December 29, 2023

Luxmi Tea Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based –Term Loans	46.25	27.88	[ICRA]A+ (Stable); reaffirmed
Long-term - Fund-based – Cash Credit	66.50	88.50	[ICRA]A+ (Stable); reaffirmed
Short-term-Fund-based – Interchangeable**	(30.00)	(40.00)	[ICRA]A1; reaffirmed
Long term/ Short term -Non-fund-based –SBLC/LER	106.00	36.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Long term/ Short term - Unallocated limit	11.20	-	-
Total	**229.95**	**152.38**	

**Instrument details are provided in Annexure-I; **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 TWE OBT Private Limited (TOPL; erstwhile Obeetee Textiles Private Limited), given the operational, financial and managerial linkages among the entities.

The reaffirmation of the ratings continues to consider the Group's comfortable financial profile, characterised by healthy cash accruals, conservative capital structure, comfortable debt coverage metrics 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 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. It also has 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. ICRA also notes the high operational efficiency of the Indian tea business, as reflected by high yield and outturn ratio, and healthy profitability of the African tea estates. 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.

For capacity expansion of the furniture segment, the Group has recently concluded a capex (phase-1) of ~Rs. 70 crore (for which a term loan of Rs. 37 crore was availed) and has planned further capex (phase-2) of ~Rs. 18 crore (for which a term loan of Rs. 12 crore has been sanctioned). ICRA notes that the Group's earlier plan of a debt-funded capex of ~Rs. 127 crore in the floor covering segment under the profit-linked incentive (PLI) scheme has been dropped as the proposed product has not yet been notified by the Government. Rather, the Group has formed a joint venture (JV) with the Germany-based TWE Group (which has acquired a 50% stake in TOPL) to enter new product segments (mainly hygiene products), for which the required capex of Rs. 80-90 crore and the incremental working capital requirement will be funded by TWE's equity infusion (~Rs. 101 crore) in FY2024. The sizeable quantum of equity infused by TWE, a reduction in capex from the previous estimates, healthy cash accruals and scheduled debt repayment are likely to result in a steady decline in the Group's debt level, going forward, and would keep the capital structure comfortable. Nevertheless, in the current fiscal, the Group's performance is likely to be adversely impacted because of the likely deterioration in its profitability from the tea business amid a decline in realisations and hike in wage rates both in Assam and West Bengal, besides sluggish export demand for woven products. 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 overall financial risk profile is likely to remain healthy with sizeable free liquid investments, a conservative capital structure and comfortable debt coverage metrics. A contraction of profits in the current fiscal due to deterioration in the cost structure of the tea segment and muted export demand for carpets are likely to negatively impact the debt coverage metrics. However, going forward, growth in the consolidated profits and cash accrual, which would emanate from expansion of the floor covering, furniture and hygiene product segments, and a gradual decline in the debt level, are likely to strengthen the debt coverage metrics.

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), manufacture tea 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 (manufactured by TOPL) and furniture (manufactured by Manor & Mews Private Limited [MMPL]). Luxmi Township & Holdings Limited, a subsidiary of LTCPL, is involved in real estate development primarily 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 bottomline, to some extent. The tea segment (Indian and African operations) and floor covering and furniture segments are the main revenue and profit drivers of the Group. In FY2023, these two segments accounted for ~41% and ~56% of the consolidated revenue, respectively and each of them contributed ~46% to the consolidated OPBDITA. 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.

Established market position in bulk tea and carpet industries – The overall tea production of the Group's tea estates in North India (including two estates under subsidiaries) stood at 22.4 million kg (Mkg) in FY2023. 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 5.0 Mkg in CY2022. 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. Coca-Cola India, for its ready-to-drink tea beverages, has recently signed a memorandum of understanding with LTCPL to procure organic green tea from the latter's Makaibari tea estate in Darjeeling. ICRA also notes LTCPL's focus on increasing packet tea sales under its own brands through both online and brick-and-mortar channels, which is likely to strengthen profitability of the segment, going forward.

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

Good quality of tea produced and high operational efficiency mitigate business risks in the tea segment – Almost the entire production of LTCPL in FY2023 comprised the crush-tear-curl (CTC) variety. The company produces good quality CTC teas, as reflected by a considerable premium (19% in FY2023) fetched by the same over the North Indian CTC auction prices. LTCPL's average yield in North India remained high (1,908 kg/hectare in FY2023), supported by the favourable age profile of the tea bushes, with nearly 75% of the bushes being in the productive age of 5-50 years. LTCPL's comfortable realisations and high operational efficiency mitigate business risks to a large extent. The performance of the African tea estates remained strong, as reflected by a healthy operating margin of ~31% in CY2022, supporting 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 support 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.

