September 08, 2022

Luxmi Tea Company Private Limited: Long-term rating upgraded to [ICRA]A+ (Stable) and short-term rating reaffirmed at [ICRA]A1

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term Loans	66.25	46.25	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Long-term - Fund-based – Cash Credit	57.70	66.50	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Short-term - Fund-based – Interchangeable**	(5.50)	(30.00)	[ICRA]A1; Reaffirmed
Long term/ Short term - Non-fund-based – SBLC/LER	106.00	106.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable) / [ICRA]A1; Reaffirmed
Long term/ Short term - Unallocated	0.00	11.20	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable) / [ICRA]A1; Reaffirmed
Total	**229.95**	**229.95**	

*Instrument details are provided in Annexure-1 **Sub-limit of Cash Credit (WCDL/EPC/Bill Discounting)

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the operational and financial profiles of Luxmi Tea Company Private Limited (LTCPL) along with its subsidiaries and step-down subsidiaries, including Obeetee Private Limited (OPL) and Obeetee Textiles Private Limited (OTPL), given the operational, financial and managerial linkages among the entities.

The upgrade of the long-term rating takes into account a significant growth in the consolidated revenues of the Group along with comfortable profitability, resulting in healthy cash accruals and improving debt coverage metrics. The ratings also factor in the Group's conservative capital structure and adequate liquidity. The ratings derive comfort from the diversified business interests of the Group in tea (having tea estates in India and Africa), manufacturing and exports of handmade carpets, other floor covering items and furniture, real-estate development and hospitality business, through various subsidiaries and step-down subsidiaries in India and abroad. LTCPL enjoys an established position in the domestic bulk tea industry with tea estates in Assam, Tripura and West Bengal and has a presence in Rwanda, Africa with three tea estates under a foreign subsidiary, Silverback Tea Company Limited. Besides, the ratings continue to consider the extensive experience of LTCPL's subsidiary, OPL, in the hand-knotted and hand-tufted carpet industry, its established network for procurement, sales and distribution, established relationships with its customers and tie-up with a large number of artisans for handmade carpets. The ratings further consider the high operational efficiency of the tea business, as reflected by high yield and outturn ratio and a considerable improvement in tea realisations in the recent past, which is likely to offset the impact of the wage rate hike in West Bengal and Assam announced in the recent past. The ratings, however, are constrained by the Group's exposure to the risks associated with tea for being an agricultural commodity and inherent cyclicality of the fixed-cost intensive tea industry. It also remains susceptible to the fluctuation in raw material prices in the floor covering and furniture segments. The sizeable debt-funded capex planned in the floor covering and furniture segments would result in an increase in the debt service obligation of the Group, going forward. ICRA also notes the continuous losses in the furniture segment. However, the same is likely to decline in the current fiscal with a substantial improvement in the turnover. The ratings also consider the Group's exposure to significant geographical concentration in the floor covering and furniture segments, as the major portion of the exports is derived from the US. However, its established relationship with reputed clients and continuing diversification of the client base mitigate such risks to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group's diverse line of business and an established position in the tea and handmade carpet industries would keep its overall business position comfortable. The overall financial risk profile of the Group is likely to remain healthy with a conservative capital structure, comfortable debt coverage metrics and adequate liquidity.

Key rating drivers and their description

Credit strengths

Diversified business interests of the Group mitigate sectoral concentration risks – The Group has a diversified business profile. The holding company, LTCPL, and its two other subsidiaries (Kalyani Tea Company Limited and Chandmani Tea Company Limited), are involved in tea manufacturing in North India, while the foreign subsidiary, Silverback Tea Company Limited, holds three tea estates (Gisovu Tea Company Limited, Pfunda Tea Company Limited and Rugabano Tea Company Private Limited) in Africa. LTCPL's another subsidiary, OPL and other step-down subsidiaries are involved in manufacturing, trading and exports of handmade carpets, non-woven floor covering items and furniture. Luxmi Township & Holdings Limited, a subsidiary of LTCPL, is involved in real estate development in North Bengal, while LTCPL's foreign subsidiary, LUK Hospitalities Limited, operates two hotels in the UK. The diversified business interests mitigate the sectoral concentration risks and lend stability to the Group's revenue and bottom line. The tea segment (Indian and African operations) and floor covering and furniture segments (under OPL) are the main revenue and profit drivers of the Group, accounting for around 42% and 53% of the consolidated revenue and 51% and 30% of the consolidated OPBDITA, respectively, in FY2022 (estimated). However, the real-estate segment is the cash cow of the Group, which aided in expanding the scale of operations of the tea business through sizeable acquisitions in FY2019 and FY2020.

