Rating Rationale

Jay Shree Tea & Industries Ltd. 16 July 2021

Brickwork Ratings reaffirms and places the ratings for the Bank Loan Facilities of ₹. 266.67 Crores of Jay Shree Tea & Industries Ltd. ('JSTIL' or the 'Company') on Credit Watch with Developing Implications.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (12Jan2021)	Present
Fund Based	241.67	**241.67**	Long Term/Short Term^	BWR BBB-/Stable/A3 (Reaffirmed)	**BWR BBB-/A3 (Reaffirmed and placed on credit watch with developing implications)**
Non Fund Based	25.00	**25.00**	Short Term	BWR A3 (Reaffirmed)	**BWR A3 (Reaffirmed and placed on credit watch with developing implications)**
Total	266.67	**266.67**	**₹ Two Hundred Sixty Six Crores and Sixty Seven Lakhs Only**		

^fund based working capital facilities are fungible between long-term and short-term facilities.
*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Details of Bank facilities are provided in Annexure-I

RATING ACTION / OUTLOOK

BWR places the bank loan rating of Rs. 266.67 Crs of Jay Shree Tea & Industries Ltd. (JSTIL) on credit watch with developing implications factoring the announcement of amalgamation of Jay Shree Tea & Industries Ltd (transferee company) and Majhaulia Sugar Industries Private Ltd (transferor company). Majhaulia Sugar is the wholly owned subsidiary of Jay Shree Tea & Industries and both the companies are engaged in the agriculture sector . Board is of the view that It would be advantageous to combine the activities in a single company resulting in increased efficiency. The amalgamation is subject to approval from various regulatory authorities, including the National Company Law Tribunal (NCLT), Securities and Exchange Board of India (SEBI) and other related parties to the transaction. The Rating Watch with Developing Implications reflects the pending regulatory approvals for the transactions, as well as impact analysis of the amalgamation on the credit profile of the proposed entity, which will be the key monitorables for BWR. BWR will continue to closely monitor the developments and the progress of the transaction and will evaluate its impact on the business and financial profile of the proposed entity once more clarity emerges.

The rating continues to derive comfort from the experience of the promoters, Company's strong brand name and the leading position in the bulk tea industry in India, its geographically diversified tea estates and also favourable industry outlook post COVID-19 Pandemic. The rating also draws comfort from JSTIL's superior quality of tea, realisations of which are higher than the industry averages and the favourable age profile of tea bushes, being in the productive age group of 5-45 years.

The rating, however, is constrained by exposure of the Company to agro-climatic risks, working capital intensive nature, moderate financial risk profile and stretched liquidity position. The rating is also constrained by the inherent cyclicality of the fixed cost intensive tea industry along with its seasonal nature which leads to variability in the Company's profitability and cash flows. The rating also considers leverage capital structure and moderate debt indicators however the same is expected to improve going forward.

KEY RATING DRIVERS

Credit Strengths-:

- **Experience of the promoters, strong brand name and the leading position in the bulk tea industry in India:** The Company is part of B K Birla group . The Company has been operating in the bulk tea industry for almost 75 years. Jay Shree Tea & Industries Ltd. is the second largest tea producer in India, accounting for ~2% of India's tea production. JSTIL derives strength from the extensive experience of its promoters, strong and competent management, reflecting the expertise in its execution capabilities.JSTIL is controlled by Jayashree Mohta, elder daughter of late BK Birla. She has more than 26 years of experience in the business management, tea, sugar, chemicals and fertilizers industries. JSTIL also has a strong operational track record, which has enabled the Company to maintain a healthy scale of operations in the past several years. The Company is an established producer of good quality premium bulk tea which also helps to command premium prices over other tea plantation companies.
- **Operating efficiency of the Company:** The operating efficiency of a tea producer is largely governed by the productivity of its tea estates and the share of bought leaf operations. The Company's output is around 2-3% of India's tea output and 11% of total Darjeeling tea output. Further, the age profile of the tea bushes is maintained around 5-45 years for better productivity. BWR also notes Company's efficiency improvements and cost saving measures, implemented during the last 12 months that have cushioned the impact to an extent.
- **Favourable Industry Outlook in the post COVID -19 Pandemic:** The national lockdown led by COVID-19 pandemic had some impact on the Company's business. The Company suffered initial crop losses because of the lockdown. There is an increase in demand for tea due to the pandemic and the price has risen significantly. Tea auction prices have increased sharply as the global tea supply continued to tumble due to labour deployment issues as a result of COVID-19 Pandemic and adverse weather. The performance of the Company has significantly improved in FY21, driven by higher volumes at remunerative rates. Company posted revenue of 274.21 Crs with EBITDA of Rs. 90.25 Crs for H1FY21 compared to revenue of Rs. 268.60 Crs with EBITDA of Rs. 21.20 Crs for the corresponding period of the previous fiscal, H1FY20. This was mainly due to a price surge of around 40-60% post Covid scenario. For the full year FY21, the company recorded revenue of Rs. 536.74 Crs.

