Joonktollee Tea & Industries Ltd

May 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities (Cash Credit)	10.00	'CARE BB+';Stable (Double B Plus; Outlook: Stable)	Assigned
Total	**10.00 (Rs.Ten Crore only)**		

Details of facilities/instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Joonktollee Tea & Industries Ltd (JTIL) constrained by continuous decline in profit leading to losses at operating level, small scale of operations, labour intensive nature of industry and agro climatic risk. The ratings, however derives comfort from long experience of the promoters in the tea industry, geographic and product diversification, regular support from promoter group and comfortable capital structure.

The ability of the company to improve profitability and manage liquidity are key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Financial performance marked by declining profitability leading to loss at operating level

Income from operation has been range bound in the last 3 years in the range of Rs.100 cr to Rs.111 crore.

The profitability of the company has witnessed deterioration over the last 3 years (FY16 to FY18) mainly due to upward revision in wage rates retrospectively in south India This apart the wages have also been revised in Assam from FY18 onwards. Further the average realizations of tea have remained subdued and witnessed decline over last three years. Accordingly high labor cost coupled with declining realizations impacted the profitability.

In 9MFY19,profitability impacted due to due floods in Kerala in August 2018.

Despite losses the company is able to repay term debt and interest obligation by calling back the loan and advances, and also by dilution of stake in its subsidiary and has also reduced its cash and liquid investment. Though company incurred losses in past, the performance is expected to improve as company expects going forward to generate income from selling of old rubber trees,, venture into blending and export of tea. Further it is also in the processes to commence manufacturing of orthodox tea and to launch its own brand packet tea wherein it expects better margins.

Small scale of Operations

Assam gardens are known for deep and pungent flavoured CTC black tea. Despite this JTIL faces intense competition from the other tea manufacturers in the region who have much larger scale of operations. India, being the largest producer of black tea, produced 1322 million kg as against 1267 million kg during the year 2017. Production scale of JTIL remains small.

Labor intensive nature of industry

The nature of the tea industry makes it highly labour intensive, entailing around 40%-45% of cost of sales (excluding cost of bought leaf) by way of salaries & wages and various employee welfare facilities during the last 3 years (FY16-FY18).Any significant increase in wages with no corresponding increase in tea price realization and output may negatively impact the profitability margin in the future.

Agro climatic risk

Majority of tea estates are located in Assam, which has witnessed erratic weather conditions in the past. It has experienced drought during 2008, pest attack in 2010, heavy rainfall in 2012, and a delay in monsoon during 2014. This apart, Assam experienced heavy rains during FY18 led to in the flooding and waterlogging. Accordingly, JTIL 's profitability is highly susceptible to vagaries of nature.

Liquidity

The liquidity position of the company remained stretched owing to cash losses being reported by the company coupled with term loan repayment obligation being in place. However liquidity is supported by divestment in subsidiaries to group companies and calling back of loans and advances from group companies.

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

Key Rating Strength

Long experience of the promoters in the tea industry

JTIL is currently promoted by the Bangur family of Kolkata who acquired the company in 1954. Initially company had one Tea estate in upper Assam and gradually acquired other estates, now JTIL owns around five tea estate in North India and around seven estates in South India for production of tea, rubber and coffee. Currently the affairs are looked after by Mr. Hemant Bangur who has an experience of around two decade in the tea industry. He is the past President of Tea Association of India. Apart from tea, rubber and coffee, the group has presence in Jute industry through other group companies.

Geographic and product diversification

JTIL has presence in East India as well as South India, as it has its estates situated in Assam, Karnataka and Kerala. Since JTIL is exposed to agro climatic risk, geographic diversification helps the company mitigate the risk associated with any vagaries of nature or any epidemic which might impact any particular region.

The product profile of the company is well diversified as JTIL is involve in the business of tea, coffee and rubber with tea & rubber account for around 79% and 16% respectively in FY18.

Regular support from promoter group

JTIL has been reporting losses at PBILDT level and cash losses during FY17, FY18 & 9MFY19. However despite such losses, it has been able to timely meet is debt servicing obligation by regular support from promoters coupled with relying on free cash & liquid investments. The support from the promoter group has been in the form of calling back of loans and advances to group companies aggregating Rs.10cr in FY18 and by selling of stake in its subsidiaries to promoter group companies.

The free cash & liquid investment has reduced from Rs.14cr as on Mar'16 to Rs.8.8cr as on Mar17 and further to Rs.2.8cr as on Mar'18.

Comfortable Capital Structure

JTIL's overall gearing improved from 0.52x as on March 31, 2016 to 0.41x as on March 31, 2018 on account of decrease in the reliance on short-term borrowings in FY18 as well as due to decrease in term loan. Total Debt/GCA has remained vulnerable due to cash losses reported in FY17 & FY18.

Analytical approach: Consolidated. While arriving at the rating, consolidated financial statement of JTIL has been considered which includes three subsidiaries, namely, Keshava Plantation Pvt Ltd (KPPL), Cowcoody Builders Pvt Ltd and Pranav Infradev Company Pvt Ltd. While KPPL is engaged in manufacturing of Tea, the other two subsidiaries do not have much of operations and have mostly real estate investments.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Factoring linkages in Rating

About the Company

The Joonktollee Tea Co. Ltd. was promoted by John Elliot Esq. in August, 1874 to manage the affairs of a small Tea Estate in Upper Assam. Later in 1920's the John Elliot Esq. handed over the management and control to the managing agency of Kettlewell Bullen & Co. Ltd. Subsequently, in the year 1954, Bangur family acquired the managing agency and the company and since then the company has been under the management of Gopal Das Bangur group. The name of the Company was changed to "Joonktollee Tea & Industries Ltd" (JTIL).The group is primarily into jute, tea, coffee, rubber, and paper businesses. Gloster Limited; the flagship company of the group is engaged in jute business.

Brief Financials (Rs. crore) Consolidated	FY17 (A)	FY18(A)
Total operating income	100.59	108.15
PBILDT	-0.67	-2.88
PAT	-14.37	-14.36
Overall gearing (times)	0.50	0.41
Interest coverage (times)	-0.08	-0.36

Status of non-cooperation with previous CRA: Not Applicable.

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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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.

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	-	-	-	10.00	CARE BB+; 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 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-Cash Credit	LT	10.00	CARE BB+; Stable	-	-	-	-

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