

May 22, 2020

## Warren Tea Limited: Long-term rating downgraded to [ICRA]B(Negative); short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based working capital Limits	24.00	24.00	[ICRA]B (Negative); downgraded from BB-(Negative)
Term Loan	14.06	14.06	[ICRA]B (Negative); downgraded from BB-(Negative)
Non-fund based limits	2.64	2.64	[ICRA]A4; reaffirmed
Untied limits	0.94	0.94	[ICRA]B (Negative)/ [ICRA]A4, downgraded from [ICRA]BB- (Negative)/ [ICRA]A4
<b>Total</b>	<b>41.64</b>	<b>41.64</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The downward revision of the long-term rating of Warren Tea Limited (WTL) takes into consideration the liquidity tightness that the company is experiencing after imposition of the lockdown following the Covid-19 pandemic. WTL suffered production losses since end-March 2020, resulting in overdrawal of the drawing power of its cash credit facilities for less than 30 days. Within this period, the company approached its lender/s, seeking a moratorium in payments as a part of the Covid-19 relief package permitted by the Reserve Bank of India vide its circular dated March 27, 2020. The lender has recently granted an approval to the moratorium request made by the company. ICRA expects that the company would post losses again in FY2020 at the operating level due to the absence of a commensurate uptick in realisation to absorb the increased labour cost. Further adjustment for arrear salary and related benefits for the period April 2018 to October 2019 has adversely impacted its profitability in 9M FY2020 and resulted in a net loss of Rs. 8.28 crore compared to net loss of Rs. 5.29 crore in 9M FY2019. Continuing losses over the years led to a significant deterioration in the company's profitability and coverage indicators. The liquidity position of the entity has also weakened significantly over the years due to the cash losses suffered since FY2017. The same is likely to remain weak unless there is a meaningful recovery in tea realisation, given the sizeable debt servicing obligation the entity has in the coming years. In FY2021, tea production of all the players is likely to be impacted due to the production loss suffered due to the Covid-19 pandemic. However, the same is also likely to have a positive impact on the realisation, at least in the near term.

Meanwhile, the ratings continue to draw comfort from the company's premium quality tea that commands a higher price over the average market realisation. Besides, comfortable yield of WTL's tea estates mitigates the risks associated with the fixed-cost intensive nature of the tea plantation business to some extent. ICRA has also taken into consideration the sale of one of the tea estates (MoU entered in Q3 FY2020) for ~Rs. 19 crore and the expected receipt of the balance sale proceeds of ~Rs.16 crore in FY2021, which would support the company's liquidity position to some extent in the near term.

The ratings, however, also factor in the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions and the inherent cyclicity of the fixed-cost intensive tea industry that lead to variability in profitability and cash flows of bulk tea producers like WTL. As Indian tea is essentially a price taker in the international market, low global prices affected domestic realisations to some extent as well. ICRA also notes that WTL's significant exposure in an associate company, which is not value accretive to WTL at present, reduces its overall business returns.

The Negative outlook on the [ICRA]B rating reflects ICRA's opinion that the cash accruals from the company's core operations will continue to remain inadequate to service its debt obligations. Accordingly, the liquidity position of WTL would continue to remain poor in the near term, at least.

## Key rating drivers and their descriptions

### Credit strengths

**Superior quality of tea as evident from the significant premium commanded by its produce compared to average market prices** – WTL's superior quality of tea in the domestic market resulted in a premium of 36% for its produce compared to the average North Indian tea auction prices in H1 FY2020. WTL's average realisation of tea has decreased in the same period to ~Rs. 199 per kg from ~Rs. 201 per kg in H1 FY2019. However, the top line during the period was supported by higher production of tea of 5.55 Mkg in H1 FY2020 compared to 5.00 Mkg in H1 FY2019.

**Comfortable yield of tea estates mitigates risks associated with the fixed-cost intensive nature of bulk tea operations to some extent** – The favourable age profile of the bushes results in a comfortable tea estate yield (1,679 kg/hectare in FY2019) of WTL, which directly impacts the cost structure due to the fixed-cost intensive nature of the industry. Although tea production remained at par in FY2019 over the previous year, production of tea increased to 5.55 Mkg in H1 FY2020 compared to 5.00 Mkg in H1 FY2019. Thus, the company's production in FY2020 is likely to be more than FY2019, supporting its top line.

### Credit challenges

**Sustained deterioration in cost structure due to a significant rise in wage rates, adversely impacting the financial profile** – WTL's operating income stood at Rs. 114.01 crore in 9M FY2020, up by ~11% over 9M FY2019, primarily due to an increase in tea production. However, the absence of a commensurate uptick in realisation to absorb the increased labour costs continued to impact its profitability, resulting in operating losses of Rs. 3.09 crore in 9M FY2020 compared to an operating profit of Rs. 0.11 crore in 9M FY2019. ICRA notes that tea production in FY2020 is estimated to be higher than FY2019, following the trend in H1 FY2020 production. However, it is expected that the average tea realisation for the company is expected to fall in FY2020 compared to FY2019. This is likely to result in significant operating and cash losses for the company given the high cost of production including increased wage rates of tea plantation workers and a hike in fuel expenses. Continuing losses over the years led to a significant deterioration in the company's profitability and coverage indicators.

