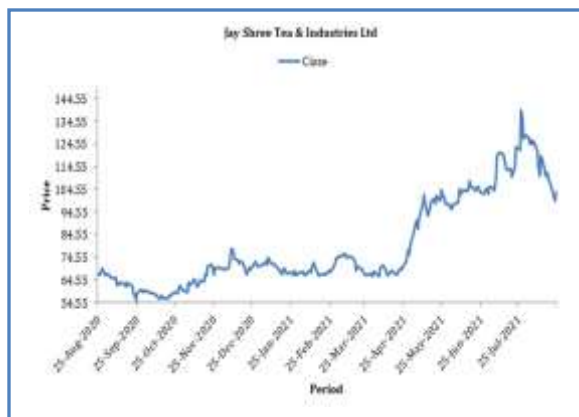


JAY SHREE TEA & INDUSTRIES LTD.	
Industry	Tea/Coffee
No. of Shares (Crore)	2.89
Face value (Rs)	5
Mkt. Cap (Rs. Crore)	311.25
Price (01/09/2021)	107.70
Book Value (Rs)	83.41
P/BV	1.29
BSE Code	509715
NSE Code	JAYSREETEA
Bloomberg	JTI:IN
Reuters	JYST.NS
Avg. Weekly Volume (NSE)	2,21,368
52 W H/L (Rs)	144.95/55.10
<b>Shareholding Pattern</b>	<b>%</b>
Indian Promoters	50.38
Institutions	5.66
Non- Institutions	43.96
Total	<b>100</b>
<b>(As on June 30, 2021)</b>	
<b>Recommendation</b>	
<b>BUY</b>	



### Company Background

Jay Shree Tea & Industries Ltd. (JTIL) is the **third largest tea producer in the world** with **27 Tea Estates** spread across India and it also owns tea estates in the best quality tea producing belt of East Africa. Besides tea, JTIL is also operating in Chemicals & Fertilizers and Sugar space. It has its own tea processing factories, Tea Packaging and warehousing facilities. It offers various tea categories, such as Darjeeling Tea, Assam Orthodox Tea, Assam Ctc Tea, Dooars, Cacher, South India and Packet Tea. Its chemicals and fertilizers facility are situated on the eastern bank of river Hooghly in West Bengal. It has sugar factory at Majhaulia, Bihar.

### Investment Rationale

➤ JTIL key **X factor** lies in the fact that it essentially owns tea gardens across Assam and West Bengal; both these states put together accounts for more than 80% tea produced in the country such as India, which further beeps up company in an economically advantageous position as compared to other tea producers.

➤ It has a specialized unparalleled offering in **packaged tea**, which it sells under the umbrella of **“Birla Tea”**. It also offers customized packaging as well as designs to meet the needs of various customers, at home and abroad. Today, not only it is a leading producer, trader and exporter, but it is also one of the biggest producer of speciality teas, and a proud member of the Specialty Tea Institute, USA.

➤ In the year gone by i.e. FY21 it produced around 15 million KGs of tea as against 19 million KGs that it had produced last year. The decline in production was attributed to primarily covid, however, an unprecedented drought was also partially responsible for fewer crops, as country didn't receive adequate rainfall or received minimal rainfall which in turn impacted production and resulted in an acute loss of crop.

➤ Last year company took certain initiatives to upgrade the quality of tea and so the realizations of Assam and Darjeeling region were higher by Rs.100/- per KG. The overall price realization was higher by Rs.86/- per KG.

➤ JTIL monetized certain assets & investments and reduced their debt dramatically in order to save on interest/finance burden, which facilitated it in a big way to generate reasonably robust Operating Cash Flow (OCF) of about Rs.120 crores in FY21 as compared to minuscule Rs.8 crores in the previous year. Going forward, the main objective of the management is to bolster the cash flow position and strengthen it further. It also undertook scores & plethora of other measures to cut down cost holistically across the board and thereby went frugal.

➤ The distillery set up at sugar unit is running at optimum capacity. Moreover, the company took steps for development of sugarcane and has requested Government of Bihar to put embankments in required areas to stop flooding and mitigate the hardships faced by sugarcane farmers. These measures shall help in streamlining the operations of sugar mill in the foreseeable future.

➤ Management is endeavoring to focus on **branded tea** as they are increasingly enthusiastic about its key future prospects and potential in **deriving substantially incremental revenues and profitability** for the company going ahead. Also, in general **branded tea** is witnessing **good amount of demand** from consumers at large.

