Harrisons Malayalam Limited

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	102.41 (Reduced from 117.40)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	9.26	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Harrisons Malayalam Limited (HML) continue to derive strength from the company being part of the Rama Prasad Goenka Group (RPG)/RP-Sanjiv Goenka Group (RP-SG) and the promoter and management's experience in the plantations business. The ratings further derive strength from the company's standing in the tea and rubber industry, being the single-largest producer of rubber in the country and the second-largest producer of tea in South India; the secure market for its centrifuged latex; as well as its established corporate relationships in the tea business.

The ratings also factor in the financial flexibility that HML derives from being part of the strong promoter group, which has helped it in arranging unsecured loans and inter-corporate deposits (ICDs) to meet the liquidity gap in the past and is expected to continue in future as well. Furthermore, the ratings consider the satisfactory performance of HML in FY23, supported by improved sales volumes of tea and rubber, and the comfortable capital structure and debt coverage indicators of the company.

The ratings are, however, constrained by the operations being exposed to vagaries of nature and the global demand-supply dynamics, the volatile commodity prices, the increasing labour costs with operations being labour-intensive. Due to the delayed monsoons and the lower matured area in the rubber segment, HML has reported a net loss in H1FY24. Nevertheless, according to CARE Ratings Limited (CARE Ratings), the company will be able to recover from the losses in H2FY24 on the basis of higher cropping and will be able to generate higher revenues and profitability than H1.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement and turnaround in the tea business, with the company maintaining a return on capital employed (ROCE) above 15% and interest coverage ratio (ICR) above 3x.

Negative factors

- ICR less than 1.5x and total debt (TD)/profit before depreciation, interest and tax (PBDIT) of more than 5x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that HML will continue to sustain its scale of operations, aided by its long standing in the industry and the improving yield of its plantations.

Detailed description of the key rating drivers

Key strengths

Sustained performance in FY23, however, subdued in H1FY24

Tea: Tea contributed to around 46% of the total sales of HML in FY23 as against 41% in FY22. HML has around 6,084 hectare of area under tea plantations, producing crush, tear, and curl (CTC) and orthodox varieties of tea. HML also produces green tea and white tea in small quantities. The tea produced consists of tea from its own operations and tea from bought-out operations (tea leaf is sourced from farmers or co-operative societies and processed at HML's factories). The production of the tea has remained at a similar level in FY23 when compared to FY22. Although the average tea price improved by 11% in FY23 for the company, but correspondingly, the cost of production has also increased by 13% and remains more than the selling price, which is mainly owing to the increase in wage rate and the high cost of packing materials and fertilisers, translating into a loss in the tea segment. In H1FY24, the prices have decreased marginally owing to the consistent decline in orthodox tea prices. The company has been implementing additional agricultural practices, which may result in better yields in future years. With majority of the sales in the form of orthodox tea, the company has benefited in terms of pricing when compared to the market.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rubber: HML has around 7,354 hectare of area under rubber plantations. The rubber segment contributed to around 54% of the total sales in FY23 as against 58% in FY22, the reason being the correction in rubber prices last year. The average rubber price declined by 16% in FY23 for the company. This, coupled with a reduction in the mature area from 73.4% to 71%, impacted the sales of this segment, as the ideal average mature area is 75% of the total area planted. There was a drop in rubber cropping during H1FY24 due to the lower mature area as well as the delayed monsoons. The mature area under rubber plantation has come down as on September 30, 2023, as the plants became due for re-plantation. The low cropping of rubber due to the unfavourable weather conditions is expected to slightly reduce the production of rubber in FY24, with the reliance being more on rubber purchase from small farmers. HML has entered into barter arrangements with vendors, wherein, the vendors are allowed to cultivate pineapples in a few rubber estates.

Overall, according to CARE Ratings, while the tea division's profitability will continue to be impacted by increasing cost pressures, the profitability of the rubber segment will also be muted owing to the lower matured area and lower rubber prices.

Tree-felling income
Typically, the life of a rubber plant is around 25 years, after which it must be cut and a new plant must be grown. The Government of Kerala had banned tree-felling, which had impacted the yield of rubber. HML had taken the matter to the Supreme Court and received a favourable order to commence tree-felling. CARE Ratings expects the company to earn a steady state income of around ₹8 crore per annum, going forward.

Satisfactory capital structure with comfortable debt coverage indicators
The overall gearing of HML remained comfortable at 0.62x as on March 31, 2023, as against 0.65x as on March 31, 2022, along with improvement in the total outside liabilities (TOL)/tangible net worth (TNW) to 2.79x as on March 31, 2023, as its dependence on the working capital limits remained low in FY23 on account of better cash flows from operations. The company has availed additional term loans for meeting its replantation expenses and its working capital requirements. The debt coverage indicators, including ICR and TD/gross cash accruals (GCA) of the company, stood at 2.23x and 4.43x, respectively, in FY23. With no major debt-funded capex plan in place, CARE Ratings expects HML's capital structure to further improve going forward.

Promoters and management experience in the plantations business
HML is part of the RPG/RP-SG group of companies. The group is a business conglomerate with diverse business activities, including a presence in tyres, power transmission, electricity distribution, retail, Information Technology (IT), and pharmaceuticals, among others. CEAT (rated 'CARE AA; Stable/CARE A1+'), KEC International (rated 'CARE AA-; Stable/CARE A1+'), PCBL Ltd (rated 'CARE AA; Stable/CARE A1+'), CESC Ltd (rated 'CARE AA; Negative/CARE A1+'), and Saregama India Ltd (rated 'CARE AA-; Stable/CARE A1+') are some of the prominent names in the group. Venkitraman Anand and Cherian M George are the current whole-time directors of the company, who each have 25 years of experience with HML with deep knowledge of the plantation and allied businesses.

