Bengal Tea & Fabrics Limited

August 06, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	29.17 (Reduced from Rs.29.22 crore)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short-term Bank Facilities	2.25 (Reduced from Rs.2.50 crore)	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**31.42 (Rupees Thirty One Crore and Forty Two Lakh only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bengal Tea & Fabrics Limited (BTFL) continue to derive strength from vast experience of its promoters and their prudent approach in managing BTFL's leverage, its established operation in tea business with owned tea estates, comfortable capital structure and its moderate liquidity supported by some unencumbered liquid investment.

The ratings are, however, constrained due to the continued decline in its scale of operations and the profitability of its textile division, moderation in debt coverage indicators, labor intensive nature of operations of its tea division wherein the wages are also regulated in nature, susceptibility of operations of tea division to adverse weather conditions, susceptibility of profitability of its textile division to volatile raw material prices and regulatory risk associated with compliance of strict pollution control norms for textile processing units. The ratings also take note of lower black tea production and sales realization during FY19 (refers to period starting from April 01, to March 31) leading to decline in overall profitability.

Ability of BTFL to increase its scale of operations and the profitability of its textile division by improving competitiveness of its fabric in the market, improve the productivity of laborers of its tea division for optimum tea production and better profitability of the division thereby leading to improvement in its debt coverage indicators while maintaining its favorable capital structure and moderate liquidity would be the key rating sensitivities. Moreover, the company taking up any large size capex and its funding profile would also be a key rating monitorable.

Outlook: Negative

The outlook on the long-term rating of the bank facilities of BTFL has been revised to 'negative' on CARE's expectation that BTFL's scale of operations and profitability are likely to be lower than previously envisaged on account of continued weak industry scenario in the textile segment and uncertainty regarding production volume and sales realization of black tea in near to medium term. The outlook may be revised to stable in case of meaningful and sustained improvement in the scale of operations and profitability of both its textile and tea divisions resulting in improvement in its overall operational and financial performance.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: BTFL, incorporated in the year 1983, is promoted by Late Shree B. D. Kanoria. It is now being managed by the next generation promoters. Mr. Adarsh B. Kanoria, who has an industry experience of over 20 years, took over as the Chairman & Managing Director of the company in 2001 and controls the overall affairs of the company. Historically, the management of BTFL has remained prudent in controlling the company's leverage which is evident from the gradual improvement in its leverage indicators with reduction in its total debt.

Established operation of its tea business: BTFL has over 4 decades of operational track record in the black tea business. BTFL owns three tea estates having plantation area of 626 hectares located in upper Assam. The company processes the green tea leaves at a plant located at Ananda Tea Estate and sells black tea. BFTL sells the black tea to reputed customers having established brands and good credit risk profile thereby mitigating counter party credit risk to certain extent. Further, BTFL is planning to launch its own packaged tea under the brand 'CLASSIC GOLD' with an aim to improve sales realization of black tea.

Comfortable capital structure: Despite reduction in its net-worth base during last three years ended FY19 due to loss incurred by the spinning section of its textile division (which was, however, completely discontinued in FY18), capital structure of BTFL remained comfortable marked by overall gearing ratio of 0.25 times as on March 31, 2019. BTFL has

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

consistently reduced its term debt, including by prepaying it from the sale proceeds of sale of assets of its spinning section.

Key Rating Weaknesses

Continued decline in scale of operations and profitability of its textile division: Scale of operations of textile division of BTFL (excluding the discontinued textile spinning section) has declined during last three years ended FY19 marked by revenue of Rs.67.59 crore during FY19 as compared to Rs.85.25 crore and Rs.74.55 crore during FY17 and FY18 respectively. Further, the company incurred marginal operating loss during FY19 compared to operating profits during FY17 and FY18. Performance of the fabric division has weakened due to weak industry scenario coupled with higher raw material prices. Weak demand scenario in domestic and export market, introduction of GST disrupting supply chain (mainly in the textile sector which involves lots of job work) and competition from cheap imports have adversely impacted demand and sales realization of processed fabric.

Subdued performance of its tea division during FY19 due to impact of wage hike and adverse weather conditions: Total revenue from tea division of BTFL marginally declined to Rs.43.02 crore during FY19 as compared to Rs.46.95 crore during FY18. Further, operating profit margin of tea division also declined to 15.39% during FY19 as compared to 23.19% during FY18. Tea production declined during FY19 due to floods in the upper Assam region. Further, average sales realization of black tea also marginally declined during FY19. Being a fixed cost intensive business especially with regulated labour wages, decline in total revenue and average sales realization resulted in decline in profitability.

