

## Parmeshwari Tea Company

December 29, 2017

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	6.55 (reduced from 7.41)	<b>CARE BB-; Stable</b> <b>(Double B Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>6.55</b> <b>(Rs. Six crore and fifty five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### 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 size of operation, susceptible to vagaries of the nature, volatility in tea prices, lack of backward integration for its raw material, high competition and working capital intensive nature of business leading to leveraged capital structure. The rating, however, continues to draw comfort from long & established track record, experienced management and satisfactory capacity utilization with in line recovery rate.

Going forward, the ability of the firm to increase the scale of operations and profitability margins and ability to manage working capital effectively would be the key rating sensitivities.

### Detailed description of the 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nature of constitution:** PTC, being a partnership firm, is exposed to inherent risk of partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners.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 size of operation:** The scale of operations remained small as compared to its peers with a PAT of Rs.0.81 crore on total operating income of Rs.25.50 crore during FY17. Further, the total capital employed of the firm increased to Rs.10.77 crore as on Mar.31, 2017 as against Rs.10.02 crore as on March 31, 2016. Furthermore, the firm have achieved the turnover of Rs.19.85 crore during 8MFY18.

**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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**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 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 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 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 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 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.

**Working capital intensive nature of business leading to leveraged capital structure:** 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 as reflected by the high overall gearing ratio at 2.61x as on March 31, 2017. Accordingly, the average fund based working capital utilisation remained high at about 95% during the last 12 months ended November, 2017.

#### **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 15 years of experience in tea industry and are ably supported by other partners, Mr. Bijoy Kr. Todi and Mrs. Nirmala Todi, having experience of around 17 years and 8 years 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 FY16 and FY17. Furthermore, the recovery rate remained in line with industry average.

**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 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 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	25.32	25.50
PBILDT	2.83	2.97
PAT	0.63	0.81
Overall gearing (times)	3.21	2.61
Interest coverage (times)	2.58	2.80

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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	-	-	January 2021	1.30	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1.30	CARE BB-; Stable	-	1)CARE BB-; Stable (23-Jan-17)	1)CARE BB- (26-Feb-16)	-
2.	Fund-based - LT-Cash Credit	LT	5.25	CARE BB-; Stable	-	1)CARE BB-; Stable (23-Jan-17)	1)CARE BB- (26-Feb-16)	-

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