

B & A Limited
October 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	57.91 (enhanced from Rs.51.56 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total	57.91 (Rs. Fifty-Seven Crore and Ninety one Lakhs only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of B & A Ltd continues to draw strength from long and established track record of operations, superior quality of tea enabling it to demand a premium over industry average, satisfactory operational performance marked by improving yields and capacity utilization followed by satisfactory financial position of the company.

The ratings are, however, constrained by high exposure to group companies, small scale of operations, labour-intensive nature of business and susceptibility of the business to agro-climatic risk.

Optimal utilization of new tea processing facilities, any sharp decline in own green leaf production and ability to improve its operating margin and efficient management of working capital the key rating sensitivities.

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. The company was subsequently acquired by Late H.P. Barooah in 1950. Presently, the day-to-day operation of the company is looked after by Mr. Somnath Chatterjee along with a team of experienced professionals. Mr. Chatterjee is associated with the company for more than 25 years.

Superior quality of tea output commanding a premium over industry average levels

Company produces superior quality of tea, which commands a premium over industry average levels. All the eight tea gardens are located in Upper Assam which is well-known for its superior quality of tea due to its favourable climatic conditions and better soil structure. Further, the replantation activities are regularly undertaken by the management, keeping the age of tea bushes under check.

Moderate financial performance in FY19 albeit satisfactory capacity utilisation and yield

The total operating income of B&A remained more or less stable at Rs.121.33 crore in FY19 vis-à-vis Rs.122.66 crore in FY18. However, PBILDT margin deteriorated significantly to Rs.7.41% in FY19 vis-à-vis Rs.11.44% in FY18 mainly on account of sharp upward revision in labour wage rate in FY19 with no commensurate increase in the average sales realization. The operating margin was also impacted due to increase in cost of green leaf bought from other gardens. Further with increase in the capital charge, PAT levels also witnessed deterioration to Rs.1.77 crore in FY19 vis-à-vis Rs.6.05 crore in FY18. However, GCA remained comfortable at Rs.4.94 crore vis-à-vis debt repayment of Rs.2.67 crore in FY19. In Q1FY20 the company reported loss of Rs.4.38 crore on total operating income of Rs.22.54 crore. The loss was primarily due to increase in cost of production incidental to increase in prices of bought leaves. The performance of the company in Q1FY20 however was in line with Q1FY19 owing to the seasonal nature of tea industry. The company has consistently made a satisfactory recovery rate and has witnessed improvement in the average yield of tea per hectare in the last three fiscals (FY17-FY19).

Satisfactory financial risk profile

B&A doesn't have any long term debt obligation except for term loan of Rs.1.89 crore outstanding as on March 19 (to be fully repaid by March 2020). Accordingly the capital structure of the company continues to remain satisfactory with low reliance on long term bank borrowings. Total debt however increased in FY19 owing to increase in the working capital borrowings necessary to support the enhanced scale of operations. Accordingly overall gearing ratio moderated from 0.60x as on March 31, 2018 to 0.65x as on March 31, 2019. Further, Total debt/GCA also witnessed deterioration to 7.23x in FY19 from 3.90x in FY18 due to reduced cash accrual and increase in working capital debt.

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

Key Rating Weakness

High exposure to group companies

The company has significant exposure in the group companies in the form of strategic equity investments and loans and advances amounting to Rs.15.83 crore (accounting for 28.65% of net-worth as on Mar'19 as against 27.80% as on March 18).

Small scale of operations

B&A's market share continued to remain small in terms of total size of the Indian tea industry. During FY19 B & A produced 6.15 million kg of tea accounting for only 0.55% of North India's production for the same period of 1124 million kg (published by the Tea Board). Moreover, company is operating at moderate level of capacity utilization and its scale of operations continues to remain small.

Labour intensive nature of business

The nature of the tea industry makes it highly labour intensive, entailing around 47% of total cost of sales by way of salaries & wages, various employee welfare facilities, etc. It has a work force of around 3500 laborers and hires more laborers on a contract basis during peak season. Employee costs accounted for 40%-45% of cost of sales during the last 3 years (FY17-FY19).

Agro-climatic risks

The profitability and cash flows of B&A remain volatile because of the risks associated with agro-climatic conditions. Moreover, all of its tea gardens are concentrated in Assam thereby leading to agro climatic risks.

Liquidity Analysis: Adequate

The liquidity position of the company is adequate marked by average utilization at ~72% of working capital limits during the last 12 month ended June 2019 and low term debt repayment obligations. The working capital requirement of B&A is assessed by the bank based on cash budget (cash requirement by the company on a monthly basis) and not on drawing power (i.e. inventory, debtors and creditors) due to seasonal nature of tea industry.

Analytical approach: Standalone.

Applicable criteria

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

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

[Rating Methodology-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 eight tea estates in upper Assam (Mokrung, Kuhum, Gatoonga, Samaguri, New Samaguri, Sangsua, Barasali and Salkathoni) covering an area of 1,879.20 hectares. The company also has four tea processing facilities (Gatoonga, Sangsua, Mokrung and Salkathoni) 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)	FY18 (A)	FY19 (A)
Total operating income	122.66	121.33
PBILDT	14.04	8.99
PAT	6.05	1.77
Overall gearing (times)	0.60	0.65
Interest coverage	3.82	2.29

A: Audited

Status of non-cooperation with previous CRA: Nil

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	-	-	-	39.13	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	16.95	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	March, 2020	1.83	CARE BBB+; Stable

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	39.13	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	16.95	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)
3.	Fund-based - LT-Term Loan	LT	1.83	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)

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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