



THE GROB TEA CO. LTD.

4th February 2021

To,
The Secretary
National Stock Exchange of India
Limited
Exchange Palza Bandra Kurla
Complex Mumbai - 400051
ISIN : INE646C01018

To,
The Secretary
The Calcutta Stock Exchange
Limited
7 Lyons Range,
Kolkata - 700 001
ISIN : INE646C01018

Dear Sir,

Sub : Intimation regarding Credit Rating by ICRA Ltd.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulation, 2015, please note that the Company has been assigned Credit Rating given below for Bank facilities by ICRA Limited.

Facilities	Rating	Remarks
Bank Facilities Working Capital (Fund based Bank Limit)	ICRA BBB+ (Pronounced as ICRA triple B Plus) which is same as before	Outlook-stable
Bank Facilities Bank Guarantee (Non-Fund based Bank Limit)	ICRA BBB+ / ICRA A2 (Pronounced as ICRA triple B Plus and ICRA A two) as before which ICRA A2 (Pronounced as ICRA A two)	Outlook-stable

This is for your information and record.

Thanking You,

Yours Faithfully,
For the Grob Tea Co. Ltd.

Kritika Mohata

Kritika Mohata
(Company Secretary)

February 4, 2021

The Grob Tea Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Working Capital Facility	35.00	21.00	[ICRA]BBB+ (Stable); Reaffirmed
Non-fund Based Limits – Bank Guarantee	10.00	1.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; Reaffirmed
Unallocated Limits	-	23.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; Reaffirmed
Total	45.00	45.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers extensive experience of the management of The Grob Tea Company Limited (TGTC) in the tea industry and the company's favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators. The ratings also factor in the company's focus on production of premium quality tea that commands a premium over the average market realisation. ICRA notes that a steep rise in the realisation of tea is likely to result in an improvement in profitability and cash accruals of the company in the current fiscal compared to FY2020.

The ratings, however, continue to be impacted by the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicity of the fixed-cost intensive nature of the tea industry that leads to variability in profitability and cash flows of bulk tea producers including TGTC. The concentration of all six gardens of the company in the Assam region further accentuates agro-climatic risks. In addition, domestic tea prices are influenced by international prices and hence the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the profitability of Indian players, including TGTC. Although TGTC is unlikely to record any revenue from its LED division, a significant improvement in profits as well as cash accruals and reduced working capital borrowings are likely to result in an improvement in the debt protection metrics in FY2021. However, the company's ability to ramp up its business of LED lights profitably would be a key rating determinant, going forward. ICRA notes the event risk associated with finalisation of large debt-funded capital expenditure plan for acquisition of few tea estates and remains a key rating monitorable.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that TGTC will continue to benefit from its established track record of operation in the tea business and adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Experience of the management in the tea industry – Incorporated in 1895, the company was taken over by the current management – the Rawalwasia Group – in May 2009. The performance of the company has improved significantly since then due to the expertise of the new management in the business. The day-to-day operations of the company are managed by Mr. I. B. Sharaf, who has been associated with the tea industry for more than five decades.

Superior quality of tea, as evident from the premium price commanded by the company's produce compared to average market prices – TGTC's superior quality of tea results in a premium for its produce compared to the industry average. The weighted average realisation of tea produced by the company was around Rs. 291/ kg during the first half of FY2021 compared to the North Indian auction average of around Rs. 261/ kg during the same period. TGTC's garden costs are largely fixed, in line with that of the industry, with labour costs accounting for the major part of the cost of production. The risks associated with the fixed-cost nature of the industry are mitigated, to an extent, by the favourable productivity of ~1,915 kg per hectare in FY2020.

