

Asian Tea and Exports Limited

December 30, 2019

Ratings

Facilities*	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term /Short-term bank facilities	9.00	CARE BB+;Stable/CARE A4+ (Double B Plus; Outlook-Stable/ A Four Plus)	Reaffirmed
Short-term Bank Facilities	5.50	CARE A4+ (A Four Plus)	Reaffirmed
Total	14.50 (Rupees Fourteen Crore and Fifty Lakhs only)		

*Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Asian Tea & Exports Limited (ATEL) is constrained by small scale of operations, leveraged capital structure with moderate debt coverage indicators, exposure to group companies, 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 and improving financial performance in FY19 and H1FY20.

Rating Sensitivities

Positive Factor

- The ability of the company to enhance its scale of operations while improving PAT margin beyond 3% on sustainable basis
- Efficient management of the working capital limits within the range of 65% to 75% utilization levels.

Negative Factor

- Any un-envisaged increase in debt leading to deterioration in its capital structure and debt coverage indicators

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

The scale of operations of the company, although increasing remains small with the company having operating income of ~Rs.152.24crore in FY19 and Net-worth of Rs.26.08crore as on March 31, 2019. The small size deprives it the benefits of economies of scale and restricts the financial flexibility of the company in times of stress coupled with an intensely competitive segments which limits the bargaining power of the company

Leveraged capital structure with moderate debt coverage indicators

As the operations of the company are working capital intensive in nature, it has to heavily rely on working capital borrowings. In addition, the company also availed unsecured loans to support the growing scale of operations which resulted in a leveraged capital structure with overall gearing and TD/GCA stood of 1.53x and 35.18x as on March 31, 2019.

Exposure to group companies:

ATEL's exposure to its group entities remained high at Rs.16.38crore as on March 31,2019 in the form of non-current investments representing around ~63% (Mar'18: ~65%) of the net-worth of the company as on March 31, 2019.

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 company operates on a low margin. The overall PAT margin of the company remains low at around 0.67% in FY19 as against 0.17% 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 promoters of ATEL are engaged in the trading/export of agro commodities including tea, pulses and rice since 1994 under the leadership of Mr Hari Ram Garg. Currently, the company's operations are managed by Mr Sunil Garg and Mr Rajesh Garg (son of Mr H. R. Garg), each of whom having experience of more than two decades in trading/exports of agro commodities 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 domestic and export market

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

Improvement in financial performance in FY19 and H1FY20

The operating income of the company significantly increased from Rs.10.81crore in FY18 to Rs.152.24crore in FY19 mainly due to increase in the sales volume of pulses. Accordingly, PBILDT has increased to Rs.3.71crore in FY19 vis-à-vis Rs.0.03crore in FY18. Consequently, the interest coverage ratio improved to 1.73 times in FY19. In H1FY20 (Prov.), the company accounted for a turnover of ~Rs.162.15crore and PBILDT of Rs.4.20crore.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in cash accruals (GCA of Rs.1.13crore in FY19) vis-à-vis debt repayment obligations (Rs.0.30crore in FY19) and moderate cash balance of Rs.0.25Crore. Its bank limits are utilized in the range of 80%-85%, supported by above unity current ratio.

Analytical approach: Standalone

CARE had considered the combined approach till FY19 wherein financials of Asian Tea & Exports Limited and Asian Tea Company Private Limited were combined. However, owing to change in rating methodology on consolidation and factoring linkages in ratings, CARE has changed the analytical approach from combined to standalone.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

Asian Tea & Exports Limited is a part of Kolkata based Asian Group. Asian Tea & Exports Limited (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. However, since 2011, majority of tea blending and export business is being carried out in Asian Tea Company Private Limited (ATEL is holding 40% stake in ATCPPL) which exports tea to countries like Kazakhstan, China, Russia, Iran and Vietnam. This apart, the group has three tea estates in Doars, North Bengal and Assam and has prominent presence in Kolkata real estate sector. Currently, the company's operations are managed by Mr Sunil Garg and Mr Rajesh Garg (son of Mr H. R. Garg, the promoter of ATEL).

Brief Financials (Rs. crore)	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 - ST-Working Capital Demand loan	-	-	-	5.50	CARE A4+
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	9.00	CARE BB+; Stable / 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 - ST-Working Capital Demand loan	ST	5.50	CARE A4+	1)CARE BB+; Stable (09-Oct-19) 2)CARE BB+; Stable (05-Apr-19)	1)CARE BBB-; Stable (16-Apr-18)	-	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	9.00	CARE BB+; Stable / CARE A4+	1)CARE A4+ (09-Oct-19) 2)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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About CARE Ratings:

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