

Buds Tea Industries Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	22.33	CARE B; Stable [Single B; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	2.00	CARE B; Stable/ CARE A4 [Single B; Outlook: Stable/A Four]	Reaffirmed
Total	24.33 (Rs. Twenty-four crore and thirty-three lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Buds Tea Industries Limited (BTIL) continued to remain constrained by moderate financial performance in FY18 (refers to the period from April 01 to March 31) & 9MFY19, small scale of operations, weak capital structure & debt protection metrics, working capital intensive nature of business and agro-climatic risk. The ratings however continued to derive strength from the experience of the promoters in the tea industry. Ability of the company to increase its scale of operations, improve its profitability & capital structure and effective management of working capital are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate financial performance in FY18 & 9MFY19: The operating income of the company remained stable at Rs.109.41 crore in FY18 vis-à-vis Rs.112.87 crore in FY17. However the company reported decline in PBILDT margin from 5.39% in FY17 to 4.54% in FY18. Interest coverage ratio was stable at 1.60x in FY18 vis-à-vis 1.64x in FY17. The company reported gross cash accruals of Rs.1.91 crore vis-à-vis debt repayment obligation of Rs.2.35 crore in FY18. The deficit was financed by infusion of unsecured loan from promoters.

In 9MFY19, the company reported PBT of Rs.1.04 crore on total operating income of Rs.74.68.

Small scale of operations: The operations of the company are relatively small with total operating income of Rs.109.41 crore during FY18 and total capital employed of Rs.47.42 crore as on Mar.31, 2018 (vis-à-vis Rs.44.68 crore as on Mar.31, 2017). The small size restricts the financial flexibility of BTIL and hinders the benefits of economies of scale.

Weak capital structure & debt protection metrics: The company reported leveraged capital structure as exhibited by increase in overall gearing from 2.83x as on March 31, 2017 to 3.04x as on March 31, 2018. Accordingly Total Debt/ GCA also deteriorated from 13.18x as on March 31, 2017 to 18.56x as on March 31, 2018.

Working capital intensive nature of business: BTIL's operations are working capital intensive as exhibited by average inventory period and collection period of about 2 months each. The company reported moderation in working capital turnover ratio from 4.08x in FY17 to 3.69x in FY18.

Agro-climatic risk and resultant price risk: The company has a bought leaf factory and procures tea leaves from local sources. The production of tea leaves in turn is susceptible to the vagaries of nature and the resultant demand supply gap also leads to variation in prices. This also exposes the company's profits to fluctuation due to price risk.

Key Rating Strengths

Experience of the promoters in the tea industry: BTIL is a part of the Limtex Group and its operations are managed by promoters-directors Mr Gopal Poddar, Mr Shankar Poddar and Mr Subhash Poddar. The directors have experience of more than three decades in the tea business through various companies in the group. The Limtex group has a strong presence in the tea industry through its various tea factories and tea gardens.

Liquidity: BTIL's operations are working capital intensive as exhibited by high average working capital utilization at 99% during 12 months ended December 2018. The company reported free cash & bank balance of Rs.0.88 crore as on March 31, 2018.

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

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

Buds Tea Industries Limited (BTIL), incorporated in 2013, is engaged in processing (4,500 tpa) and sale of tea. For this it has a bought leaf factory in Jalpaiguri, West Bengal. The operations of BTIL are managed by directors and brothers Mr. Gopal Poddar, Mr. Shankar Poddar and Mr Subhash Poddar. BTIL is a part of the Limtex Group of Industries which is promoted by Kolkata based Poddar family which is mainly into tea industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	112.87	109.41
PBILDT	6.09	4.97
PAT	0.05	0.09
Overall gearing (times)	2.83	3.04
Interest coverage (times)	1.64	1.60

A: Audited

Status of non-cooperation with previous CRA: (1) CRISIL has conducted the review on the basis of best available information and has classified the company as “Non cooperating” vide its press release dated March 05, 2018. (2) ICRA has conducted the review on the basis of best available information and has classified the company as “Non cooperating” vide its press release dated December 20, 2018.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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****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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	-	-	-	20.00	CARE B; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE B; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	December 2019	2.33	CARE B; 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	20.00	CARE B; Stable	1)CARE B; Stable (17-Apr-18)	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE B; Stable / CARE A4	1)CARE B; Stable / CARE A4 (17-Apr-18)	-	-	-
3.	Fund-based - LT-Term Loan	LT	2.33	CARE B; Stable	1)CARE B; Stable (17-Apr-18)	-	-	-

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