Improvement in realisation likely to favourably impact profitability in FY2021 – The realisation for the company's tea has increased significantly in 9M FY2021 to Rs. 261/kg compared to Rs. 183/kg in 9M FY2020. ICRA notes that the lockdown announced by the Government of India (GoI) following the Covid-19 pandemic has resulted in production loss by TGTCL, like other players in the industry. Thus, the overall shortage of tea availability in the market led to a sharp increase in tea realisations. This is likely to provide some respite to the tea players and support its profitability in the current fiscal. However, the extent of sustainability of such an improvement in price, going forward, remains to be seen considering the moderation in realisation already witnessed in the third quarter of the current fiscal.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators – TGTCL continues to have a conservative capital structure on the back of low reliance on external debt. Total outside liabilities relative to the tangible net worth of the company stood at 0.31 times (0.54 times as on March 31, 2020) as on September 30, 2020. ICRA notes that an increase in the profitability and a decline in the debt level led to an improvement in the coverage indicators of the company during the first half of the current fiscal (H1 FY2021) compared to the same period (H1 FY2020) of the previous fiscal. The overall capital structure and coverage indicators of TGTCL are likely to improve in FY2021 over the previous fiscal on the back of an increase in profits as well as cash accruals and reduced working capital borrowings.

Credit challenges

Modest scale of current operations – TGTCL operates through six gardens, producing around 4.5-4.8 Mkg of tea in the past five years. This leads to a moderate scale of operations, which accentuates the agro-climatic as well as the fixed-cost intensive risks for the company. The operating income (OI) of TGTCL has witnessed a modest growth over the past few years. Despite no revenue generated from the LED division, the company's overall turnover increased to Rs. 82.21 crore in FY2020 from Rs. 79.59 crore in FY2019, registering a growth of around 3%, primarily driven by an increase in volume of sales of tea. During the first half of the current fiscal, the top line of the company has remained at a significantly higher level (~35%) on the back of a steep improvement in realisation (~42%) corresponding to the same period in the previous fiscal. Although TGTCL is unlikely to record any revenue from its LED division, the top line of the company is expected to register a growth of around 34% in FY2021 over the previous fiscal, driven by an increase in the average realisation of tea sold.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea-estate costs are primarily fixed, with labour-related costs, which are independent of the volume of production, accounting for around 50% of the production cost. This leads to a variability in profitability and cash flows of bulk tea producers such as TGTCL.

Export market performance of Indian tea critical to sustain buoyancy in domestic tea prices – Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, notwithstanding the large domestic consumption base that India has. Healthy export realisation is also crucial for maintaining domestic realisations as un-remunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert pressure on domestic prices.

Event risk associated with finalisation of any large debt-funded capital expenditure plan – As indicated by the management, the company intends to acquire a few tea estates in Assam. The management has already identified a few gardens and is actively negotiating for the same. The overall capital outlay is estimated at around Rs. 175-180 crore, which is proposed to be funded by a mix of debt and internal accruals. ICRA notes that the Board of Directors of TGTCL has approved the increase in the borrowing limits of the company up to Rs. 200 crore, and also creation of charges on the movable and immovable properties of the company, both present and future, in respect of such borrowings subject to the approval of shareholders.

Liquidity position: Adequate

The company generated negative cash flow from operations in FY2020 on account of an increase in the working capital intensity of operations, driven by sizeable advances extended to the supplier of LED lights. However, a steep rise in realisation of tea in the current fiscal led to healthy cash flows for the company. The average utilisation of fund-based working capital limits has remained at a low level in the current fiscal. In view of adequate cash flows from operations, undrawn line of working capital limits and nominal long-term debt service obligations, ICRA expects TGTCL's liquidity position to remain adequate, going forward.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings of TGTCL if the entity demonstrates a substantial growth in turnover and profitability, while maintaining healthy coverage indicators.

Negative triggers – Pressure on TGTCL’s ratings may arise if there is a significant drop in profitability and cash accruals from business. Weakening of debt protection metrics due to large debt-funded capital expenditure may also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Bulk Tea Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in 1895, TGTCL produces black tea of crush, tear and curl (CTC) variety, which it sells in the domestic market through a mix of auction and private sales. The company was taken over by the current management – the Rawalwasia Group – in May 2009. The company has six tea gardens located in upper Assam and Cachar district. The gardens are spread over 5,676 hectares, of which around 46% is under tea cultivation. In FY2019, the company ventured into supply, installation and maintenance of LED lights to various Government entities/ departments.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	H1 FY2020 (Unaudited)	H1 FY2021 (Unaudited)
Operating Income (Rs. crore)	79.88	82.48	45.79	65.48
PAT (Rs. crore)	1.40	1.65	15.17	36.14
OPBDIT/OI (%)	5.88%	9.07%	36.88%	57.24%
PAT/OI (%)	1.75%	2.00%	33.13%	55.20%
Total Outside Liabilities/Tangible Net Worth (times)	0.57	0.54	0.60	0.31
Total Debt/OPBDIT (times)	1.36	1.40	0.56	0.07
Interest Coverage (times)	7.55	5.08	20.47	80.96

