

Rating Advisory

April 27, 2022 | Mumbai

Balason Tea Company Private Limited

Update as on April 27, 2022

This rating advisory is provided in relation to the rating of Balason Tea Company Private Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Increase in revenue to more than Rs 200 crore along with increase in operating margin, resulting in a cash profit
- Reduction in interest on unsecured loans or increase in operating profit, resulting in interest coverage of more than 1.5 times
- Prudent working capital management

Downward factors

- Fall in revenue to less than Rs 100 crore, and decline in operating margin, resulting in deepening cash loss
- Worsening of debt protection metrics and liquidity position

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Balason Tea Company Private Limited (BTCPL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If BTCPL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Group

The Rheabari group manufactures CTC (crush, tear, curl) black tea, and is managed by the Agarwal and Bansal families based in Kolkata

Incorporated in 1985, RTCPL has one tea garden named Rheabari Tea Estate in Jalpaiguri, West Bengal, and six CTC lines with annual installed capacity to produce 12 lakh kilogram (kg) of black tea. Tea is marketed under the Shahzadi brand.

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JDTCL, incorporated in 1920, has one tea garden named Thanjhora Tea Estate and one factory in Darjeeling. It has six CTC lines with annual installed capacity to produce 15 lakh kg of black tea, and sells under the Thanjhora Tea Estate and Salbari brands.

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Rating Rationale

March 31, 2021 | Mumbai

Balason Tea Company Private Limited

Ratings reaffirmed at 'CRISIL B/Stable/CRISIL A4'

Rating Action

Total Bank Loan Facilities Rated	Rs.8.5 Crore
Long Term Rating	CRISIL B/Stable (Reaffirmed)
Short Term Rating	CRISIL A4 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL B/Stable/CRISIL A4' ratings on the bank facilities of Balason Tea Company Pvt Ltd (BTCPL; part of the Rheabari group).

The ratings reflect the Rheabari group's weak debt protection metrics, exposure to risks related to seasonal production, and susceptibility to climatic conditions. The weaknesses are partially offset by the extensive experience of the promoters in the tea industry, and their continued funding support.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of RTCPL, BTCPL, Coochbehar Agro Tea Estates Pvt Ltd (CATEPL), Jalpaiguri Duars Tea Co Ltd (JDTCL), Chandan Tea Industries Pvt Ltd (CTIPL), and Atal Tea Co (1943) Ltd (ATCL). This is because the companies, together referred to as the Rheabari group, have operational and financial links.

CRISIL Ratings has treated unsecured loans from the promoters of around Rs 63 crore as on March 31, 2020 as 75% equity and 25% debt, as the loans are expected to remain in business at least for the next five years.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Weaknesses:

Exposure to risks related to seasonal production, and susceptibility to climatic conditions: Tea is a seasonal product and its yield depends on weather conditions. Tea production and quality could be significantly affected by any variation in rain, humidity, and temperature, leading to volatile realisations for the group. Moreover, plantation operations have fixed cost, with labour accounting for 50-60% of total expenses. Labour laws and unions make reducing manpower difficult, increasing the rigidity in cost. This means that lower production or reduction in realisations will lead to a drop in profitability.

Weak debt protection metrics: Debt protection metrics continues to be constrained by high interest (of 11%) on the unsecured loan. However, the interest amount is ploughed back into the business and does not cause any significant cash outflow. Interest coverage continues to be below 0.60 time in fiscal 2020 as well and is expected at a similar level over the medium term.

Strengths:

Promoters' extensive experience in the tea industry: The promoters' experience of more than five decades, and deep understanding of local market dynamics should continue to support the business risk profile. Capital expenditure (capex) to acquire plantations, and for replantation and refurbishing old machinery has helped the group establish a strong market position and maintain growth in revenue.

Funding support from the promoters: The promoters and related parties have extended unsecured loans to the group to facilitate capex and support working capital management, and are likely to continue providing need-based financial assistance.

Liquidity: Poor

The group is likely to have a cash loss over the medium term on account of high interest outgo. Debt repayment obligation of Rs 5-11 lakh per annum over the medium term would be served through unsecured loan. Bank limits were moderately utilised at 78% on an average over the 12 months through December 2020. Financial assistance is expected from the promoters whenever necessary, as in the past. The current ratio continues to remain weak at 0.7 time as on March 31, 2020.

Outlook: Stable

CRISIL Ratings believes the Rheabari group will continue to benefit from its promoters' extensive experience.

Rating Sensitivity factors

Upward factors

- Increase in revenue to more than Rs 200 crore along with increase in operating margin, resulting in a cash profit
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Key Financial Indicators Consolidated

Particulars	Unit	2020	2019
Revenue	Rs crore	127.20	124.75
Profit after tax	Rs crore	-8.60	-7.26
PAT margin	%	-6.8	-5.8
Adjusted debt/adjusted networkth	Times	3.96	3.17
Interest coverage	Times	0.53	0.53

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Levels	Rating assigned with outlook
NA	Fund Based facilities	NA	NA	NA	7.75	NA	CRISIL B/Stable
NA	Bank Guarantee	NA	NA	NA	0.50	NA	CRISIL A4
NA	Proposed long term bank loan facility	NA	NA	NA	0.25	NA	CRISIL B/Stable

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Rheabari Tea Co Ltd	100% consolidation	Common promoters and significant business and financial linkages
Coochbehar Agro Tea Estate Pvt Ltd	100% consolidation	Common promoters and significant business and financial linkages
Balason Tea Company Ltd	100% consolidation	Common promoters and significant business and financial linkages
Jalpaiguri Duars Tea Co Ltd	100% consolidation	Common promoters and significant business and financial linkages
Atal Tea (1943) Co Ltd	100% consolidation	Common promoters and significant business and financial linkages
Chandan Tea Industries Pvt Ltd	100% consolidation	Common promoters and significant business and financial linkages

Annexure - Rating History for last 3 Years

		Current		2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	8.0	CRISIL B/Stable		--		--	23-12-19	CRISIL B/Stable		--	--
Non-Fund Based Facilities	ST	0.5	CRISIL A4		--		--	23-12-19	CRISIL A4		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	0.5	CRISIL A4	Bank Guarantee	0.5	CRISIL A4
Fund-Based Facilities	7.75	CRISIL B/Stable	Fund-Based Facilities	7.75	CRISIL B/Stable
Proposed Long Term Bank Loan Facility	0.25	CRISIL B/Stable	Proposed Long Term Bank Loan Facility	0.25	CRISIL B/Stable
Total	8.5	-	Total	8.5	-

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for Consolidation](#)

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<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Jaya Mirpuri Director CRISIL Ratings Limited D:+91 20 4018 1926 jaya.mirpuri@crisil.com</p> <p>Argha Chanda Associate Director CRISIL Ratings Limited D:+91 33 4011 8210 Argha.Chanda@crisil.com</p> <p>SkJishan Ali Rating Analyst CRISIL Ratings Limited B:+91 33 4011 8200 SkJishan.Ali@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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