Increasing turnover and profits, comfortable capital structure and debt coverage metrics along with adequate liquidity strengthening the credit profile – The Group's consolidated revenue increased at a CAGR of around 16% during the period FY2018-FY2022. The turnover growth is estimated at around 22% in FY2022, primarily driven by a robust improvement in the revenues from the floor covering and furniture segments by around 38% to around Rs. 743 crore in FY2022 from Rs. 537 crore in the previous fiscal. The revenues from other segments like real state and hospitality also improved in FY2022, aided by a recovery in the overall economic scenario. The Group's consolidated cash accruals also improved significantly in the recent years and remained healthy, supported by significant revenue growth and comfortable profitability. Improving product diversity and sales of the floor covering and furniture segments are likely to strengthen the Group's overall revenues and profits, going forward. The Group's capital structure remained conservative, as reflected by a consolidated gearing of around 0.6 times since FY2020. Around 40% of the consolidated debt of Rs. 644 crore as on March 31, 2022 were unsecured loans from corporate bodies controlled by promoters/other shareholders (with no fixed repayment obligation). Low rates of interests along with healthy profits vis-à-vis repayment obligation positively impacted the Group's consolidated debt coverage metrics, as reflected by an estimated interest coverage of 6.9 times (5.7 times in FY2021) and DSCR of 3.3 times (4.0 times in FY2021) in FY2022. Besides, sizeable free cash and liquid investments (estimated at more than Rs. 200 crore as of March 2022) are likely to keep the Group's overall credit profile comfortable.

Established market position in the bulk tea and carpet industries – LTCPL has 20 tea estates in North India (thirteen in Assam, six in Tripura and one in West Bengal) with 7,806 hectares area under cultivation as of December 2021. The overall tea production of the Group's tea estates in North India (including two estates under subsidiaries) stood at around 22 million kg (Mkg) in FY2022. The three tea estates of Silverback Tea Company Limited in Rwanda, Africa (through Gisovu Tea Company Limited, Pfunda Tea Company Limited and Rugabano Tea Company Private Limited) recorded a total production of 5.2 Mkg in CY2021. The Group's market position and scale of operations in the tea business increased significantly post FY2018 due to the acquisition of several tea estates in India and Africa, which improved the overall tea production to the current level from around 12.5 Mkg in FY2018.

The Group has a century-long track record of operations in the hand-tufted and hand-knotted carpet manufacturing industry through Obeetee. It has also diversified into manufacturing of non-woven floor covering items and technical textiles (mainly for the automobile industry) and furniture. The Group is one of the largest exporters of handmade carpets from India and is expanding its presence in the non-woven products and furniture.

Good quality of tea produced and high operational efficiency mitigate business risks in the tea segment – Almost the entire production of LTCPL in FY2022 was of the crush-tear-curl (CTC) variety. The company produces good quality CTC teas, as reflected by a considerable premium (15% in FY2022) fetched by the same over the North Indian CTC auction prices. LTCPL's average yield remained high (around 1,800 kg/hectare in FY2022), supported by the favourable age profile of the tea bushes, with nearly 74% of the bushes being in the productive age of 5-50 years. LTCPL's comfortable realisations and high operational efficiency mitigates business risks to a large extent. The production and realisations of the African tea estates have exhibited an improving trend, which is likely to strengthen the overall performance of the tea segment.

Long relationships with overseas buyers and artisans in the handmade carpet segment strengthen business profile – Obeetee has established relationships with its reputed overseas clients, which help in receiving repeat orders from its existing customers. The Group's established market presence also helps in securing orders from new customers. Tie-ups with various wool yarn manufacturers that regularly supply woollen yarn, along with established tie-ups with suppliers of other natural and man-made yarn supports operations. The manpower intensive handmade carpet division has employed skilled artisans from Uttar Pradesh and Bihar. Besides, the segment has tie-ups with more than 25,000 artisans who perform the tufting and knotting activities on a contractual basis.

Credit challenges

Risks associated with tea for being an agricultural commodity and inherent cyclicality of the fixed-cost intensive tea industry – The tea segment's garden costs are largely fixed, with labour costs accounting for the major part of the cost of production. The production and quality of tea remain vulnerable to agro-climatic conditions, pest attacks etc. Besides, the tea players remain exposed to volatility in tea prices due to cyclicality in demand-supply situation in the domestic and international markets, which may adversely impact profitability, given the fixed-cost intensive nature of the business. The basic wage rates for tea estate workers in West Bengal and Assam have been increased by Rs. 30/day and 27/day with effect from January 2022 and August 2022, respectively. This is likely to increase the cost of tea production for North Indian players. However, an increasing trend in tea prices, particularly for the good-to-top quality tea producers like LTCPL, is likely to protect the margins of such players.