Comfortable financial profile with a conservative capital structure and adequate liquidity; debt coverage metrics to remain comfortable despite a likely deterioration in the current fiscal – The Group's capital structure remained conservative, as reflected by a consolidated gearing of 0.6-0.7 times since FY2020. Around 44% of the consolidated debt of Rs. 686 crore as on March 31, 2023 comprised unsecured loans from entities controlled by promoters/other shareholders. A large portion of the fund and the sizeable liquid investments (~Rs. 153 crore as of March 2023) had originated from Luxmi Township, the real-estate entity, strengthening the Group's liquidity position. Low rates of interests along with healthy profits vis-à-vis the repayment obligations positively impacted the Group's consolidated debt coverage metrics, as reflected by an interest coverage of 6.0 times (6.6 times in FY2022) and DSCR of 3.3 times (3.4 times in FY2022) in FY2023. The debt coverage indicators are likely to weaken to some extent in the current fiscal due to contraction in profitability, however, the same are likely to improve thereafter.

Credit challenges

Decline in tea realisation, increase in wage rates and sluggish demand for the woven segment likely to negatively impact the Group's performance in the current fiscal – Sluggish export demand and muted rural consumption coupled with an increase in tea production in Kenya, primarily an exporter of CTC teas, have adversely impacted realisations of CTC teas in the domestic market. LTCPL's average realisation stood at ~Rs. 226/kg in 8M FY2024 vis-à-vis ~Rs. 239/kg in 8M FY2023. This coupled with hikes in wage rates for tea estate workers in North India (basic wages increased by Rs. 18 per man-day both in West Bengal and Assam with effect from June 2023 and October 2023, respectively) are likely to exert pressure on LTCPL's profitability in the current fiscal. In addition, OPL's revenues and profits from the woven segment (carpets) are likely to contract in the current fiscal on the back of headwinds in the export market, which would negatively impact the Group's consolidated performance.

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 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. Besides, there have been frequent hikes in wage rates for tea estate workers in North India in the recent years, adversely impacting the cost structure.

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 (60% in FY2023) of carpets exported from India. Around 75% of OPL's sales in FY2023 was derived from the US. 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 risk. However, the Group's increasing product and customer diversification partially mitigates such risks. The forex risk arising from significant exports is partially hedged by forward contracts.

Modest profitability of the furniture segment, however, the segment's performance is likely to improve, going forward – The furniture segment's operating income surged by ~98% and 42% in FY2022 and FY2023, respectively, though on a low base. The segment reported operating losses in FY2021 and FY2022 due to high fixed costs. However, the same turned profitable in FY2023 and achieved an operating profit of ~Rs. 7 crore (operating margin of ~7%). In the current fiscal, its profitability is likely to moderate on the back of muted turnover growth due to low export demand and an increase in fixed expenses. Nevertheless, the segment's scale of operation is likely to improve significantly, going forward, aided by the ongoing capacity expansion. This will result in better absorption of fixed costs and improvement in profitability, going forward.

Liquidity position: Adequate

The Group's liquidity is adequate. It has sizeable free cash and liquid investments, supported by healthy cash accruals over the years and adequate liquidity in the real estate business (Luxmi Township), which has been partially utilised to meet funding requirements of the Group. The consolidated cash flow from operations is likely to remain healthy at ~Rs. 151 crore in FY2024 (Rs. 167 crore in FY2023). The Group has planned capex of Rs. 100-110 crore mainly in TOPL and MMPL, to be concluded in the near-to-medium term. Its debt repayment obligation will be in the range of Rs. 40-50 crore annually (including lease liabilities) till FY2026. However, equity infused (~Rs. 101 crore) by the JV partner (TWE) for TOPL, sizeable free cash and liquid investments (~Rs. 212 crore as on March 31, 2023) and an adequate buffer in working capital utilisation (~Rs. 80 crore as on March 31, 2023) would support the liquidity position.

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 Tea
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 TOPL

About the company

Luxmi Tea Company Private Limited (LTCPL) was incorporated in 1912 and has 21 tea gardens spread across Assam (13 gardens), West Bengal (two gardens) and Tripura (six gardens). The total area under cultivation is around 7,813 hectares (as of December 2022), out of which ~79% is in Assam, followed by ~14% in Tripura and ~7% in West Bengal. The erstwhile Group company, Makaibari Tea & Trading Private Limited (Makaibari), owner of Makaibari tea estate in Darjeeling, was merged into LTCPL with effect from April 2021. LTCPL is primarily a producer of the CTC variety of tea. The company derived 29% of its production from bought leaves in FY2023. LTCPL is the holding company of the Group. It has seven subsidiaries, among which three are involved in the tea business (including a foreign subsidiary having three tea estates in Africa), one in floor covering (woven and nonwoven) and furniture manufacturing business (with eight subsidiaries and step-down subsidiaries) one in real estate, one in hospitality business (under a foreign subsidiary) and another without any significant operations at present. 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	
	FY2022	FY2023	FY2022	FY2023
Operating income	445.9	465.7	1404.9	1512.3
PAT	34.3	19.2	103.3	79.5
OPBDIT/OI	14.9%	11.2%	15.2%	13.2%
PAT/OI	7.7%	4.1%	7.4%	5.3%
Total outside liabilities/Tangible net worth (times)	1.6	1.6	0.9	0.9
Total debt/OPBDIT (times)	5.2	6.5	3.2	3.4
Interest coverage (times)	2.9	2.1	6.6	6.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 29, 2023	Sep 08, 2022	Jun 10, 2021	-
1	**Fund based – Term Loans**	Long term	27.88	34.00	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-
2	**Fund based – Cash Credit**	Long term	88.50	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-
3	**Fund based – Interchangeable limits***	Short term	(40.00)	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-
4	**Non-fund based – SBLC/LER**	Long term/ short term	36.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	-
5	**Unallocated**	Long term/ short term	-	-	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	-	-

