

Warren Tea Limited

Instrument	Amount rated	Rating Action
	In Rs Crore	As in October 2016
Fund Based Limits	Rs 14.00 crore	[ICRA]A (Stable) outstanding
Term Loan	Rs 10.00 crore	[ICRA]A (Stable) assigned
Non-fund based limit	Rs. 2.64 crore	[ICRA]A1 outstanding

ICRA has assigned a long term rating of [ICRA]A (pronounced as ICRA A) to the Rs. 10.0 crore¹ term loan of Warren Tea Limited (WTL)². ICRA has also [ICRA]A and [ICRA]A1 ratings outstanding to the Rs. 16.64 crore bank facilities of WTL. The outlook on the long-term rating is stable.

The ratings primarily takes into account the deterioration in the financial risk profile of the company during FY2016, with significant decline in operating profits and weakening of debt coverage indicators. A muted realisation, failing to compensate for the steep increase in labour costs, led to a decline in operating profits as well as debt coverage indicators. ICRA notes that the expected production loss during FY2017 along with subdued realisation is likely to keep the company's profitability under pressure in the current financial year too.

The ratings continue to favourably take into account premium quality tea of the company, which fetch realisations that are higher than industry averages and relatively high yield of WTL's tea estates, which mitigates the risks associated with the fixed cost intensive nature of the tea plantation business to some extent. A comfortable liquidity position as well as near debt-free capital structure also continue to support the ratings. The ratings, however, also factor in the risks associated with tea being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicity of the fixed cost-intensive tea industry that leads to variability in profitability and cash flows of bulk tea producers like WTL. The sensitivity to such risks has increased post demerger after which the scale of operations has almost halved. Additionally, given that Indian tea is essentially a price taker in the international market, low international prices affected domestic realisations to some extent as well. In the current financial year, the expected fall in production and muted realisation, along with scheduled increase in wage cost further, is likely to keep the operating profits under pressure. The extent of the impact of the above on the profits of WTL would, however, be largely determined by the trend in tea realisations. Nonetheless, the long-term outlook for the domestic bulk tea industry continues to remain favourable. ICRA also take a note of the significant exposure of WTL in an associate company, which is not value accretive at present, thus reducing its overall business returns. However, due to WTL's current near debt-free capital structure, ICRA expects WTL's cash flows to remain comfortable relative to its debt-service obligations.

Company Profile

Warren Tea Limited (WTL) own seven tea gardens spread over a cultivable area of around 4115 HA under the leadership of Mr. Vinay K. Goenka. The gardens are located in Upper Assam region, primarily in Dibrugarh and Tinsukia district of Assam. The company primarily produces CTC variety of tea, which accounted for around 95% of WTL's total tea production during FY2016.

Recent Results

WTL reported a net profit of Rs. 4.58 crore during 2015-16 on an operating income of Rs. 138.06 crore, as against a net profit of Rs. 12.50 crore on an operating income of Rs. 130.00 crore during 2014-15.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

During the period April to June 2016, WTL recorded a loss before tax (LBT) of Rs 5.30 crore on income from operations of Rs. 18.25 crore as against a profit before tax (PBT) of Rs. 0.14 crore on income from operations of Rs. 19.17 crore in the corresponding period of the previous year.

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