Significant geographical concentration in the floor covering and furniture segments – The major portion of the Group's sales from the floor covering segment is derived from the US. The US accounts for the major portion (57% in FY2022) of carpets exported from India. Around 66% of the overall sales of OPL and OTPL was derived from the US in FY2022. The US also accounts for a significant portion of the Group's furniture sales. This exposes the floor covering and furniture segment to geographical concentration risks. However, the Group's increasing product and customer diversification partially mitigates such risks. The forex risk arising from significant exports is hedged to a large extent by forward contracts.

Sizeable debt-funded capex planned in the floor covering and furniture segments to result in an increase in debt service obligation – The Group is currently executing a capex of around Rs. 60 crore in the furniture segment (Manor & Mews Private Limited), which is being funded by a term loan of Rs. 37 crore and the balance from internal sources. The ongoing capex (phase-I) is likely to be commissioned within December 2022, and a further capex of around Rs. 40 crore (phase-II) is likely to be undertaken in the furniture segment from the next fiscal. The Group has received approval from the Ministry of Textiles, Government of India for setting up a new plant for machine-made floor covering products under the production-linked incentive (PLI) scheme, for which the project cost has been estimated at around Rs. 127 crore. The major portion of the cost is likely to be funded by term loans, however, the debt tie-up is yet to happen. The capacity expansions in the furniture and floor covering segments are likely to strengthen the segments' revenues, going forward. However, the sizeable debt-funded capex would result in an increase in debt-service obligations of the Group.

Continuing loss in the furniture segment, however, the segment's loss is likely to reduce with improving turnover – The furniture segment's revenue surged by around 94% to Rs. 63.7 crore in FY2022 from Rs. 32.8 crore in FY2021. However, the segment continued to post an operating loss in FY2022 due to high selling and overhead expenses. Nevertheless, a significant revenue growth in the segment is likely to continue, resulting in better absorption of fixed costs and reduction of losses in the near future.

Liquidity position: Adequate

The Group's liquidity is adequate. Its cash flow from operations remained healthy (estimated at Rs. 149 crore in FY2022). However, the estimated cash flow from operation for FY2022 remained lower (Rs. 57 crore) due to an increase in working capital requirement on the back of a robust turnover growth. This, along with sizeable capex of more than Rs. 100 crore, majorly for the floor covering and furniture segments, led to negative free cash flows in FY2022. However, the free cash flows are likely to improve going forward, with an improvement in cash flows from operations. The Group has sizeable ongoing and planned capital expenditure for the floor covering and furniture segments in the near-to-medium term. Its long-term debt repayment obligations (excluding lease liabilities) are estimated to increase to around Rs. 52 crore in FY2025 vis-à-vis around Rs. 23 crore and Rs. 34 crore in FY2023 and FY2024, respectively. However, the Group's free cash and liquid investments remained healthy (estimated at more than Rs. 200 crore as on March 31, 2022), which is likely to keep the liquidity adequate.

Rating sensitivities

Positive factors – ICRA may upgrade the Group's ratings if a significant improvement in its consolidated revenues and cash accrual positively impact the credit profile.

Negative factors – Deterioration in the Group's liquidity and debt coverage metrics due to any sizeable debt-funded capex/acquisition and/or any material decline in cash accruals may trigger ratings downgrade. A consolidated interest coverage of less than 6.0 times on a sustained basis may also result in downgrade of ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Fabric Bulk Tea Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LTCPL along with its subsidiaries and step-down subsidiaries (as mentioned in Annexure-II), including OPL and OTPL

About the company

Luxmi Tea Company Private Limited (LTCPL) was incorporated in 1912 and has 20 tea gardens spread across Assam (13 gardens), West Bengal (one garden) and Tripura (six gardens). The total area under cultivation is around 7,806 hectares (as of December 2021), out of which 80.2% is in Assam, followed by 14.4% in Tripura and 5.5% in West Bengal. LTCPL is primarily a producer of the CTC variety of tea. The company derived 31% of its production from bought leaves in FY2022. LTCPL is the holding company of the Group. It has six subsidiaries, among which three are involved in the tea business (including a foreign subsidiary having three tea estates in Africa), one in floor covering and furniture manufacturing business (with eight subsidiaries and step-down subsidiaries) one in real estate and one in hospitality business (under a foreign subsidiary). The tea and floor covering segments are major contributors to the Group's overall revenues and profits, while the real-estate segment has been the main source of the Group's liquidity.