Credit Risks-:

- **Profitability of the Company is susceptible to volatility in tea prices and exposure to agro-climatic risks:** Risk associated with inherent cyclicality of the fixed cost intensive tea industry along with its seasonal nature and volatile tea prices, leads to variability in the entity's profitability and cash flows. The production of tea is primarily dependent on agro-climatic conditions and hence production and quality of tea can vary depending on the climatic conditions in the major tea growing areas which can have an adverse impact on the operations of the Company. However, the Company's tea estates are spread over Upper Assam, Cachar, Dooars, Darjeeling and South India thereby mitigating this risk to a certain extent. Further, the tea prices are dependent on the auction prices which in turn is dependent on the international tea prices. Hence, any adverse movement in the international tea prices can have an impact on the Company's profitability. The ability of the Company to sustain its profitability targets as envisaged, is key in elevating the overall operations of the Company and therefore, this remains key rating sensitivity.
- **Fixed cost intensive tea industry:** Plantation operations are fixed-cost in nature with labour accounting for ~60% of total costs. Generally, the increased labour costs and lower productivity levels have negatively affected the performance of the tea plantation industry over the past several years. The risk of margin erosion due to periodical wage hikes is high and is reflected by JSTIL's volatile operating profit margins. Therefore, the ability of the management to manage the increased labour costs without affecting the Company's tea productions is key towards improving the overall profitability indicators and therefore, this is a rating sensitivity.
- **Moderate capital structure and debt coverage indicators:** The Company has liquidated a major portion of its investments and paid off a significant portion of their term loans and plans to pay off the remaining Rs. 6 Crs by next quarter. After that the company will only have working capital limits of Rs. 205 Crs. Resultantly, Gearing has come down to 0.67times in FY21 against 1.64times in FY20. ISCR and DSCR improved to 2.45 times and 1.03 times . Liquidity position of the Company will still remain suppressed on an absolute basis.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

While assigning the Ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The Rating Watch will be resolved upon the completion of the amalgamation and full assessment of the credit profile of the amalgamated entity.

Going forward, the ability to maintain healthy export volumes at remunerative prices, sustained price rise to help the labour intensive industry in the long run would be a key factor in determining the overall performance of the Company. Timely liquidation of the investment and sale of assets to meet the debt-servicing requirement will also remain important.

Positive

● A substantial increase in profitability and improvement in gearing and debt coverage indicators with gearing of less than 0.50 times and interest cover of more than 3 times on a sustained basis will be the factors for ratings upgrade.

Negative

● Any large debt-funded capex resulting in a deterioration in capital structure of the company and/or the Group and a decline in profitability and/or any sizable increase in debt repayment obligation, leading to a deterioration in debt coverage indicators or stretched liquidity position (current ratio below 1.40 times) could also be triggers for ratings downgrade.

LIQUIDITY INDICATORS- Stretched:

Weak profitability and high consolidated debt quantum having sizable repayment obligations kept the liquidity position stretched. The working capital limits remained almost fully utilised. In order to improve cash flow , the Company divested its 60% stake in Mata Tea Company Limited & Gisakura Tea Company Limited entirely during FY20. The Company will continue to monetize certain assets to garner liquidity thereby improving overall performance. Further, the company plans to liquidate its entire investment portfolio to further reduce the total debt in the current year. The Company has significantly reduced the debt quantum and thereby improving financial risk profile. Though improved, the current ratio at 0.88 times for FY21 reflects stretched liquidity position mainly due to sizable repayment obligations.

