

Parmeshwari Tea Company

January 23, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term Bank Facilities	7.41	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total	7.41 (Rupees Seven crore and forty one lakh only)		

Details of facilities in Annexure-1

Detailed Rationale

The rating assigned to the bank facilities of Parmeshwari Tea Company (PTC) continues to be constrained by its partnership nature of constitution, small size of operation, susceptibility to vagaries of nature, volatility in tea price, lack of backward integration for its raw material, high competition and working capital intensive nature of business leading to leveraged capital structure. However, the aforesaid constraints are partially offset by the long & established track record of the firm, experienced management and satisfactory capacity utilization in line with its recovery rate.

Going forward, the ability of PTC to increase its scale of operations with improvement in profitability and effective management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

PTC scale of operations remained modest as compared to its peers with a PAT of Rs.0.63 crore on total operating income of Rs.25.32 crore during FY16. Furthermore, total capital employed by the firm, though increased as on March 31, 2016, remained low. However, capacity utilisation remained satisfactory in FY16 in line with its recovery rate. The firm is stated to have achieved total operating income of Rs.22.53 crore during 9MFY17.

PTC, a partnership firm, has been engaged in cultivation and sale of tea since 2002 with established track record. Mr. Ajay Dhandharia and Mrs. Sulochana Dhandharia are the partners of PTC and looks after the overall management of the firm. Both of them have more than 14 years of experience in tea industry and are ably supported by other partners and a team of experienced professionals.

The production of tea, besides being cyclical, is susceptible to vagaries of nature. PTC has its processing facility in Karbi Anglong district of Assam, the largest tea producing state in India. However, the region has sometimes witnessed erratic weather conditions in the past. Though demand for tea is expected to have a stable growth rate, supply can vary depending on climatic conditions in the major tea growing areas. Therefore adverse natural events have negative bearing on the productivity of tea gardens in the region.

The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in international market. Hence, significant price movement in international tea market affects PTC's profitability margins.

PTC purchases green leaves from the small and local gardens in the nearby area and has its own manufacturing unit having a tea producing capacity of about 20 lakhs kg per annum enabling the firm to supply black tea, as per the demand scenario. As the green leaves are procured fully from nearby gardens, PTC depend on external raw material suppliers and as a result pressure on margin remains due to lack of backward integration.

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

The tea industry is an organised agro-industry, it is highly fragmented in India with presence of many small, mid-sized and large players. There are about 1000 of tea brands in India, of which 90% of the brands are represented by regional players while the balance of the 10% is dominated by large tea companies. Since, PTC sells all its produce through brokers and auctions and doesn't have any brand, in addition to growing shift from loose to branded tea, would further intense the competition for it.

PTC's business, being manufacturing of black tea, is working capital intensive in nature as the tea business depends on working capital borrowings, which has resulted in leveraged capital structure. Accordingly, the average fund based working capital utilisation remained high during the last 12 months ended December, 2016.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Parmeshwari Tea Company (PTC) was established in 2002 as a partnership entity by Dhandharia family of Golaghat, Assam for cultivating and manufacturing black tea. Over the years, the firm has increased its tea processing capacity, in phases from 5.0 lakhs kg p.a. to 20.0 lakhs kg p.a. of Black Tea.

PTC presently owns one manufacturing facility located at Karbi Anglong district of Assam, which processes the green leaves purchased by them from gardens in nearby area. Tea is sold through brokers and auctions.

In FY16 (refers to the period April 1 to March 31), the firm achieved a total operating income of Rs.25.32 crore and PAT of Rs.0.63 crore as against a total operating income of Rs.19.88 crore and PAT of Rs.0.35 crore in FY15. The company has achieved a turnover of Rs.22.53 crore during 9MFY17.

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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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-Term Loan	-	-	-	2.16	CARE BB-; Stable
Fund Based - LT-Cash Credit	-	-	-	5.25	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	2.16	CARE BB-; Stable	-	1)CARE BB- (26-Feb-16)	-	-
2.	Fund Based - LT-Cash Credit	LT	5.25	CARE BB-; Stable	-	1)CARE BB- (26-Feb-16)	-	-

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