Rating Rationale

Raja Tea Industries

6 June 2018

Brickwork Ratings assigns 'BWR BB- ' for the Bank Loan Facilities of Rs.6.05 Crores of Raja Tea Industries.('RTI' or the Company)

Particulars

Facility *	Amount (Rs. Crs)	Tenure	Rating^
Fund based **Cash Credit** **Cash Credit (Proposed)** **Term Loan**** **Stand By Line of Credit**	**2.75** **1.49** **1.40** **0.41**	**Long Term**	**BWR BB-** **(Pronounced as BWR Double B Minus)** **Outlook: Stable**
Total	**6.05 (Rupees Six Crores and Five Lakhs Only)**		

^Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*Annexure-I provides details of bank wise facilities ; **Outstanding

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Firm upto FY17, provisional financials of FY18, projected financials upto FY19, publicly available information and information/clarifications provided by the management.

The rating draws strength from the promoters' experience in the industry and established position of the firm. The rating, however, is constrained by the small scale of operations, low profitability on account of limited value addition, geographical concentration of business, susceptibility to fluctuation in tea prices and agro climatic risks, intense competition prevalent in the industry and working capital intensive operations.

Going forward, the ability of the firm to increase its scale of operations, improve profitability, strengthen its overall credit risk profile and manage its working capital efficiently would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes RTI's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit margins show sustained improvement.

The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Key Rating drivers

Credit strengths

- **Experienced management and established track record:**The company has been engaged in the tea processing industry for around a decade and the management is experienced in this business.

Credit Weaknesses

- **Small scale of operations:** RTI's scale of operations remained low with total operating income (TOI) of Rs.11.84 crore during FY17 as against TOI of Rs.10.90 crore during FY16.
- **Susceptibility to fluctuation in tea prices, agro climatic risks and intense competition**
  While the tea industry is an organised agro-industry, it is highly fragmented in India and the firm faces intense competition from various small, mid-sized and large players. Tea prices fluctuate widely with demand-supply imbalances and are also linked to auctioned prices. Furthermore, there is an inherent cyclicality in the tea industry and the firm is also susceptible to agro climatic risks that would impact profitability. RTI purchases green leaves from the small, local gardens in the nearby area and hence significant dependence on purchased leaves increases risks related to green leaves availability, quality and price.
- High working capital intensity of the business may also impact liquidity position

About the Firm

Raja Tea Industries (RTI) is a Dibrugarh, Assam based partnership firm established in 2006. Commercial operations started in 2009. It is engaged in manufacturing of black tea under Crush, Tear and Curl method (CTC). The Firm has two varieties of tea leaves named Sharda Tea and Raja tea. The Firm has an aggregate installed capacity of ~ 15.00 lakhs kg of tea p.a

The firm is a family based partnership with Mr. Naren Sonowal as the Managing Partner and Ms.Sharda Sonowal and Mr. Arvind Sonowal as partners.

Financial Performance

The Firm reported Total Operating Income (TOI) of Rs.11.84 Crs and PAT of Rs.0.56 Crs for FY17 as against TOI of Rs.10.90 Crs and PAT of Rs.0.39 Crs respectively in FY16. Tangible Net-worth as on 31st March 2017 was Rs.5.78 Crs as against Rs.5.91 Crs in FY16. Total debt was Rs.5.22 Crs as on March 31 2017. Gearing was comfortable with D/E ratio of 0.90 times as on March 31 2017 as against

0.85 times as on March 31 2016. ISCR was moderate at 2.12 times as on March 31 2017 as against 1.87 times as on March 31 2016. On a provisional basis , the Firm reported total operating income of ~Rs.12.00 Crs for FY18.

Rating History for the last three years

S.No	Facility	Current Rating (June 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2017	2016	2015
	Fund Based						
1.	Cash Credit	Long Term	2.75	**BWR BB- (Outlook:Stable) Assigned**	N/A	N/A	N/A
2.	Cash Credit (proposed)		1.49				
3.	Term Loan		1.40*				
4.	Stand By Line of Credit		0.41				
	Total		**6.05**	**Rs. Six Crores Five Lakhs only**			

**Term loan outstanding*

Status of Non cooperation with other CRA :Not Applicable

Any other information : Not applicable.

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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Raja Tea Industries

Annexure I

Details of Rated Bank Facilities

Bank	Facilities	Amount (Rs. Crs)
State Bank of India, Duliajan Branch, Dibrugarh	Cash Credit	2.75
	Cash Credit (Proposed)	1.49
	Term Loan	1.40
	Stand By Line of Credit	0.41
	Total	6.05

Key Financial Indicators

Annexure II

Particulars	Units	31st March 2017	31st March 2016
Result Type		Audited	Audited
Total Operating Income (TOI)	Rs. Cr	11.84	10.90
EBITDA	Rs. Cr	1.40	0.95
PAT	Rs. Cr	0.56	0.39
Tangible Net worth	Rs. Cr	5.78	5.91
Total Debt/Tangible Net worth	Times	0.90	0.85
Current Ratio	Times	1.22	1.35

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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