Moderation in debt coverage indicators: Debt coverage indicators marked by PBILDT (continuing operations) interest coverage ratio and total debt/GCA (continuing operations) moderated to 1.82x and 7.80 years respectively during FY19. Although, total debt and interest cost of BTFL marginally declined during FY19, decline in overall profitability resulted in moderation in the debt coverage indicators.

Labor intensive operation of tea division: Tea is amongst the most labour intensive of all plantation crops. On an average, around 40% of the total expenditure is incurred on labour cost. BTFL's high cost of labour is the primary reason for the high cost of production. The wage rates of tea plantation labourers are regulated and revised through bilateral negotiations with worker unions and other parties. During FY18, Labor department of the Assam government has notified increase of Rs.30 in daily minimum wages of tea workers, increasing cash component of daily wages from Rs.137/day to Rs.167/day. Hence, regulated nature of tea labourers' wages poses risk to the profitability margins of BTFL's tea division.

Susceptibility of profitability of BTFL's textile division to volatile raw material prices and environmental compliance: The major raw material cost of fabric & processing section of its textile division is cotton yarn and various dyes and chemicals, prices of which have depicted a volatile trend in the past. The cotton prices in India are regulated through fixation of Minimum Support Price (MSP) by the government, and fortunes of cotton ginners depend on the price parity between the price fixed by the government and those prevailing in the market. Hence, any adverse change in the prices of cotton yarn, dyes and chemicals could result in lower profitability of its textile fabric division. Further, there is stringent pollution control regulation laid down for textile processing units under the Gujarat Pollution Control Board (GPCB) norms. BTFL during its production process generates polluted water and air that needs to be treated before their disposal. Hence, such units require compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would adversely impact BFTL's operations. However, the company has been complying with the required pollution control norms.

Liquidity Analysis

Liquidity of BTFL remains moderate marked by low cash accruals and high average utilization of fund based working capital limits at around 84% during last 12 months ended June 2019. However, working capital cycle of BTFL remained stable and moderate at 46 days during FY19 (48 days during FY18) due to strict credit control and prudent inventory management. Further, BTFL had unencumbered liquid investment of nearly Rs.3.50 crore as on June 30, 2019 which provides cushion to its liquidity.

Analytical approach: Standalone

Applicable Criteria:

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

About the Company

Incorporated in the year 1983, BTFL took over the whole undertaking of Bengal Tea & Industries Limited, earlier known as Bengal Tea Company Limited in the year 1985. Bengal Tea Company Limited was promoted by Kanoria family in the year 1950, which took over The Ananda Assam Tea Company Limited and Asarwa Mills Limited in the year 1970 and 1972 respectively. Presently, BTFL has business interests in two segments viz. Textile and Tea. Textile division, which is located in Ahmedabad, comprises of fabric weaving and processing facility. The company has installed capacity of 63 looms (12 lakh meters per month) for fabric weaving. Textile division of BTFL earlier also included spinning section comprising 23,952 spindles for cotton yarn manufacturing. However, due to its negative contribution, the company discontinued the spinning operations completely from October 2017 by selling it off. In tea division, BTFL owns three tea estates having plantation area of 626 hectares located in upper Assam. The company processes the tea leaves at a plant located at Ananda Tea Estate and sells black tea.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
	As per IND-AS	
Total operating income	121.88	111.27
PBILDT	11.91	4.46
PAT before discontinuing operation	4.38	-0.71
PAT after discontinuing operation	-5.02	-0.32
Overall gearing (times)	0.27	0.25
PBILDT Interest coverage (times) #	4.26	1.82

A – Audited, # Continuing operations only

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 - LT-Term Loan	-	-	December 2020	4.17	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	2.25	CARE A3+

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-Term Loan	LT	4.17	CARE BBB; Negative	-	1)CARE BBB; Stable (02-Aug-18)	1)CARE BBB; Stable (03-Aug-17)	1)CARE BBB (21-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Negative	-	1)CARE BBB; Stable (02-Aug-18	1)CARE BBB; Stable (03-Aug-17)	1)CARE BBB (21-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	2.25	CARE A3+	-	1)CARE A3+ (02-Aug-18)	1)CARE A3+ (03-Aug-17)	1)CARE A3+ (21-Sep-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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About CARE Ratings:

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