Harrisons Malayalam Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	86.59 (Reduced from 105.75)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	4.26	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Short Term Bank Facilities	-	-	Withdrawn @
Total Bank Facilities	**90.85 (Rs. Ninety Crore and Eighty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1| @Rating is withdrawn as the company has repaid the debt and has submitted confirmation from auditor about the same.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Harrisons Malayalam Ltd (HML) factors in improvement in its financial risk profile during FY21 (refers to the period April 1 to March 31) aided by increased production in both tea and rubber segments along with improvement in tea prices and steady increase in rubber realization. HML's improved performance is likely to sustain in near to medium on back of sharp increase in rubber prices during current financial year even though tea prices have corrected for FY21 levels. At the same time, due to accelerated replantation (ARP) exercise taken by the company in rubber segment earlier, matured area has grown up for company which would augur well for company's prospects. Similarly, with best agricultural practices at tea estates is expected to aid division's production and inturn profitability. With improvement in cash accruals earned by company, there has been improvement in capital structure and debt coverage indicators.

The ratings also continue to factor in company being a part of RPG/RP - SG group, the promoter and management's experience in the plantations business, the company's long standing in the tea and rubber industry; being the single - largest producer of rubber in the country and second largest producer of tea in South India, secure market for its centrifuged latex as well as established corporate relationship in tea business. The rating also factors in financial flexibility which the company derives being part of strong promoter group which helps it in arranging unsecured loans/inter corporate deposits to meet liquidity gap in the past and is expected to continue in the future. The rating takes note of the scheme of amalgamation and arrangement applied by company being dismissed by NCLT with right for fresh application granted to the company, however, company have not filed any fresh application regarding the same.

HML's operations are highly exposed to vagaries of nature and volatile commodity prices. In the past, company's operations had been affected due to above leading to losses which were primarily funded with debt. Therefore, HML's ability to continue to sustain its improved performance over the period of time resulting in further de-leveraging remains to be seen. The wage revision is also falling due in near term and more than envisaged increase in the same may impact HML's profitability. The rating continues to factor in labour and working capital intensive nature of industry, operations being exposed to global demand - supply dynamics and fragmented nature of the industry.

<u>Rating Sensitivities</u>

Positive Factors that can lead to positive rating action/ upgrade

• Sustained improvement in Overall gearing of the company marked by Total outside liabilities to total net worth to remain below 1.5x and Total debt/GCA to be below 2.00x

Negative Factors that can lead to positive rating action/ upgrade

• Increase in gearing (Debt/Net-worth) beyond 1.50x levels and/or TD/GCA (>5x) on a sustained basis.

• Significant deterioration in liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance of both divisions

<u>Tea:</u> Due to drop in North India tea production during FY21, tea prices shot up benefiting Southern tea plantation companies including HML which reported segment profits in FY21 after registering losses in FY19 and FY20. While the tea prices have corrected in recent months, however, continues to remain above earlier levels of prices witnessed in FY18-FY19. Also, own

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

tea production has been improving due to the best agriculture practices being implemented by the company in order improve the yield per hectare. The yield per hectare is expected to increase around 5% in the coming years.
Rubber Segment: The products manufactured by HML are Latex Concentrates (Cenex). Approximately 75% of the company's supply goes to non-tyre segment commanding premium prices over RSS4 rubber prices. The rubber segment contributed nearly 48% of total sales of the company in FY21. The company had undertaken accelerated re-plantation program (ARP) during FY09-FY15 in order to increase the quality and yield of the produce. The benefits ARP has started to yield result due to which the mature to total area planted has stood at 74.31% of total area planted. At the same time, with increasing demand for rubber outpacing the supply, there has been increase in rubber prices. Price realization has already improved significantly to Rs. 188/kg as against earlier averages of Rs. 145-155/kg. Therefore, with increase in matured area as well improvement in realization is likely to benefit the company's profitability in near to medium term.

Promoters and management experience in the plantations business
Harrisons Malayalam Ltd (HML) is part of the RPG/RP-SG group of companies. The group is a business conglomerate with diverse business activities including presence in tyres, power transmission, electricity distribution, retail, IT, pharmaceuticals etc. CEAT (rated CARE AA; Stable/A1+), KEC International (CARE AA-; Stable/A1+), Phillips Carbon Black Ltd (CARE AA; Stable/A1+), CESC Ltd (CARE AA; Stable) and Saregama India Ltd (CARE A+; Positive/A1+) are some of the prominent names in the group.
Presently, Mr Venkitraman Anand and Mr Cherian M George are whole time directors of the company (w.e.f February 2019). He has 25 years of experience with HML and has deep knowledge in plantation and allied business.

Company's strong standing in tea and rubber industry
HML incorporated in 1978, is one of the oldest plantations company in South India, having a history of over 150 years. Until 1984, the company was part of a UK based speciality chemical company before RPG Enterprises took over. HML is the single largest producer of rubber in the corporate sector in the country having a production capacity of more than 13 million kgs. HML is also the 2nd largest producer of tea in South India having a production capacity of 23 million kgs. HML has a cultivated area in tea and rubber of approximately 13500 hectares. The operations of the company are spread across 11 rubber estates and 13 tea estates of which 2 tea states are in Tamil Nadu and the rest are in Kerala. Operations of the company are spread over 24 estates, 8 rubber factories and 12 tea factories along with several blending and processing units across state of Kerala, Karnataka and Tamil Nadu. The product under rubber ranges from concentrated rubber latex, crepe, block and sheet rubber forms, whereas under tea it ranges from CTC Tea (black tea prepared under Crush, tear and curl technique) and Orthodox tea.

