Bengal Tea & Fabrics Limited

September 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	24.71 (Reduced from Rs.29.17)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BBB; Negative (Triple B; Outlook: Negative)**
Short Term Bank Facilities	2.25	**CARE A3 (A Three)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**26.96 (Rupees Twenty-Six Crore and Ninety-Six Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bengal Tea & Fabrics Limited (BTFL) is on account of its weaker than envisaged operational and financial performance during FY20 (refers to the period from April 01 to March 31) on the back of continued weak performance of its textile division despite some improvement in the Y-o-Y performance of its tea division during the year. The revision in the ratings also factor expectation of further weakness in the operations of its textile division in the medium-term due to adverse impact on demand for textile products owing to outbreak of Covid-19 pandemic.

The ratings continue to derive strength from vast experience of its promoters and their prudent approach in managing BTFL's leverage, established operations of its tea division with owned tea estates and its comfortable leverage. The ratings also factor envisaged benefit from significant jump in the black tea prices in the domestic market which is likely to off-set the fall in production of black tea due to Covid-19 during FY21.

The ratings, however, continue to remain constrained on account of moderation in its debt coverage indicators, labor intensive operations of its tea division wherein the wages are regulated, susceptibility of tea production 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 into account moderation in its liquidity and moratorium availed by BTFL on the repayment of interest on its working capital borrowings for the period from March-August 2020 under RBI's Covid-19 relief measures; albeit company has plans to monetize some of its non-core asset for shoring up its liquidity.

Rating Sensitivities

Positive Factors

- Improvement in its scale of operations while earning PBILDT margin around 10% on a sustained basis
- Improvement in its debt coverage and liquidity indicators

Negative Factors

- Decline in its interest coverage ratio below 1.5 times on a sustained basis
- Any large size debt funded capex undertaken by the company adversely impacting its leverage

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, Mr. Adarsh B. Kanoria, who has an industry experience of over 20 years. He 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 through reduction in its total debt.

Established operation of its tea division: 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. BTFL sells the black tea to reputed customers having established brands and good credit risk profile thereby mitigating counter party credit risk to a certain extent.

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

Due to the outbreak of Covid-19 and subsequent imposition of the nationwide lockdown, the operations of BTFL's tea division were completely closed from March 25, 2020 to April 11, 2020. Even after that, the company could restart the operations with around 50% workforce. The period of March to June being the prime season for plucking premium quality tea, BTFL expects production of black tea to be lower by around 10% to 15% during FY21 on Y-o-Y basis. However, since June 2020 the price of black tea in the domestic market has significantly increased due to expected shortage of supply. During April 2020 up to August 15, 2020, the sales realization of BTFL's black tea has remained 50% higher on Y-o-Y basis. BTFL expects overall sales realization of black tea for FY21 to remain higher by around 20% to 30% on Y-o-Y basis which is likely to compensate the decline in production of black tea leading to overall better performance of tea division.

Comfortable capital structure: Despite reduction in its net-worth base during last three years ended FY20, capital structure of BTFL remained comfortable marked by overall gearing ratio of 0.23 times as on March 31, 2020. BTFL has consistently reduced its term-debt during last few years and completely repaid all its term-loan during FY20.

Plans to monetize its non-core assets; albeit uncertainty prevails due to Covid-19 outbreak and weakness in demand for real estate sector: BTFL has planned to monetize its non-core asset (a guest house located in Ahmedabad). Accordingly, its Board of Directors accepted the offer for sale of its guest house for a consideration of Rs.31 crore to Shivalik group of companies (engaged in real estate) towards the end of FY20**.** However, considering the weak real estate demand post outbreak of Covid-19, the transaction may take longer than what was earlier envisaged. As per the company management, there is no major progress in sale of the designated asset. However, if the transaction sails through, it would provide major liquidity support to the company. The book value of the designated non-core asset is less than Rs.1 crore and the deal value is expected to be Rs.31 crore.

