

B & A Ltd
 December 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank facilities (Term Loan)	2.60 (reduced from 10.33)	CARE BBB+; Stable (Triple B Plus; Outlook:Stable)	Reaffirmed and Outlook revised from Negative
Long-term bank facilities (Cash Credit)	49.73 (enhanced from 46.04)	CARE BBB+; Stable (Triple B Plus; Outlook:Stable)	Reaffirmed and Outlook revised from Negative
Total facilities	52.33 (Rupees Fifty Two crore and thirty three lakh only)		

Detail of facilities or instrument in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the outlook from “Negative” to “Stable” takes into account successful commissioning of the Sangsua Tea Factory and year-on-year improvement in the performance of the company in FY18 (refers to the period from April 1 to March 31).

The ratings assigned to the bank facilities of B & A Ltd draws 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 better yields and capacity utilization and satisfactory financial risk profile. 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**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 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.

Operational performance marked by satisfactory capacity utilisation and yield

The operational performance of the company improved in FY18 vis-à-vis FY17 on the back of improved price realizations and better sales volume. Further, despite of increase in employee cost during the year PBILD margin improved from 9.92% for FY17 to 11.44% for FY18 on account of better sales realizations and better fixed cost absorption due to higher volumes.

Satisfactory financial risk profile

Overall gearing improved from 0.76x as on Mar 31, 2017 to 0.60x as on Mar 31, 2018 due to accretion of profit which led to improved in networth. Moreover, the company has reported cash accrual of Rs.8.46 crs in FY18.

High exposure to group companies

As on March 31, 2018, B&A had a total exposure of Rs.15.36 crore (accounting for 27.79% of networth in Mar’18 as against 28.00% in Mar’17) in the group companies in the form of strategic investments in its group companies.

Small scale of operations

B&A’s market share continued to remain small in terms of total size of the Indian tea industry. During FY18 B & A produced 5.9 million kg of tea accounting for only 0.54% of North India’s production for the same period of 1091.40 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.

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

Labour intensive nature of business

The nature of the tea industry makes it highly labour intensive, entailing around 44% 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 (FY16-FY18).

Agro-climatic risks

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).

Liquidity Analysis:

The liquidity position of the company is comfortable marked by moderate utilization of working capital limits and low 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. The sanctioned limit of the company is Rs.49.73 crore. Average utilization of fund-based working capital limit was 66.80% during the past 12 months ended Nov 2018

Analytical approach: Standalone.

Applicable criteria

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

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

[Criteria for Short-Term Instruments](#)

[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)	FY17 (Aud.)	FY18 (Aud.)
Total operating income	103.69	122.66
PBILDT	10.29	14.04
PAT	3.40	6.05
Overall gearing (times)	0.73	0.60
Interest coverage	3.18	3.82

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-1

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading

service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	-	39.13	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	10.60	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	March 2019	2.60	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	39.13	CARE BBB+; Stable	-	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	10.60	CARE BBB+; Stable	-	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)
3.	Fund-based - LT-Term Loan	LT	2.60	CARE BBB+; Stable	-	1)CARE BBB+; Negative (28-Sep-17)	1)CARE BBB+ (02-Aug-16)	1)CARE BBB+ (21-Jul-15)

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