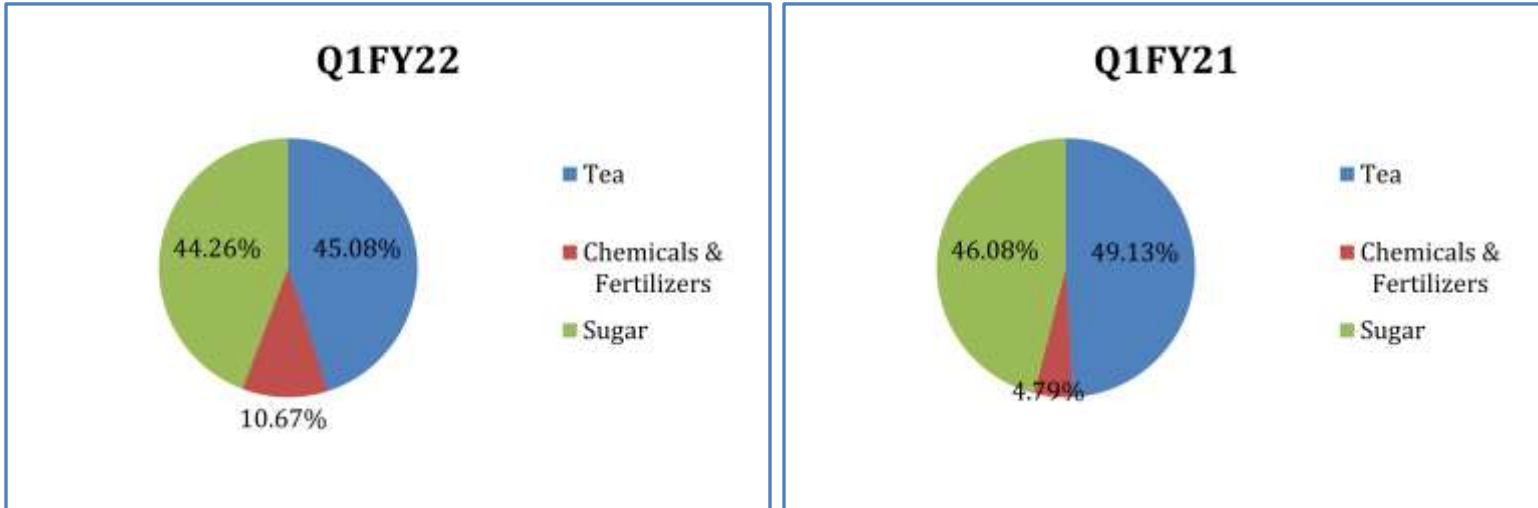
### Recommendation

**JTIL's key endeavor to deleverage its Balance Sheet and yielding cash flow should augur well to improve its overall financial position and margins picture in future. At the CMP Rs.107.70 the scrip is trading at ~17.95 times its FY22e earnings. Hence, we recommend a buy on the stock with a target price of Rs.140/- which implies a prospective and potential upside of ~30.00% with an investment horizon of 9-12 months.**

Particulars (In Rs.Crs)	Q1FY22	Q1FY21	Var%	FY21	FY20	FY19	FY18
Net Sales	158.60	155.62	1.91	801.85	717.32	756.92	755.15
Operating Profit	11.34	17.56	-35.42	82.20	27.69	64.37	60.46
Consolidated Net Profit	-3.56	-1.95	-82.56	19.05	-102.16	-3.53	34.22
PBIDTM%	7.15	11.28	-36.63	10.25	3.86	8.50	7.98
PATM%	-2.24	-1.25	-79.13	0.32	-11.52	-0.52	0.30
EPS (Rs.)	-1.57	-0.86	-82.56	8.41	-45.07	-1.56	15.31