The company's strong standing in the tea and rubber industries
HML, incorporated in 1978, is one of the oldest plantation companies in South India, having a history of over 150 years. Up to 1984, the company was part of a UK-based speciality chemicals company before RPG Enterprises took over. HML is the single-largest producer of rubber in the corporate sector in India, having a production capacity of more than 13 million kg. HML is also the second-largest producer of tea in South India, having a production capacity of 23 million kg.

HML has a cultivated area of approximately 13,500 hectare in tea and rubber. The operations of the company are spread across 24 estates – 11 rubber estates and 13 tea estates, of which two tea estates are in Tamil Nadu and the rest are in Kerala. HML has eight rubber factories and 12 tea factories, along with several blending and processing units across the states of Kerala, Karnataka, and Tamil Nadu. The products under rubber range from concentrated rubber latex, crepe, block, and sheet rubber forms, whereas under tea, it ranges from CTC tea and orthodox tea.

Key weaknesses
Deterioration in H1FY24 sales and profitability owing to increase cost of production and decline in prices
Generally, the profit-after-tax (PAT) margin of the company remains negative during Q1, as it needs to invest in soil preparation and replanting exercises, which gives it benefits in the subsequent quarters. During Q1, HML generally sells the stocks in hand as on year-end, which is low in quantity when compared to the total output during Q3 and Q4, which are generally high crop quarters. The main factor that has affected HML's sales and profitability during H1FY24 is low rubber cropping due to the unfavourable weather and the increased cost of production, including employee cost and the cost of packaging materials and fertilisers.

Labour and working capital-intensive nature of the industry
The operations of the company are highly labour- or human capital-based, which make up nearly 42% of the company's total cost by way of contract cost, salaries and wages, various employee welfare facilities, etc. As per the company, the wage revision was done in January 2023 for both, the tea and rubber divisions, which increased the wages of labourers by ₹42 per day. The company has already created the necessary provision for the same last year. HML's working capital requirements primarily arise from its tea division, wherein, credit is offered to export customers and auctioned sale, while the rubber division has largely been

on a cash-and-carry model. HML, on an average, has a sufficient working capital utilisation limit. The working capital limits were utilised at 53% for the 12 months ended September 30, 2023.

Exposure to agro-climatic risk and susceptibility to price volatility
Both, tea and rubber are agricultural commodities, thus exposing HML to agro-climatic and price volatility risks. Moreover, the cost associated in the production of tea is primarily fixed, mainly in terms of labour cost, which varies irrespective of the production volume. This fixed cost-intensive nature of the industry leads to variability in the profitability and cash flows of the company. Additionally, rainfall plays a vital role in rubber cropping and the quality of tea. Insufficient rainfall can potentially impact the productivity of the company, which in turn, affects the profitability margins. Furthermore, domestic commodity prices are influenced by international prices, which impacts the demand-supply situation and leads to price fluctuations in the domestic market.

Liquidity: Adequate

HML's liquidity position is adequate, marked by healthy cash flow from operations, which stood at around ₹29 crore in FY23. The company's working capital utilisation for the 12 months ended September 30, 2023, stood low at 53%. HML had a cash and bank balance of ₹1.4 crore as on September 30, 2023. The operating cycle also remains comfortable at two days, with the average receivables collection period improved from 12 days as on March 31, 2022, to 10 days as on March 31, 2023. The company has been able to raise additional finance and refinance debt from lenders in the past during times of cash losses, on the back of it being part of a strong promoter group.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Rubber

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 6,021 hectare in the states of Kerala and Tamil Nadu, producing CTC and orthodox tea. It has 11 rubber plantations spread across 7,306 hectare in Kerala. HML belongs to the RPG/RP-SG group, which has interests in tyres, power, transmission, electricity distribution, retail, IT, and pharmaceuticals, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	471.53	486.77	217.58
PBILDT	31.23	27.26	0.75
PAT	22.95	17.78	-4.42
Overall gearing (times)	0.65	0.62	NA
Interest coverage (times)	2.79	2.23	0.12

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	39.50	CARE BBB; Stable
Fund-based - LT-Term loan	-	-	-	28/02/2028	62.91	CARE BBB; Stable
Fund-based - ST-Bill discounting/ Bills purchasing	-	-	-	-	5.00	CARE A3+
Non-fund-based - ST-Bank guarantee	-	-	-	-	4.26	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	39.50	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Oct-22)	1)CARE BBB; Stable (06-Oct-21)	1)CARE BBB-; Stable (06-Oct-20)
2	Non-fund-based - ST-Bank guarantee	ST	4.26	CARE A3+	-	1)CARE A3+ (28-Oct-22)	1)CARE A3+ (06-Oct-21)	1)CARE A3 (06-Oct-20)
3	Fund-based - LT-Term loan	LT	62.91	CARE BBB; Stable	-	1)CARE BBB; Stable (28-Oct-22)	1)CARE BBB; Stable (06-Oct-21)	1)CARE BBB-; Stable (06-Oct-20)
4	Fund-based - ST-Working capital limits	ST	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A3 (06-Oct-20)
5	Fund-based - ST-Bill discounting/Bills purchasing	ST	5.00	CARE A3+	-	1)CARE A3+ (28-Oct-22)	-	-

LT/ST: Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - ST-Bill discounting/Bills purchasing	Simple
4	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:

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