Key Rating Weaknesses

Continued decline in scale of operations and profitability of its textile division: Total income of BTFL's textile division declined by 11% during FY20 on Y-o-Y basis. Furthermore, operating loss of the textile division increased to Rs.1.42 crore during FY20 compared with operating loss of Rs.0.29 crore incurred during FY19. Performance of its textile division has moderated due to weak industry scenario coupled with higher raw material prices. Operations of the textile division remained completely closed from March 25, 2020 to June 01, 2020. Even after the commencement of commercial operations, the textile division is presently working at 40% to 50% of its normal capacity due to lower demand. Hence, the performance of the textile division is expected to remain weak even during FY21.

Moderation in debt coverage indicators: BTFL's debt coverage indicators marked by PBILDT interest coverage ratio and total debt/GCA ratio moderated to 1.61 times and 8.49 years respectively during FY20 (as against 1.82 times and 7.80 years during FY19) due to decline in the profitability and cash accruals.

Labor intensive operations of tea division along with production linked to climatic conditions: Tea is amongst the most labour intensive of all plantation crops. On an average, around 40% to 50% of the total expenditure of the tea division is incurred on labour cost. The wage rate of tea plantation labourers are regulated and revised through bilateral negotiations with worker unions and other parties. Cost of employment also includes the social welfare cost which is mainly incurred on account of statutory provisions like water supply, medical, primary education, etc. that are to be provided to workers in India under the Plantation Labour Act. High labour cost results in high operating leverage for the company. Further, tea production is closely linked to the climatic conditions as both quality and quantity of tea produced depend on it. High operating leverage along with volatility in the tea production due to adverse climatic can severely impact the profitability of the 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 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 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 BTFL's operations. However, the company has been complying with the required pollution control norms.

Adverse impact of Covid-19 pandemic on textile sector: The closure of retail stores and malls on account of imposition of lockdown across the nation has adversely impacted the textile industry's sales volume. On the international front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in the closure of retail stores and malls there. Even after the lockdown is lifted, recovery in consumer demand is likely to be delayed and gradual given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. There may be a cascading impact on demand of other textile products including cotton yarn and fabric. Further, the labour intensive nature of operations of the textile sector could impact its profitability due to sub optimal capacity utilization in near term for ensuring adherence to norms of social distancing. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings of the sector.

Liquidity: Stretched
Liquidity of BTFL remains stretched marked by below unity current ratio as on March 31, 2020 and high utilization fund based working capital limits during the last 12 months ended June 2020. Operating cash flow of BTFL remained modest at Rs.2.32 crore during FY20. However, BTFL does not have any scheduled term-debt repayment during FY21 as it prepaid its entire term-loan during FY20. It had cash and equivalent of Rs.3.76 crore as on March 31, 2020. BTFL has availed moratorium from its lenders for the payment of interest on its working capital borrowing limits for the period from March-August 2020 under the Covid-19 relief measures announced by the RBI. Apart from this, BTFL has received sanction of working capital term-loan of Rs.2.71 crore under Guaranteed Emergency Credit Line (GECL; Covid-19 relief measure announced by the Central Government) with a moratorium of 12 months before commencement of its repayment. All these factors are expected to provide some cushion to BTFL's liquidity.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology for cotton textile manufacturing
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

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. 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)	FY19 (A)	FY20 (A)
Total operating income	111.27	110.38
PBILDT	4.46	3.84
PAT before discontinuing operation	(0.71)	(1.40)
PAT after discontinuing operation	(0.32)	(1.34)
Overall gearing (times)	0.25	0.32
PBILDT Interest coverage (times)	1.82	1.61

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

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	-	-	September 2024	2.71	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	22.00	CARE BBB-; Stable
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 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-Term Loan	LT	2.71	CARE BBB-; Stable	-	1)CARE BBB; Negative (06-Aug-19)	1)CARE BBB; Stable (02-Aug-18)	1)CARE BBB; Stable (03-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB-; Stable	-	1)CARE BBB; Negative (06-Aug-19)	1)CARE BBB; Stable (02-Aug-18)	1)CARE BBB; Stable (03-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	2.25	CARE A3	-	1)CARE A3+ (06-Aug-19)	1)CARE A3+ (02-Aug-18)	1)CARE A3+ (03-Aug-17)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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
3.	Non-fund-based - ST-BG/LC	Simple

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:
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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