\*Source: Company, Ace Equity, AUM Research

**Segmental Revenue Pie:**



\*Source: Company, Ace Equity, AUM Research

- JTIL key major Input cost i.e. Wages has gone up drastically in last couple of years however tea as a commodity has not seen any significant price increase over last 10 years. Therefore, going ahead it is of a paramount & pertinent importance that the price of tea should head northward in commensuration with hike in wages which will help the company withstanding tough times.
- Silver lining for JTIL is that in the course of last year and a half the in home consumption of tea has witnessed a tremendous surge, however on the other hand, out of home consumption has drifted lower significantly because of Covid-19 pandemic. Now, out of home consumption would also rise which would underpin the company to generate demand and grow its topline & margins.
- JTIL has cemented its **Market Positioning** in mind of its targeted consumers in such a niche way that is self-sufficient to generate adequate amount of traction and offtake at its own accord & sheer ability. Furthermore, company has identified its own set of market to sell its high quality tea where people are ready to pay premium quality tea.
- Ever since the advent of pandemic people and society at large have become complacent and extremely health conscious, whereby tea as a beverage has been recognized as a health drink which itself presents an enormous and immense room for propelling the growth of JTIL as an entity.
- **Green Tea** has an incredibly and unbelievably excellent market which further renders impetus and a fillip for JTIL to capitalize and encash, as a result of its growing curve and trajectory.
- Exports for FY21 remained subdued/stagnant at Rs.55 crores amid pandemic as the demand for tea globally turned lackluster & lukewarm due to availability of cheap tea in the western world.
- In time to come sugar segment of JTIL is expected to do well as company has deployed a distillery unit which hitherto is operating at optimum capacity utilization, besides government pre-poning ethanol blending program could be yet another tailwind and trigger in the making entailing underlying fundamentals of JTIL.

**Sectoral Glimpse:**

- Tea production in India has seen a significant rise after the first wave of covid-19 pandemic, with production much higher this year compared to the last. As per data, the total tea production of India till the month of June'2021 is estimated to be over 443 million KGs, while the production last year during this period was around 349 million KGs which indicate a growth of over 26%.
- Tea prices started on a strong note this year with prices ruling higher than last year on the back of crop loss due to adverse weather conditions. After mid-June, however, prices started dropping, though they are still higher than 2019-levels for north Indian teas (which account for more than 80% of total production).
- A loss of 130-135 million KGs of production due to the pandemic last year was covered by the loss of exports and out-of-home consumption. At-home consumption had, however, increased materially.
- Since the commencement of the season markets are looking strong and prices are firming up as there is no carryover whatsoever.
- This year particularly April and May saw significant loss of crop due to a severe drought and prices moved up. But in late May and early on, in June **Assam received conducive amount of rainfall which in turn naturally percolated down in growing and flourishing the crop.**
- Going forward, as supply normalizes consumers' willingness to pay for quality tea would be much higher as the propensity to consume reasonably good quality tea is ripened, therefore there is a fair possibility that prices may see a discreet uptick as a result of growing demand for consuming good quality healthy tea.
- The total quantity of tea sold between April & July '21 stands over 35% which is more than double compared to last year figure of over 16%.
- In January 2021 West Bengal government announced a 15% increase in wage rates, on an interim basis, which has further increased the cost of production.
- Now in soul-searching tea industry **particularly JTIL is constantly looking up to the government profoundly for some sort of handholding** in order to persuade them to pass and facilitate a price hike in the impending future or in offing, which is extremely pertinent at this juncture since wages has been going up for last 10 years but tea prices needle hasn't nudged much yet.
- **JTIL management strongly believes that now it is astoundingly & significantly crucial that tea prices should go up**, failing which it would be very tumultuous for the industry to sustain and survive in the long run as two critical sectors fortune and fate are dependent upon the industry i.e. the small grower co-operative industry and organized sector as well.
- In an unprecedented time like this, maximum consumption of **green tea** in particular would propel and swell the growth for the company.

**Financials**

Quarterly Results (Value in Rs. Crs)						
Particulars	Q1FY22	Q1FY21	Var%	FY21	FY20	Var%
Net Sales & Other Operating Income	158.60	155.62	1.91	801.85	717.32	11.78
Total Expenditure	151.66	143.68	5.55	740.70	766.02	-3.31
PBIDT (Excl OI)	6.94	11.94	-41.88	61.15	-48.70	-225.56
Other Income	4.40	5.62	-21.71	21.05	76.39	-72.44
Operating Profit	11.34	17.56	-35.42	82.20	27.69	196.86
Interest	9.15	13.08	-30.05	47.85	59.27	-19.27
Exceptional Items	0.00	0.00	NA	-5.78	-15.15	-61.85
PBDT	2.19	4.48	-51.12	28.57	-31.58	-190.47
Depreciation	5.79	6.37	-9.11	25.31	24.63	2.76
Tax	-0.04	0.06	-166.67	0.72	11.30	-93.63
Consolidated Net Profit	-3.56	-1.95	-82.56	19.05	-102.16	-118.65
EPS (Rs.)	-1.57	-0.86	-82.56	8.41	-45.07	-118.66

In Q1FY22 the topline of the company remained largely flat at Rs.158.60 crores; operating profit contracted 35% to Rs.11.34 crores. Consolidated net loss swelled to Rs.3.56 crores. Earnings before Interest & Tax (Ebit) for tea unit has halved to Rs.6.10 crores viz-à-viz Rs.11.84 crores last year.