Source: The Grob Tea Company Limited

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 4, 2021	Feb 26, 2020	Mar 7, 2019	Feb 1, 2018	
1	Fund-based Working Capital Facility	Long Term	21.00	5.01	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2	Bank Guarantee	Long Term/ Short Term	1.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	
3	Unallocated Limits	Long Term/ Short Term	23.00	NA	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Tea Hypothecation Limit	-	-	-	20.00	[ICRA]BBB+ (Stable)
NA	Cash Credit	-	-	-	1.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	1.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Unallocated Limits	-	-	-	23.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: The Grob Tea Company Limited

Annexure-2: List of entities considered for consolidated analysis

ANALYST CONTACTS

Mr. K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Mr. Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das

+91 33 7150 1190

sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



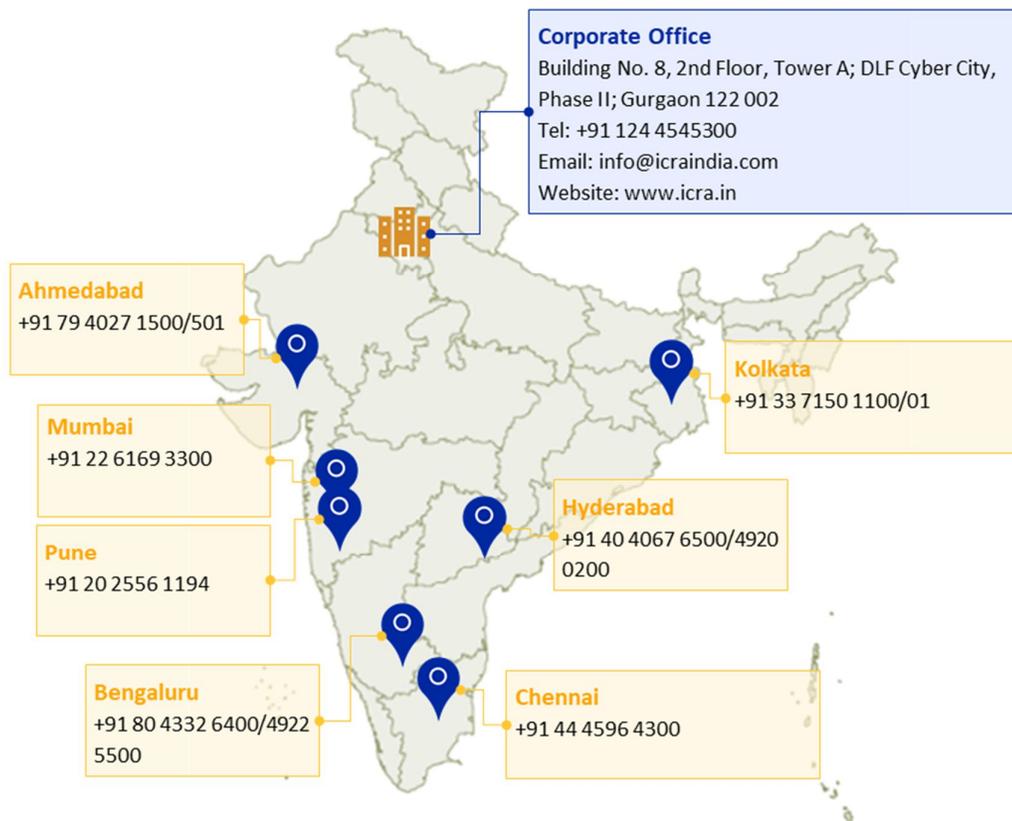
Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



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