Tree felling income
Typically, life of rubber plant is around 25 years after which it must be cut, and new plant is to be grown. Government of Kerala had banned tree felling which had impacted the rubber yield. HML had taken the matter to Supreme Court and received favourable order to commence tree felling. This has resulted in higher tree felling income in FY20 and FY21. Going forward, company is likely to earn steady state income of Rs. 7-8 crore p.a.

Improvement in Q1FY22 performance
Generally, PAT margins of company remain negative during Q1 as company needs to invest into soil preparation and replanting exercise which gives benefit to the company in subsequent quarters. During Q1, company generally sells stocks in hand as on year end which is low in quantity when compared to total output during Q3 and Q4. The improvement PAT levels in Q1FY22 due to increase in Tea as well as rubber prices.

Improved and satisfactory capital structure
Overall gearing and TOL/TNW has witnessed improvement as on March 31, 2021 following generation of high profits resulting in reduced WC borrowings and regular repayment of term debt.

Key Rating Weaknesses
Exposure to volatility in commodity prices
Both tea and rubber prices are determined by global demand-supply scenario and has shown high volatility in the past. During FY21, tea production in North India (one of the largest producers in world) was affected due to floods in Assam resulting in improvement in tea prices. With expected improvement in production during current year, prices have correct itself. Similarly, rubber prices have been increasing during current year as globally demand is outpacing supply coupled with lower production output in South-East Asian countries.
While such recent improved prices has aided company's profitability and liquidity but given the volatility witnessed in commodity prices in the past, recurrence of reduction in prices cannot be ruled out which may impact company's credit profile.

Labour and working capital intensive nature of industry
The operations of the company are highly based on the labour or human capital which cost nearly 40-50% of total cost to the company in the form of by way of salaries & wages, various employee welfare facilities, etc. As per the company, the wage revision is due on January 1, 2022 but there is no further development as the discussion is yet to be started. Higher than envisaged increase may impact company's profitability. HML's working capital requirement primarily arises from its tea division wherein credit is offered to export customers and auctioned sale, while rubber division has largely been on cash and carry model. On an average, the working capital limits were utilized at 68.43% having a cushion of Rs.7-10 Cr to the company which helps the company in paying off financial liabilities of the company.

Liquidity: Adequate
HML's liquidity position has improved following increase in price realization in both commodities leading to reduced WC utilization. Average WC utilization has improved from earlier level of near full to 68.14% for past 12 months ended July 2021. Company had cash and bank balance of Rs. 1.99 crore as on June 30, 2021. Operating cycle also remains comfortable at 5 days with average receivables collection period of 11 days. Company has been able to raise additional finance/refinance debt from the lenders in the past during period of cash losses on back of company being part of strong promoter group.

Analytical approach: Standalone
Applicable Criteria
Policy in respect of Non-cooperation by issuer
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies

About the Company
Harrisons Malayalam Ltd (HML) incorporated in 1978, is primarily engaged in the cultivation and manufacturing of tea and natural rubber. The company has 13 tea estates spread across 6021 hectares in the states of Kerala and Tamil Nadu producing CTC and Orthodox Tea. It has 11 rubber plantations spread across 7306 hectares in Kerala. The company belongs to the RPG/RP-SG group which has interests in tyres, power, transmission, electricity distribution, retail, IT, pharmaceuticals etc.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	387.44	451.27
PBILDT	23.74	55.48
PAT	9.29	40.45
Overall gearing (times)	1.49	0.86
Interest coverage (times)	1.49	4.08

A: Audited
Status of non-cooperation with previous CRA: ICRA vide its press release dated December 29, 2016 suspended rating of HML in the absence of requisite information from the company.
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	37.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees		-	-	-	4.26	CARE A3+
Fund-based - LT-Term Loan		-	-	September 2024	49.59	CARE BBB; Stable
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Oct-20)	1)CARE BBB-; Negative (03-Oct-19)	1)CARE BBB-; Negative (22-Feb-19) 2)CARE BBB-; Stable (08-Oct-18)
2	Non-fund-based - ST-Bank Guarantees	ST	4.26	CARE A3+	-	1)CARE A3 (06-Oct-20)	1)CARE A3 (03-Oct-19)	1)CARE A3 (22-Feb-19) 2)CARE A3 (08-Oct-18)
3	Fund-based - LT-Term Loan	LT	49.59	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Oct-20)	1)CARE BBB-; Negative (03-Oct-19)	1)CARE BBB-; Negative (22-Feb-19) 2)CARE BBB-; Stable (08-Oct-18)
4	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)CARE A3 (06-Oct-20)	1)CARE A3 (03-Oct-19)	1)CARE A3 (22-Feb-19) 2)CARE A3 (08-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Current ratio	Minimum of 0.41 to be maintained.
B. Non-financial covenants	
I. Minimum of 0.41 to be maintained.	10% of bank Guarantee availed to be maintained as cash collateral in form of fixed deposit
II. Unsecured loan from promoters	Unsecured loan from promoters shall not be repaid without approval of the lender

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Limits	Simple
4	Non-fund-based - ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
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