Income Statement (Value in Rs. Crs)				
Particulars	FY21	FY20	FY19	FY18
Net Sales & Other Operating Income	801.85	717.32	756.92	755.15
Total Expenditure	740.70	766.02	735.75	742.91
PBIDT (Excl OI)	61.15	-48.70	21.17	12.25
Other Income	21.05	76.39	43.20	48.22
Operating Profit	82.20	27.69	64.37	60.46
Interest	47.85	59.27	49.11	42.58
PBDT	28.57	-31.58	15.26	17.88
Depreciation	25.31	24.63	19.27	17.80
PBT	3.26	-71.36	-4.01	0.08
Provision for Tax	0.72	11.30	-0.06	-2.15
Consolidated Net Profit	19.05	-102.16	-3.53	34.22
EPS (Rs.)	8.41	-45.07	-1.56	15.31

\*Source: Company, Ace Equity, AUM Research

Balance Sheet (Value in Rs. Crs)				
Particulars	FY20	FY19	FY18	FY17
<b>EQUITY AND LIABILITIES</b>				
Share Capital	11.33	11.33	11.17	11.17
Total Reserves	202.22	311.32	321.69	286.16
<b>Shareholder's Funds</b>	<b>213.55</b>	<b>322.65</b>	<b>332.86</b>	<b>297.33</b>
Secured Loans	110.82	100.01	116.72	93.80
Unsecured Loans	20.00	34.36	46.85	49.94
Deferred Tax Assets / Liabilities	-5.35	-15.14	-11.28	-5.10
Other Long Term Liabilities	11.07	5.73	5.27	6.15
Long Term Provisions	51.50	39.50	23.75	22.53
<b>Total Non-Current Liabilities</b>	<b>188.04</b>	<b>164.47</b>	<b>181.31</b>	<b>167.32</b>
Trade Payables	272.35	290.31	232.92	214.60
Other Current Liabilities	133.61	115.83	104.51	113.54
Short Term Borrowings	315.63	303.44	224.93	216.65
Short Term Provisions	49.77	48.30	43.44	44.98
<b>Total Current Liabilities</b>	<b>771.36</b>	<b>757.89</b>	<b>605.80</b>	<b>589.77</b>
<b>Total Liabilities</b>	<b>1,172.96</b>	<b>1,245.01</b>	<b>1,119.97</b>	<b>1,054.42</b>
<b>ASSETS</b>				
Gross Block	642.46	517.78	485.47	463.99
Less: Accumulated Depreciation	196.25	174.67	162.53	147.21
<b>Net Block</b>	<b>446.21</b>	<b>343.11</b>	<b>322.94</b>	<b>316.78</b>
Capital Work in Progress	29.46	103.51	22.08	15.55
Non Current Investments	163.00	285.27	276.67	224.10
Long Term Loans & Advances	17.20	17.87	16.18	14.25
Other Non Current Assets	5.52	5.61	3.18	3.19
<b>Total Non-Current Assets</b>	<b>661.39</b>	<b>755.37</b>	<b>641.06</b>	<b>573.87</b>
Current Investments	23.54	2.46	19.67	26.90
Inventories	300.27	307.11	263.60	257.75
Sundry Debtors	57.35	60.83	74.09	80.80
Cash and Bank	28.95	7.36	26.28	34.37
Other Current Assets	64.79	53.48	61.92	58.75
Short Term Loans and Advances	36.68	58.39	33.35	21.99
<b>Total Current Assets</b>	<b>511.57</b>	<b>489.64</b>	<b>478.91</b>	<b>480.56</b>
Net Current Assets (Including Current Investments)	-259.79	-268.25	-126.88	-109.21
Total Current Assets Excluding Current Investments	488.03	487.18	459.24	453.66
<b>Total Assets</b>	<b>1,172.96</b>	<b>1,245.01</b>	<b>1,119.97</b>	<b>1,054.42</b>

\*Source: Company, Ace Equity, AUM Research



**Aum Capital RESEARCH DESK**

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