COMPANY PROFILE

Incorporated in October 1945, Jay Shree Tea & Industries Ltd. is a part of the diversified conglomerate of B.K Birla Group. The Company is controlled by Jayashree Mohta, elder daughter of late BK Birla. The company is engaged in manufacturing of tea and chemicals & fertilisers. Tea accounts for ~85% and chemicals & fertilizers ~15% of the gross turnover. It is the third largest tea producer in the world & 2nd largest tea producer in India. The tea produced by Jayshree's estates has consistently commanded a premium over the district average because of quality. It has 22 Tea Estates spread throughout every tea growing area of India. Besides Tea, it is also involved in Chemicals and Fertilizers, Sugar, Real Estate and Education sectors through its subsidiaries. JSTIL had three Indian subsidiaries (Majhaulia Sugar & Industries Limited, North Tukvar Tea Company Limited and Jayantika Investment and Finance Limited) and one foreign subsidiary (Birla Holdings Limited).

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY20A	FY21
Result Type		Audited	Audited
Operating Income	Rs. Crores	486.49	536.74
EBITDA	Rs. Crores	-33.78	75.30
PAT	Rs. Crores	-27.88	57.71
Tangible Net Worth	Rs. Crores	237.87	291.98
Total Debt/TNW	Times	1.64	0.67
Current Ratio	Times	0.77	0.88
ISCR	Times	-0.80	2.45

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY : *NA*

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

<table>
<tr><th>S.No</th><th>Instrument /Facility</th><th colspan="3">Current Rating</th><th colspan="3">Rating History</th></tr>
<tr><td></td><td></td><td>Type (Long Term/ Short Term)</td><td>Amount (₹ Crs)</td><td>Rating</td><td>Jan 2021</td><td>Dec, 2020</td><td>2019</td></tr>
<tr><td></td><td>Fund Based</td><td>Long Term/Short Term^</td><td>241.67</td><td>BWR BBB-/A3 (Reaffirmed and placed on credit watch with developing implications)</td><td rowspan="2">BWR BBB-/Stable /A3</td><td rowspan="2">BWR BBB-/Stable/A3</td><td rowspan="2">NA</td></tr>
<tr><td></td><td>Non Fund Based</td><td>Short Term</td><td>25.00</td><td>BWR A3 (Reaffirmed and placed on credit watch with developing implications)</td></tr>
<tr><td></td><td colspan="2">Total</td><td>266.67</td><td colspan="4">₹ Two Hundred Sixty Six Crores and Sixty Seven Lakhs Only</td></tr>
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COMPLEXITY LEVELS OF THE INSTRUMENTS
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Criteria_ManufacturingCompanies
- Short Term Debt

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Jay Shree Tea & Industries Ltd.

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Bank/FI	SBI	HDFC	AXIS	ICICI	UCO	YES	DCB	INDUS IND	RBL	KOTAK	Proposed	TOTAL
A. FUND BASED	**18.00**	**40.00**	**41.00**	**25.00**	**20.00**	**11.67**	**35.00**	**15.00**	**19.00**	**10.00**	**7.00**	**241.67**
Term Loans	-	-	26.00	-	-	1.67	-	-	9.00	-	0.00	36.67
Cash Credit / WCDL	18.00	40.00	15.00	25.00	20.00	10.00	35.00	15.00	10.00	10.00	7.00	205.00
B. NON-FUND BASED	**0.00**	**12.00**	**0.00**	**5.00**	**2.00**	**0.00**	**6.00**	**0.00**	**0.00**	**0.00**	**0.00**	**25.00**
BG(Fully Interchangeable with LC/BC)	-	3.00	-	-	1.00	-	-	-	-	-	-	4.00
Letter of Credit / Buyers' Credit	-	9.00	-	5.00	1.00	0.00	6.00	-	-	-	-	21.00
Limits	**18.00**	**52.00**	**41.00**	**30.00**	**22.00**	**11.67**	**41.00**	**15.00**	**19.00**	**10.00**	**7.00**	**266.67**

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