Asian Tea and Export Ltd

April 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	4.75	**CARE BBB-/Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	3.25	**CARE A3 (A Three)**	**Assigned**
Total Facilities	**8.00 (Rupees Eight crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Asian Tea and Export Limited (ATEL) derive strength from experienced promoters and long standing track record of operations, catering to established clientele with marked presence in the export market and moderate financial performance.

The ratings are, however, constrained by modest scale of operations, leveraged capital structure and modest debt coverage indicators, working capital intensive nature of business, customer concentration risk, exposure of raw material availability to vagaries of nature & resultant price risk and foreign currency fluctuation risk.

Ability of the company to increase scale of operation while maintaining profitability margin, deriving benefits out of the recent capex programme and managing working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and long standing track record of operations

The group started export of tea in the year 1994. The group's operations are managed by Mr H. R. Garg (Chairman and Managing Director of ATEL) and his sons- Mr Sunil Garg and Mr Rajesh Garg, each of whom having experience of more than two decades in tea business including international trade.

Catering to established clientele though customer concentration remains

The group has long term relationship with clients in Central Asia and the Middle East. The group has been selling a substantial portion of its tea exports to clients having established presence in their countries.

The group derives a substantial portion of its revenue from a single customer, however, the same has decreased in 9MFY18 as the group has also identified new markets for its exports.

Moderate financial performance

The operating income of the group grew at a CAGR of 4.13% over FY15-FY17 with y-o-y increase of 8.11% in FY17 at Rs 185.92 crore. This is expected to increase on account of trading in pulses and rice, which the group has ventured into in FY18. The PBILDT margin (combined) remained satisfactory and range-bound between 5%-6% during FY15-FY17. Although the interest cost increased in FY17 due to term loans availed by the group to set up a warehouse and automatic blending machine, the interest coverage ratio remained moderate during FY15-FY17.

Key Rating Weaknesses

Modest scale of operations:

The scale of operations of the group, although increasing has been small with the group reporting a total operating income of Rs.185.9 crore in FY17 and having a tangible net worth of Rs.41.3 crore. In an intensely competitive segment, this limits the bargaining power of the group.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Leveraged capital structure and modest debt coverage indicators:
As the operations of the group are working capital intensive in nature and involve exports, it has to heavily rely on working capital borrowings. In addition, the group availed term loans to set up a warehouse which also resulted in a leveraged capital structure standing at 1.82x as on March 31, 2017. The total debt/ gross cash accruals spiked at 23.24x as on March 31, 2017 due to increase in term debt and short term borrowings which increased on account of increased credit period extended to its customers and substantial sales occurring in the last quarter of FY17.
Working capital cycle also elongated in FY17 to 120 days (combined) and the utilization of its short term facilities was also high.

Exposure to vagaries of nature and resultant price risk:
The purchases of the group are not backed by orders, which expose the group's profitability to price volatility risk at the time of sale. Further, with the production of agro products being exposed to the vagaries of nature, there also exists volatility in purchase prices. This is passed on to customers, albeit with a time lag, as the sales are made at global competitive prices.

Foreign currency fluctuation risk:
More than 90% of the group's revenue is from export of tea to countries. This exposes the group to foreign currency fluctuation risk. To mitigate the forex fluctuation risk, the group exports on cash against documentation basis and gets the bills discounted through the banks.

Analytical approach: Combined Approach
CARE has combined the business and financial risk profiles of Asian Tea and Exports Ltd (ATEL) and Asian Tea Company Pvt. Ltd (ATCPL), as both the companies have similar operations and exhibit cash flow fungibility. Furthermore, ATEL has also given corporate guarantee to the bank facilities availed by ATCPL.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Group
Asian Tea and Exports Ltd (ATEL; erstwhile Sita Plantations Pvt Ltd), incorporated in 1987, was converted into a public limited company in 1994. ATEL, promoted by Kolkata-based Garg family, is engaged in the trading/export of agro commodities including tea, pulses and rice. It sells rice under the brand name 'Mom's Delight', acquired in FY18. Currently, majority of tea blending and export is being carried out in the group entity-Asian Tea Company Pvt. Ltd, wherein ATEL holds 40% equity stake. Tea accounts for more than 90% of the turnover of the group. ATCPL exports tea to countries like Kazakhstan, Russia, China and Iran. ATEL procures a major portion of tea (mainly North-Indian Tea) from tea auctions and balance requirement is met from group's own tea estates, and imports. It blends tea as per the quality requirements of importers. The group has two warehouses, one each in West Bengal and Tamil Nadu.
The group is promoted by the Garg family, who also having rich experience in tea export. The group has three tea estates in Doars, North Bengal and Assam. It also has prominent presence in real estate and has constructed various commercial properties in prime locations of Kolkata.
ATEL is a listed entity with board of directors comprising of six directors, of which three directors are from promoter's family.

Brief Financials (Rs. crore) of ATEL (Standalone)	FY16 (A)	FY17 (A)
Total operating income	29.61	20.49
PBILDT	-0.14	0.80
PAT	0.17	0.16
Overall gearing (times)	0.05	0.26
Interest coverage (times)	NM	1.46

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: India Ratings has classified ATEL as issuer not cooperating vide press release dated September 4, 2017

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

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.*

Analyst Contact:
Name: Richa Bagaria
Tel: 033 4018 1653
Email: richa.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	4.75	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	3.25	CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	4.75	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Letter of credit	ST	3.25	CARE A3	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691