

## B & A Limited

September 28, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	56.37 (enhanced from Rs.48.50 cr)	<b>CARE BBB+; Negative (Triple B Plus ; Outlook: Negative)</b>	Reaffirmed
<b>Total Facilities</b>	<b>56.37 (Rs. Fifty six crore and thirty seven lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The rating assigned to the bank facilities of B & A Limited continues to derive comfort from long & established track record of operations, superior quality of tea commanding premium over industry average levels.*

*The rating also factors in deterioration in financial risk profile in FY17 (refers to the period April 1 to March 31) primarily due to sharp decline in realization coupled with lower tea output. However, tea output has gone up by 13.7% y-o-y. In 5MFY18 the average realization has also firmed up by ~Rs.14/kg over Rs.191.5/kg in FY17. The rating, however, remains constrained by small size of operations, labor intensive nature of business, high exposure to group companies, and concentration of all tea gardens in Assam leading to higher agro-climatic risk.*

*Going forward, the ability of the company to successfully commence the operation of its new tea processing facility, improve the profitability margin and efficient management of working capital would be the key rating sensitivities.*

### Outlook: Negative

The negative outlook on rating reflects longer than expected delay in commencement of operations of its new tea processing facility. While the new facility is fully ready, it cannot start the operations due to non-availability of gas (which is a critical input for tea processing) on the back of issues related to construction of gas pipeline network by Assam Gas Corporation. The company expects the new facility to start the operations soon. The outlook may be revised to stable in the event of higher than expected improvement in financial performance in FY18 and/or commencement of operations of new tea processing facility within the revised timeline.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Long & established track record of operations:** B&A is engaged in cultivation and sale of tea since 1915. Late Mr. H. P. Barooah acquired the company in 1950. The day-to-day operations of the company are looked after by Mr. Somnath Chatterjee, MD along with a team of experienced professionals. Mr. Chatterjee is associated with the company for more than two decades.

**Superior quality of tea output commanding a premium over industry average levels:** B&A produces superior quality of tea, which commands a significant premium over industry average levels. The average tea realization of B&A declined from Rs.201.1/kg in FY16 to Rs.191.45/kg in FY17, but improved to Rs.205/kg in 5MFY18 mainly due to decline in tea supply in the world on the back of unfavorable weather conditions in Kenya (which is the world's largest exporter of tea).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### Key Rating Weaknesses

**Small size of operations:** B&A market share continued to remain small in relative comparison to players operating in this industry. The small size restricts the financial flexibility of the company in times of stress.

**Labor intensive nature of business:** The nature of the tea industry makes it highly labour intensive, entailing around 50% of total cost of sales (excluding cost of bought leaf) by way of salaries & wages, various employee welfare facilities, etc. Renegotiation of wage rates and welfare related benefits takes place in interval of every 3-5 years. Any significant increase in wages with no corresponding increase in tea price realization may negatively impact the profitability margin of B&A in the future. Further, maintenance of cordial relationship with laborers is also an important factor for smooth functioning of the business. B&A has not experienced any labor problem in the past few years.

**Concentration of all B&A tea gardens in Upper Assam, leading to higher agro-climatic risk:** B&A's profitability is highly susceptible to vagaries of nature as all of its tea gardens are concentrated in Assam and fixed cost intensive nature of tea industry (i.e. labour cost). Assam has witnessed erratic weather conditions in the past years.

**Moderation in financial performance in FY17 & Q1FY18:** B&A total operating income fell by 6.26% y-o-y to Rs.102.98 crore in FY17 due to lower price realizations (-4.80%) and lower sales volume (-1.59%). PBILDT margins significantly declined from 13.82% in FY16 to 8.41% in FY17 due to weak price environment on the back of surge in Kenyan output (the world's largest exporter of tea) and consistent increase in employee cost (+10%). Lower PBILDT coupled with relatively stable interest cost led to moderation in interest coverage ratio from 4.43x in FY16 to 2.68x in FY17. The current ratio of the company remained low at 0.49x in March 2017. The operating cycle of the company remained relatively stable at negative 14 days in FY17.

In Q1FY18, the company reported loss of Rs.2.26 crore (as against loss of Rs.2.99 crore in Q1FY17) on total operating income of Rs.21.02 crore (as against Rs.17.48 crore in Q1FY17). The company has reported losses in Q1FY18 due to seasonality nature of industry.

**Moderate financial risk profile:** Overall gearing deteriorated from 0.51x as on Mar 31, 2016 to 0.76x as on Mar 31, 2017 due to depletion of networth (as a result of one-time impact of depreciation of Rs.6.93 crore due to change in accounting policy) and higher bank borrowing. Total debt/GCA deteriorated from 2.74x in FY16 to 7.53x in FY17 due to higher debt and lower cash accrual. Average utilization of fund-based working capital limit was 91.18% during Sep 2016 – Aug 2017.

**High exposure to group and related entities:** B&A's exposure to group companies increased from Rs.18.0 crore as on Mar 31, 2016 (accounting for 32% of networth) to Rs.19.13 crore as on Mar 31, 2017 (accounting for 39% of networth). The exposure is mainly in the form of strategic investments of Rs.3.8 crore and loans & advances of Rs.15.3 crore, out of which Rs.6.74 crore has been given as advance to one of the related entity for purchase of green leaf. After adjusting for exposure to group companies, adjusted overall gearing works out to be 1.24x as on Mar 31, 2017 (vis-à-vis 0.75x as on Mar 31, 2016).

**Analytical approach:** While assigning the rating, CARE has considered the standalone operations of B & A Ltd

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)  
[CARE's Policy on Default Recognition](#)  
[CARE's methodology for manufacturing companies](#)  
[Financial ratios – Non-Financial Sector](#)

### About the Company

B&A Ltd (B&A), incorporated in June 1915, was taken over by Late Shri H. P. Barooah in 1950. B&A presently owns seven tea estates in upper Assam (three in Golaghat and two each in Sibsagar & Jorhat districts) covering an area of 1,868.89 hectares. The company also has three tea processing facilities in Assam. The company primarily produces CTC (Crush, Tear and Curl) variety of tea, which it sells in the domestic market through a mix of auctions and private sales.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	109.86	102.98
PBILDT	15.18	8.66
PAT	7.74	2.83
Overall gearing (times)	0.51	0.76
Interest coverage (times)	4.43	2.68

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## 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	-	-	-	35.44	CARE BBB+; Negative
Fund-based - LT-Cash Credit	-	-	-	10.60	CARE BBB+; Negative
Fund-based - LT-Term Loan	-	-	March 2020	10.33	CARE BBB+; Negative

## 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	35.44	CARE BBB+; Negative	-	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)	1)CARE BBB (18-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	10.60	CARE BBB+; Negative	-	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)	1)CARE BBB (18-Sep-14)
3.	Fund-based - LT-Term Loan	LT	10.33	CARE BBB+; Negative	-	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)	1)CARE BBB (18-Sep-14)

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