Gatik Tea Co Private Limited

March 30, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	5.75	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short-term Bank Facilities	0.25	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**6.00 (Rs. Six crore only)**		

*Issuer did not cooperate; Based on best available information
Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Gatik Tea Co Pvt. Ltd. (GTCPL) to monitor the rating(s) vide e-mail communications dated February 10, 2022, March 23, 2022, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, GTCPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on GTCPL's bank facilities will now be denoted as **CARE B; 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 have been moved to ISSUER NOT COOPERATING category on account of lack of availability of adequate information. The rating assigned to the bank facilities of GTCPL is constrained by its short track record with small scale of operations and weak financial performance in FY21 (refers to the period April 01 to March 31), susceptibility to the vagaries of nature, volatility associated with tea prices, high competition, lack of backward integration for its raw material, working capital intensive nature of operations and leveraged capital structure. However, the aforesaid constraints are partially offset by its experienced promoters, and proximity to raw material sources.

Detailed description of the key rating drivers

At the time of last rating on January 05, 2021, the following were the rating strengths and weaknesses (updated for part information received from GTCPL)

Key Rating Weaknesses

Small scale of operation and weak financial performance in FY21

GTCPL is a relatively small player in tea industry with a total operating income of Rs.12.28 crore in FY21 as compared with Rs.3.18 crore in FY20. However, the company has made a net loss of Rs.0.11 crore in FY21 as against a net loss of Rs.2.14 crore in FY20. Further, the company reported a negative net worth as on March 31, 2021, due to net losses. The small size restricts the financial flexibility of the company in times of stress, and it suffers on account of economies of scale.

Susceptibility to vagaries of nature

Tea production, besides being cyclical, is susceptible to vagaries of nature. GTCPL's tea processing unit is located in the Jalpaiguri district of West Bengal, one of the largest tea producing state in India. However, the region has sometimes witnessed erratic weather conditions in the past. Though the demand for tea is expected to have a stable growth rate, supply can vary depending on climatic conditions in the major tea growing areas. Therefore, adverse natural events have negative bearing on the productivity of tea gardens in the region and accordingly GTCPL is exposed to vagaries of nature.

Volatility associated with tea prices

The prices of tea are linked to the auctioned prices, which in turn, are linked to the prices of tea in the international market. Hence, significant adverse price movement in the international tea market can affect GTCPL's 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 the agro-climatic conditions.

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

High competition
While the tea industry is an organised agro-industry, it is highly fragmented in India with presence of many small, mid-sized and large players. There are about 1000 tea brands in India, of which 90% of the brands are represented by regional players while the balance 10% is dominated by big corporate houses. Since GTCPL is expected to sell all its produce through auctions and therefore doesn't have any brand of its own. This, coupled with the growing shift from loose to branded tea among consumers, would further increase the competition for GTCPL.

Lack of backward integration for its raw material
GTCPL is expected to purchase green leaves from the small and local gardens in nearby area and has its own manufacturing unit having a tea producing capacity of about 9.5 lakh kg per annum enabling the company to supply black CTC tea, as per demand scenario. As the green leaves are procured from nearby gardens in the area, GTCPL depends on external raw material suppliers which, in turn, results in pressure on margins due to higher raw material cost.

Working capital intensive nature of operation
GTCPL's business, being manufacturing and processing of tea, is working capital intensive nature. Different types of processes are involved in tea manufacturing like withering, fixing, oxidation, rolling, drying and ageing. These apart, higher numbers of employees are required for tea processing. Accordingly, tea manufacturing and processing business is working capital intensive in nature. Accordingly, the average working capital utilisation remained moderately high at around 72% during the last 12 months ended May 31, 2018.

Leveraged capital structure
The capital structure of the company remained leveraged on account of high debt equity ratio and overall gearing ratio as on March 31, 2021, due negative net worth and losses made in FY21. Moreover, the debt coverage indicators marked by total debt to GCA is weak as on March 31, 2021.

Key Rating Strengths
Experienced promoters
Mr. Swapan Das and Mr. Ashok Kumar Agarwal, both directors, have over two decades of experience in the tea industry, Mr. Prasant R Khimkaa and Mr. Harsh Vardhan Khemka also have experience of almost two decades in similar line of business. Mr. Prasant R Khimkaa and Mr. Harsh Vardhan Khemka mutually look after the overall management of the company, with adequate support from a team of experienced personnel.

Proximity to raw material sources
GTCPL processing unit is located in Jalpaiguri, West Bengal, which is one of the largest tea producing state in India and is in close proximity to the raw material sources. The entire raw material requirement is met locally which helps the company save substantial amounts of transportation cost and also procure raw materials at effective prices.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Criteria for Short Term Instruments
Manufacturing Companies

About the Company
GTCPL was set up as a private limited company in 2013, by Mr. Swapan Das and Mr. Ashok Kumar Agarwal of Siliguri, West Bengal. The company is engaged in the business of processing of black CTC tea in Siliguri, West Bengal. The company is setting up a manufacturing unit in Jalpaiguri, West Bengal. The company is planning to sell its tea in auction and through brokers. The company has started its operations from December 2017, with FY18 being the first year of operation. This apart, the company has two associate companies namely Mahamaya Agro Industries Ltd and Sovarani Tea Company Private Ltd. Further, the company was acquired by Mr. Prasant R Khimkaa, Chairman, and Mr. Harsh Vardhan Khemka, Managing Director in February 2020, along with the previous directors.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	3.18	12.28	NA
PBILDT	-0.29	1.47	NA
PAT	-2.14	-0.11	NA
Overall gearing (times)	-11.19	-12.72	NA
Interest coverage (times)	-0.36	1.91	NA

A: Audited; NA: Not 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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2024	3.25	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	2.50	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	0.25	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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-Term Loan	LT	-	-	-	-	1)Withdrawn (19-Jun-19)	1)CARE B+; Stable (29-Jun-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (19-Jun-19)	1)CARE B+; Stable (29-Jun-18)
3	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (19-Jun-19)	1)CARE B+; Stable (29-Jun-18)
4	Fund-based - LT-Term Loan	LT	3.25	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (05-Jan-21)	-	-
5	Fund-based - LT-Cash Credit	LT	2.50	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (05-Jan-21)	-	-
6	Non-fund-based - ST-Bank Guarantee	ST	0.25	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (05-Jan-21)	-	-

*Issuer did not cooperate; Based on best available information

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

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-Bank Guarantee	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 instrument: CARE Ratings Ltd. 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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Abou**t CARE Ratings Limited:**
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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