

B & A Limited
October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	56.00 (Reduced from 56.08)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term Bank Facilities	0.00		Withdrawn
Total Facilities	56.00 (Rs. Fifty-Six Crore Only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of B & A Limited (B&A) take into account the deterioration in the financial performance of the company in FY20 (refers to the period from April 01 to March 31) resulting in weakening of the debt coverage indicators. The ratings, however, continue to draw strength from long and established track record of operations, satisfactory operational performance, superior quality of tea enabling it to demand a premium over industry average and satisfactory capital structure.

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

The ratings also take into consideration the possible impact of Covid-19 pandemic on the business operation and liquidity position of the company.

Key Rating Sensitivities**Positive Factors**

- Sustained increase in the scale of operations backed by continuous improvement in capacity utilization of the company.
- Improvement in the operating margins beyond 12% on sustained basis

Negative Factors

- Sustained deterioration in total operating income below Rs.125.00 crore and operating margin below 5%.
- Any substantial increase in debt levels deteriorating its capital structure and debt coverage indicators from the current levels

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 nearly 33 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.

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

Satisfactory financial risk profile

The capital structure of the company continues to remain satisfactory with overall gearing ratio of 0.61times as on March 31, 2020 as against 0.65 times as on March 31, 2019. The capital structure is expected to moderate in the short to medium term incidental to availment of COVID-19 loan and General Emergency Credit Line loan to the tune of Rs.11.04 crore for managing its working capital requirements. . Total debt/GCA however witnessed significant deterioration to 21.73x in FY20 from 7.23x in FY19 due to lower cash accruals in FY20.

Key Rating Weakness**Moderation in the financial performance during FY20, albeit satisfactory operation performance**

The total operating income of the Company improved by ~9.8% from Rs.121.33 crore in FY19 to Rs.133.22 crore in FY20, being attributable to favourable sales volume variance (6.66 mkg in FY20 vis-à-vis 5.97 mkg in FY19) despite being offset by negative sales price variance (Rs.198.33/kg in FY20 vis-a-vis Rs.202.34/kg in FY19). Despite improved TOI, PBILDT levels moderated significantly to Rs.5.94 crore (4.46%) in FY20 vis-à-vis Rs.8.99 crore (7.41%) in FY19 incidental to upward movement in employee expenditure and power and fuel cost with no corresponding hike in the sales realization. PBILDT margin was also impacted due to increase in cost of green leaf bought from other gardens. Consequently, with a slightly increased capital charge, the company reported net losses of Rs.1.16 crore in FY20 as against net profits of Rs.1.77 crore in FY19 and Rs.6.05 crore in FY18). Accordingly, GCA also moderated to Rs.1.50 crore in FY20 as against Rs.4.94 crore in FY19. The debt repayment obligation of Rs.1.89 crore in FY20 was made good out of current cash accruals and opening cash and bank balance of Rs.5.22 crore as on March 31, 2019. Further, Company's interest coverage ratio also moderated to 1.34 times in FY20 as against 2.29 times in FY19.

The company has consistently made a recovery of around 22% and has witnessed consistently satisfactory average yield of tea per hectare in the last four fiscals (FY17-FY20).

In Q1FY21 the company reported net loss of Rs.4.17 crore on total operating income of Rs.17.18 crore. The performance of the company in Q1FY21 was however in line with Q1FY20 owing to the seasonal nature of tea industry.

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.14.83 crore (accounting for 27.65% of net-worth as on Mar'20 as against 28.65% as on Mar'19).

Small scale of operations

B&A's market share continued to remain small in terms of total size of the Indian tea industry. During FY20, B & A produced 6.60 million kg of tea accounting for only 0.59% of North India's production for the same period of 1,140.69 million kg (published by the Tea Board). Moreover, company is operating at moderate level of capacity utilization (73% in FY20) 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 45% 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 (FY18-FY20).

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.

Industry Outlook

COVID-19 pandemic induced lockdown in April and May 2020 has adversely impacted tea production, which in turn is expected to support tea realisations. While current tea prices are substantially higher on a year-on year basis, the same may not be an indicator of the likely trend for the full year, with production trends in the high cropping months from July to September are likely to determine the price trajectory, going forward. Nonetheless, prices are expected to remain high compared to the last year. Further, Indian tea industry is essentially a price taker in the international

market and hence global supply-demand dynamics have a bearing on the domestic prices. Further, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is also crucial for maintaining domestic realisations as un-remunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert pressure on domestic prices.

Liquidity Analysis: Adequate

The liquidity position of the company is adequate; marked by satisfactory utilization (~65%) of working capital limits during the last 12 month ended August 2020. The Company is expected to generate sufficient GCA in FY21 against debt repayment obligation of Rs.0.93 crore in connection with COVID-19 loan and GECL loan. The company has cash and bank balance amounting to Rs.1.52 crore as on March 31, 2020 (Rs.4.18 crore as on March 2019). The company has availed moratorium/deferment on interest obligation under CC account vide RBI's COVID-19 regulatory package till August, 2020. The same has now been repaid.

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](#)

[Complexity level of rated instrument](#)

[Liquidity analysis for non-financial sector entities](#)

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)	FY19 (A)	FY20 (A)
Total operating income	121.33	133.22
PBILDT	8.99	5.94
PAT	1.77	-1.16
Overall gearing (times)	0.65	0.61
Interest coverage	2.29	1.34

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	-	-	-	16.87	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	39.13	CARE BBB; Stable	-	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	16.87	CARE BBB; Stable	-	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (27-Dec-18)	1)CARE BBB+; Negative (28-Sep-17)

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. 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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