Key financial indicators (audited)

LTCPL	Standalone			Consolidated	
	FY2020	FY2021	FY2022*	FY2020	FY2021
Operating income	338.7	443.7	436.4	989.2	1143.9
PAT	2.4	42.8	37.1	34.2	83.3
OPBDIT/OI	12.1%	19.5%	15.6%	14.0%	17.2%
PAT/OI	0.7%	9.7%	8.5%	3.5%	7.3%
Total outside liabilities/Tangible net worth (times)	2.2	1.7	1.4	0.8	0.8
Total debt/OPBDIT (times)	8.2	4.1	4.5	4.2	3.0
Interest coverage (times)	1.7	4.0	3.2	3.7	5.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020			
					Sep 08, 2022	Jun 10, 2021	-	Jan 6, 2020	Dec 27, 2019	June 28, 2019 & May 17, 2019	April 30, 2019
1	Term Loans	Long term	46.25	46.25	**[ICRA]A+ (Stable)**	[ICRA]A (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A& (under rating watch with developing implications)
2	Fund based - Cash Credit	Long term	66.50	-	**[ICRA]A+ (Stable)**	[ICRA]A (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A& (under rating watch with developing implications)
3	Fund based – Interchangeable limits*	Short term	(30.00)	-	**[ICRA]A1**	[ICRA]A1	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1& (under rating watch with developing implications)
4	Non-fund based - SBLC/LER	Long term/ Short term	106.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-
5	Unallocated	Long term/ Short term	11.20	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

*Sub-limit of Cash Credit (WCDL/EPC/Bill Discounting)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Term Loans	Simple
Long term - Fund-based – Cash Credit	Simple
Short-term - Fund-based – Interchangeable limits*	Simple
Long term/Short term – Non-fund-based – SBLC/LER	Very simple
Long term/Short term – Unallocated	NA

*Sub-limit of Cash Credit (WCDL/EPC/Bill Discounting)

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan -1**	Feb 28, 2022	NA	Dec 31, 2026	31.25	[ICRA]A+ (Stable)
NA	**Term Loan -2**	Feb 28, 2022	NA	Sep 30, 2024	15.00	[ICRA]A+ (Stable)
NA	**Cash Credit**	-	NA	NA	66.50	[ICRA]A+ (Stable)
NA	**Fund-based – Interchangeable limits***	-	NA	NA	(30.00)	[ICRA]A1
NA	**Non-fund based – SBLC/LER**	-	NA	NA	106.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	**Unallocated**	-	NA	NA	11.20	[ICRA]A+ (Stable)/ [ICRA]A1

*Source: Company, *Sub-limit of Cash Credit (WCDL/EPC/Bill Discounting)*

Annexure II: List of entities considered for consolidated analysis

Company Name	LTCPL's Ownership	Consolidation Approach
Luxmi Township & Holdings Limited	84%	Full consolidation
Obeetee Private Limited (OPL)	100%	Full consolidation
Chandmani Tea Company Limited	95.41%	Full consolidation
Kalyani Tea Company Limited	92.01%	Full consolidation
Luk Hospitalities Limited	100%	Full consolidation
Silverback Tea Company Limited (STCL)	75%	Full consolidation
Gisovu Tea Company Limited	(60% owned by STCL)	Full consolidation
Pfunda Tea Company Limited	(90% owned by STCL)	Full consolidation
Rugabano Tea Company Private Limited	(100% owned by STCL)	Full consolidation
Obeetee Textiles Private Limited (OTPL)	(100% owned by OPL)	Full consolidation
Obeetee Inc.	(100% owned by OPL)	Full consolidation
Obeetee Retail Private Limited	(100% owned by OPL)	Full consolidation
Obeetee Pte. Ltd.	(100% owned by OPL)	Full consolidation
Obeetee Home Textiles Private Limited*	(100% owned by OPL)	Full consolidation
Manor & Mews Private Limited (MMPL)	(50.51% owned by OPL; 49.49% owned by OTPL)	Full consolidation
Manor & Mews Limited	(100% owned by MMPL)	Full consolidation
Manor & Mews Furniture Private Limited*	(100% owned by MMPL)	Full consolidation

*Source: Company; *Formed in FY2023*

Note: ICRA has taken a consolidated view of the parent (LTCPL) along with its subsidiaries and step-down subsidiaries (including OPL and OTPL) while assigning the ratings

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