**Tightening of liquidity position** – The liquidity position of the entity has weakened significantly over the years due to the cash losses incurred since FY2017. The same accentuated post the lockdown due to the production loss witnessed since end-March 2020, resulting in overdrawal of the drawing power of its cash credit facilities for less than 30 days. Within this period, the company approached its lender/s, seeking a moratorium in payments as a part of the Covid-19 relief package permitted by the Reserve Bank of India, vide its circular dated March 27, 2020.

The lender has recently approved the moratorium request made by the company. The liquidity position of WTL is likely to remain poor unless there is a meaningful recovery in tea realisation, given the sizeable debt servicing obligation that the entity has in the coming years.

**Risks associated with tea for being an agricultural commodity** – The profitability and cash flows of bulk tea producers like WTL remain volatile owing to 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 tea industry. Additionally, given that Indian tea is essentially a price taker in the global market, low international prices may impact the domestic realisations to an extent.

**Significant investment/advances in an associate company, which are not value accretive to WTL at present** – ICRA also notes that WTL has invested/advanced around Rs. 31.47 crore to an associate company till FY2019, which accounted for around 40% of the company’s tangible net worth as on March 31, 2019. As the same is not value accretive to WTL at present, it adversely impacted the business returns.

### Liquidity position: Poor

WTL’s liquidity position is poor, as reflected by significant cash losses incurred by the company since FY2017 and likely cash loss in FY2020 as well. Besides, increased debt servicing obligations in the near to medium term may aggravate the company’s cash flow position. The sale of one of the tea estates will support WTL’s liquidity position in the short term, subject to timely receipt of the same. However, high utilisation of working capital limits restricts financial flexibility of the company.

### Rating sensitivities

**Positive triggers** – ICRA may revise WTL’s long-term rating outlook if the entity is able to secure financial support in the form of external funding or receive sale proceeds for the tea garden in time.

**Negative triggers** – Pressure on WTL’s ratings may arise if the company delays in its debt servicing obligations.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Indian Bulk Tea Industry</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financials of the company

### About the company

Warren Tea Limited (WTL) owns seven tea gardens across a cultivable area of around 4,119 HA under the leadership of Mr. Vinay K. Goenka. The gardens are located in the Upper Assam region, primarily in Dibrugarh and Tinsukia districts. The company’s tea production stood at 6.91 Mkg in FY2019 with the CTC variety comprising the major portion of the company’s tea. Further, the company has entered a Memorandum of Understanding for sale of one of its tea gardens.

In 9M FY2020, the company reported a net loss of Rs. 8.28 crore on an operating income of Rs. 114.01 crore compared to a net loss of Rs. 5.29 crore on an operating income of Rs. 102.80 crore in 9M FY2019. In FY2019, the company reported a net loss of Rs. 15.92 crore on an operating income of Rs. 118.51 crore. An actuarial gain of Rs. 5.23 crore on employee obligation during the year led to a lower loss of Rs. 12.48 crore at the total comprehensive income (TCI) level.

### Key financial indicators

	<b>FY2018 (Audited)</b>	<b>FY2019 (Audited)</b>	<b>9MFY2019 (Unaudited)</b>	<b>9M FY2020 (Unaudited)</b>
Operating Income (Rs. crore)	119.15	118.51	102.80	114.01
PAT (Rs. crore)	-7.89	-15.92	-5.29	-8.28
OPBDIT/OI (%)	-3.88%	-14.57%	0.11%	-2.71%
RoCE (%)	-6.26%	-18.44%	-	-
Total Debt/TNW (times)	0.35	0.47	-	-
Total Debt/OPBDIT (times)	-7.22	-2.29	-	-
Interest coverage (times)	-1.23	-4.28	0.04	-0.80

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding as on November 30, 2019	Current Rating	Earlier Rating	FY2020	FY2019		FY2018
					22-May-2020	7-Apr-2020	22-Apr-2019	04-Jan-2019	07-Dec-2018	10-Jan-2018
1	Fund based limits	Long Term	24.00	NA	[ICRA]B (Negative)	[ICRA]BB- (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)
2	Term loan	Long Term	14.06	14.06	[ICRA]B (Negative)	[ICRA]BB- (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)
3	Non-fund based limits	Short Term	2.64	NA	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2
4	Unallocated limits	Long Term/Short term	0.94	NA	[ICRA]B (Negative)/ [ICRA]A4	[ICRA]BB- (Negative)/ [ICRA]A4	-	-	-	-

Amount in Rs. crore

### 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 [www.icra.in](http://www.icra.in)

## 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	Fund based working capital limits	NA	NA	NA	24.00	[ICRA]B (Negative)
NA	Term Loan I	Oct-2016	-	July 2021	3.50	[ICRA]B (Negative)
	Term Loan II	Dec-2016	-	Feb 2023	6.50	[ICRA]B (Negative)
	Term Loan III	Nov-2017	-	Feb 2023	4.06	[ICRA]B (Negative)
NA	Non-fund based limits	NA	NA	NA	2.64	[ICRA]A4
NA	Unallocated limits	NA	NA	NA	0.94	[ICRA]B (Negative)/ [ICRA]A4

Source: Warren Tea Limited

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### 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](http://www.icra.in)

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