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

*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: Click Here

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	21.88	[ICRA]A+ (Stable)
NA	Term Loan-2	Feb 28, 2022	NA	Sep 30, 2024	6.00	[ICRA]A+ (Stable)
NA	Cash Credit	NA	NA	NA	88.50	[ICRA]A+ (Stable)
NA	Fund-based –Interchangeable limits*	NA	NA	NA	(40.00)	[ICRA]A1
NA	Non-fund based –SBLC/LER	NA	NA	NA	36.00	[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
Makaibari Tea Estate Private Limited	100%	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
TWE OBT Private Limited (TOPL)	(50% 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)	(100% owned by OPL)	Full consolidation
Manor & Mews Limited	(100% owned by MMPL)	Full consolidation
Manor & Mews Furniture Private Limited	(100% owned by MMPL)	Full consolidation

*Source: Company; *Reduced to 50% in FY2024 from 100% earlier*

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

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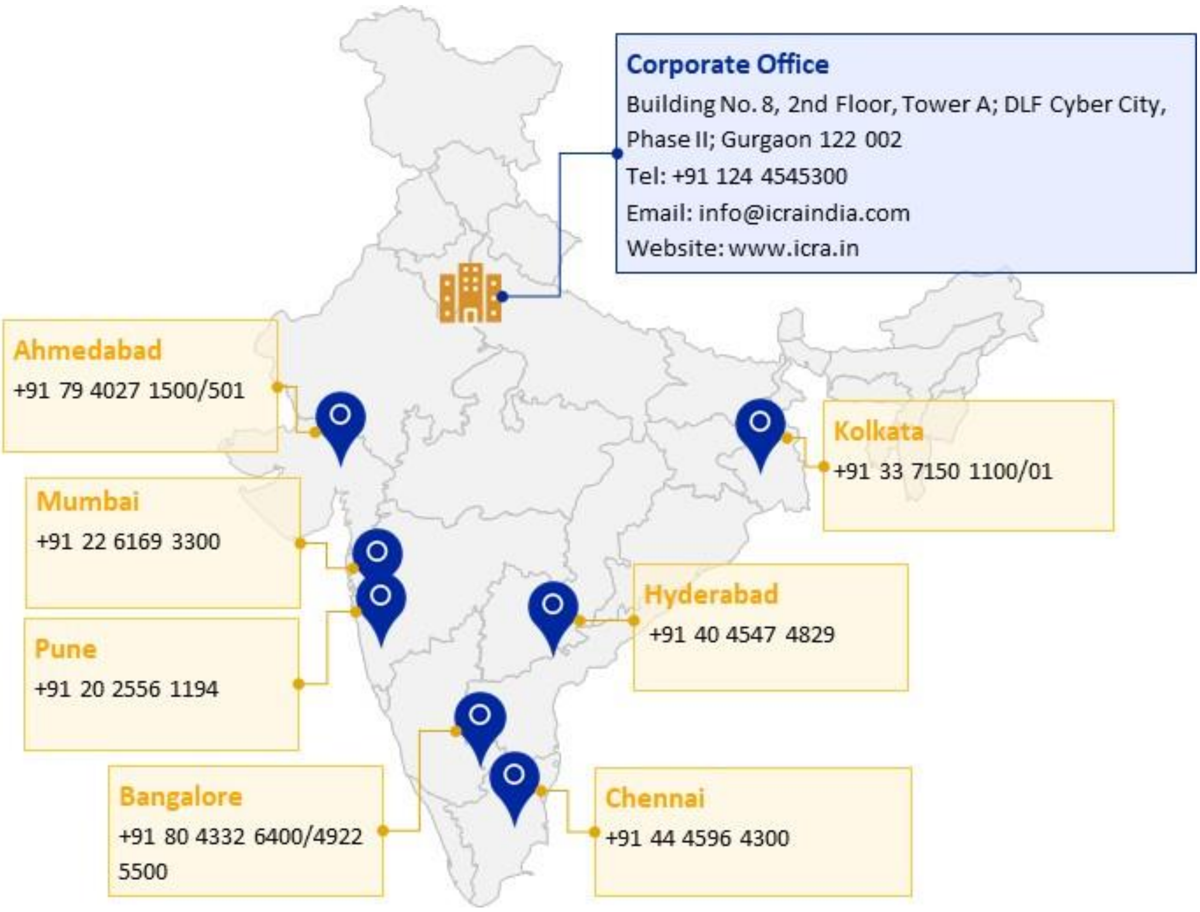

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