

Parmeshwari Tea Company
 March 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	5.55	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total	5.55 (Rupees Five Crore and Fifty Five Lakh only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Parmeshwari Tea Company (PTC) continues to be constrained by its partnership nature of constitution, small scale of operation with moderate profitability margin, susceptible to vagaries of the nature, volatility in tea prices, lack of backward integration for its raw material, high competition and leveraged capital structure with moderate debt coverage indicators. The rating, however, continues to draw comfort from long & established track record, experienced management and satisfactory capacity utilization with inline recovery rate.

Key Rating Sensitivities**Positive Factors**

- Sizeable increase in scale of operations from present level (Total Operating Income above Rs.80.00 crore) and improvement in cash profit level (Gross Cash Accruals of Rs.2.50 crore) of the entity on a sustained basis.
- Improvement in capital structure with overall gearing ratio reaching comfortable below 1.00x on a sustained basis.

Negative Factors

- Any sizeable de-growth in scale of operations from present level (total operating income below Rs.20.00 crore on a sustained basis.
- Deterioration in capital structure with overall gearing ratio reaching higher than the level of 2.50s on a sustained basis.

Detailed Rationale & Key Rating Drivers**Key Rating Weaknesses**

Partnership nature of constitution: PTC, being a partnership firm, is exposed to inherent risk of partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partner would be the key factors affecting credit decision for the lenders.

Small scale of operation with moderate profitability margin

PTC continues to be a small player in tea industry having total operating income and PAT of Rs.29.29 crore and Rs.0.98 crore, respectively, in FY19. TOI has improved by 11.83% during FY19 over FY18 on account of better capacity utilization during FY19. The net worth was also small at Rs.3.93 crore as on March 31, 2019. The profitability margins remained moderate marked by PBILDT margin and PAT margin at 9.89% and 2.71%, respectively, during FY19. Further, the entity has booked revenue of Rs.29.10 crore with a PBILDT and PAT level of Rs.4.20 crore and Rs.1.85 Crore and a GCA of Rs.2.60 crore during 10MFY20.

Susceptible to vagaries of the nature: Tea production, besides being cyclical, is susceptible to vagaries of nature. PTC has its manufacturing facilities 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 and accordingly PTC is exposed to vagaries of nature.

Volatility in tea price: The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in the international market. Hence, significant price movement in the international tea market affects PTC's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances arising out of both domestic and international scenarios. Tea is perishable product and demand is relatively price inelastic, as it caters to all segments of the society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea

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

growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Lack of backward integration for its raw material: 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 25 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 in the area, PTC depend on external raw material suppliers and resultantly the pressure on margin due to higher raw material cost.

High competition: While 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 around 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 Tata Tea, HUL, Wag Bakri Chai, Godrej, Sapat International and others. Since, PTC sells all its produce through auctions and doesn't have any brand; in addition to that growing shift from loose to branded tea, would further intense the competition.

Leveraged capital structure with moderate debt coverage indicators

Overall gearing ratio of the entity, although deteriorated marginally, remained leveraged at 2.27x as on March 31, 2019 vis-à-vis 2.12x as on March 31, 2018. Deterioration in capital structure due to withdrawal of capital by partners along with availment of new term loan and unsecured loan from promoters during FY19. The debt coverage indicators represented by total debt to GCA deteriorated marginally in FY19 over FY18 and continues to remain moderate at 5.42x as on March 31, 2019. The same has deteriorated mainly on account of higher debt levels as on accounts closing date. However, the interest coverage ratio improved marginally in FY19 vis-à-vis FY18 with the same remaining satisfactory at 2.75x as on March 31, 2019.

Key Rating Strengths

Long& established track record: PTC has been engaged in processing and sale of tea since 2002. Over the years, PTC has been able to grow by constantly growing in size and increasing the quality of produced tea.

Experienced management: 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 16 years of experience in tea industry and are ably supported by other partners, Mr. Bijoy Kr. Todi and Mrs .NirmalaTodi, having experience long experience in tea industry respectively, along with a team of experienced professionals who have rich experience in same line of business.

Satisfactory capacity utilization with in line recovery rate: Capacity utilization of the tea processing unit of PTC has remained at satisfactory level during FY18 and FY19. Furthermore, the recovery rate remained in line with industry average.

Liquidity: Adequate - Liquidity is marked by sufficient cushion in accruals vis-a-vis repayment obligations. However, cash balance stood low at Rs.0.64 crore as on March 31, 2019. The average utilization of working capital limit remained high at 87% during last 12 month ended February, 2020. The current ratio remained below unity at 0.84x as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

About the Firm

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 25.0 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	26.19	29.29
PBILD	2.94	2.90
PAT	0.71	0.79
Overall gearing (times)	2.12	2.27
Interest coverage (times)	1.80	1.93

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	-	-	January 2021	0.30	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			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	0.30	CARE BB-; Stable	-	1)CARE BB-; Stable (31-Dec-18)	1)CARE BB-; Stable (29-Dec-17)	1)CARE BB-; Stable (23-Jan-17)
2.	Fund-based - LT-Cash Credit	LT	5.25	CARE BB-; Stable	-	1)CARE BB-; Stable (31-Dec-18)	1)CARE BB-; Stable (29-Dec-17)	1)CARE BB-; Stable (23-Jan-17)

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.

Contact us

Media Contact

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID: mradul.mishra@careratings.com

Analyst Contact:

Name: Soumen Das

Contact No.: 033-40581907

Email: soumen.das@careratings.com

Relationship Contact

Name: Sambit Das

Contact no. : 033 4058 1904

Email ID: sambit.das@careratings.com

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