

Asian Tea and Exports Limited

October 09, 2019

Ratings

Facilities	Amount (Rs crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	4.75	CARE BB+/Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.25	CARE A4+ (A Four Plus)	Reaffirmed
Total facilities	8.00 (Rs Eight crore only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Asian Tea & Exports Limited (ATEL), we have combined the business and financial risk profiles of ATEL and Asian Tea Company Pvt. Ltd (ATCPL), as both the companies have similar operations and exhibit cash flow fungibility.

The ratings assigned to the bank facilities of Asian Tea and Exports Limited (ATEL) continues to remain constrained by moderate scale of operations, leveraged capital structure with reliance on high cost inter corporate debt (ICD) coupled with moderate debt coverage indicators, exposure to group companies, customer concentration risk, low profitability margins due trading nature of business and intense competition due to fragmented industry structure.

The ratings, however, derives strength from experienced promoters and long standing track record of operations, satisfactory sales network with presence in the export market and satisfactory financial performance in FY19.

Ability of the company to increase the scale of operations and profitability margin with effective management of working capital limits are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations

The scale of operations of the group, although increasing remains moderate with group having total operating income of ~Rs.382crore and combined tangible net worth of Rs.47.0crore in FY19. The scale and size continues to remain moderate, this limits the bargaining power of the group.

Leveraged capital structure with reliance on high cost inter corporate debt (ICD) coupled with moderate 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 also availed high cost unsecured loans to support the growing scale of operations which resulted in a leveraged capital structure with overall gearing and TD/GCA stood of 1.84x and 16.85x as on March 31, 2019.

Exposure to group companies

The Asian Group's exposure to its group entities remained high at Rs.13.87crore as on Mar'19 (excluding investment of Rs.2.51 cr. of Asian Tea & Exports Limited in Asian Tea Company Private Limited) in the form of non-current investments representing around ~30% (Mar'18: ~32%) of the net-worth of the group as on March 31, 2019.

Customer concentration risk

Majority of the tea export income derives from a single customer (~36% of tea exports) and around 64% of total tea exports derives from top five customers in FY19, thereby exposing the group to customer concentration risk. However, the group has identified new markets for its export of tea and has also started its trading of foodstuff business through ATEL which to some extent moderates the customer concentration risk.

Low profitability margins due trading nature of business and intense competition due to fragmented industry structure

Given the trading nature of business along with intense competition, the firm operates on a low margin. The overall PAT margin of the group remains low at around 1.07% in FY19 as against 0.86% in FY18. Low entry level barriers for trading keep the competition intense and the industry remains fragmented in nature.

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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Satisfactory sales network with presence in the export market

The group has a satisfactory sales network with presence in the export market, which helps them to secure export orders from overseas customers. Further, the group has good relationship with overseas customers, which is reflected through garnering of repeated orders from them.

Satisfactory financial performance in FY19

The operating income (combined) of the group increased from Rs.197 cr. in FY18 to Rs.382 cr. in FY19 mainly due to increase in the sales volume of pulses. However, the PBILDT margin moderated to 3.80x in FY19 vis-à-vis 5.45x in FY18 owing to low margins on pulse trading. The interest coverage ratio however remained satisfactory at 1.39 times in FY19 as against 1.22 times in FY18. In Q1FY20 (Prov.), the group accounted for a turnover of Rs.187.5 crore.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in cash accruals (GCA of Rs.5.12 cr. in FY19) vis-à-vis debt repayment obligations (Rs.1.92 cr. in FY19) and free cash balance of Rs.5.74Crore. Its bank limits are utilized to the extent of 75%, supported by above unity current ratio.

Analytical approach: Combined

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 and Credit Watch 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 Company Pvt. Ltd (ATCPL), incorporated in 2011, and promoted by Kolkata based Garg and Agarwal family and part of the Asian Group, is engaged in tea blending and exporting the same. The tea export and blending business initially started in Asian Tea and Exports Ltd (ATEL; which holding 40% stake in ATCPL) which was incorporated in the year 1987, and later converted into a public limited company in 1994. However, currently, majority of tea blending and export business is being carried out in ATCPL. The group procures a major portion of tea (mainly North-Indian Tea) from tea auctions, and balance requirement is met from imports. It blends tea as per the quality requirements of the importers. ATCPL exports tea to countries like Kazakhstan, China, Russia, Iran and Vietnam. The group has two warehouses in India- one in West Bengal and the other in Tamil Nadu. This apart, the group has three tea estates in Doars, North Bengal and Assam and has prominent presence in Kolkata real estate sector.

ATEL is currently 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. Mr. Mohit Agarwal (Promoter Director) handles the marketing operations with respect to the tea exports.

Brief Financials (Rs. crore) [Combined: ATCPL & ATEL]	FY18 (A)	FY19 (A)
Total operating income	197.28	382.28
PBILDT	10.74	14.54
PAT	1.70	4.08
Overall gearing (times)	1.91	1.84
Interest coverage (times)	1.22	1.39

Brief Financials (Rs. crore) [Standalone: ATEL]	FY18 (A)	FY19 (A)
Total operating income	10.81	152.24
PBILDT	0.03	3.71
PAT	0.02	1.02
Overall gearing (times)	0.31	1.53
Interest coverage (times)	0.06	1.73

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

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 BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	3.25	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	4.75	CARE BB+; Stable	1)CARE BB+; Stable (05-Apr-19)	1)CARE BBB-; Stable (16-Apr-18)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	3.25	CARE A4+	1)CARE A4+ (05-Apr-19)	1)CARE A3 (16-Apr-18)	-	-

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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