARE BB+; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	15.01	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (31-Aug-20)	1)CARE BB+; Stable (03-Jun-19) 2)CARE BB+; Stable (07-May-19)	-
2.	Fund-based - LT-Term Loan	LT	6.00	CARE BB+; Stable	-	1)CARE BB+; Stable (31-Aug-20)	1)CARE BB+; Stable (03-Jun-19)	-
3.	Fund-based - ST-Working Capital Demand loan	ST	15.01	CARE A4+	-	1)CARE A4+ (31-Aug-20)	1)CARE A4+ (03-Jun-19)	-

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Working Capital Demand loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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