Harrisons Malayalam Limited

June 04, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the outlook assigned to bank facilities of Harrisons Malayalam Limited (HML) considers the challenging business environment for tea segment owing to continuing lower tea prices against cost of production and inadequate compensation from its rubber division, as was witnessed in FY24, which could keep its debt metrics stressed. Though the tea segment has largely been loss incurring segment for the company, it had been compensated by profits in the rubber segment. While rubber prices are on an increasing trend, there is uncertainty over rubber production levels, which may put strain on the company's liquidity.

In FY24, the company's performance was negatively impacted due to decline in realisation in the tea segment, and lower rubber cropping due to erratic monsoon, which impacted the company's overall profitability. Ratings are also constrained by operations being exposed to vagaries of nature and global demand-supply dynamics, volatile commodity prices, and increasing labour costs with operations being labour-intensive. CARE Ratings Limited (CARE Ratings) believes that the company's ability to generate higher revenues and profitability depends on recovery in rubber cropping and sustenance of increased rubber prices, which are key monitorable.

However, ratings 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. 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; secure market for its centrifuged latex; and its established corporate relationships in the tea business. Ratings also factor in financial flexibility that HML derives from being part of the strong promoter group, which has helped in arranging unsecured loans and inter-corporate deposits (ICDs) to meet the liquidity gap in the past and is expected to continue in the future as well.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainably improving turnaround in the tea and rubber business, maintaining 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) to profit before depreciation, interest and tax (PBDIT) of more than 5x, on sustained basis.

Analytical approach: Standalone

Outlook: Negative

Negative Outlook reflects CARE Ratings expectation that company's tea division may continue to report loss in the near term considering continued lower tea prices and lower rubber production may result in inadequate compensation of such losses from its rubber division. The Outlook may be revised to 'Stable' in case of better production in the rubber segment and sustenance of current prices.

Detailed description of key rating drivers

Key strengths

Sustained performance in FY24

Tea: Tea contributed to around 47% of the total sales of HML in FY24 as against 46% in FY22. HML has around 6,084 hectares of area under tea plantations, producing crush, tear, and curl (CTC) and orthodox tea varieties. HML also produces green tea and white tea in small quantities. Production 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). Tea production has witnessed improvement in FY24, when compared to FY23. But average tea price declined by ₹10/Kg in FY24 for the company. Increased cost of production,

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

which is mainly owing to increase in wage rate and high processing cost, further translated into a loss in the tea segment. In addition to this, the company also reported decline in orthodox tea export last year. Though tea cropping is expected at satisfactory levels in FY25, high production cost is expected to put pressure on profitability of the tea segment.

Rubber: HML has around 7,354 hectares of area under rubber plantations. Though rubber segment contributed to around 52% of the total revenue in FY24 as against 54% in FY23, it was supported by increase in rubber prices considering supply shortage in the market rather than increase in rubber cropping. Average rubber price increase by 8% in FY24 for the company. There was a drop in rubber cropping in FY24 due to unfavourable weather conditions, which impacted rubber cropping throughout the year. HML entered barter arrangements with vendors, where vendors are allowed to cultivate pineapples in a few rubber estates. This is expected to generate additional income in FY25.

Overall, according to CARE Ratings, while the tea division's profitability will continue to be impacted by increasing cost pressures, further uncertainty involve in rubber cropping will keep the profitability of the rubber segment muted though high rubber prices are expected to support the company's overall profitability.

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 rubber yield. HML had taken the matter to the Supreme Court and received a favourable order to commence tree-felling. In FY24, company generated ₹14 crore from tree felling income. The company is expected to generate tree felling and cross cultivation income of around ₹20 – 25 crore in FY25, which is anticipated to provide liquidity cushion to the company.

Satisfactory capital structure though deterioration debt coverage indicators

Though HML's overall gearing remained satisfactory at 0.68x as on March 31, 2024, as against 0.62x as on March 31, 2023, total outstanding liabilities to total net worth (TOL/TNW) moderated and stood at 3.24x as on March 31, 2024, as against 2.79x as on March 31, 2023, owing to increase in creditors and decline in net worth considering loss incurred by the company in FY24. The debt coverage indicator, ICR deteriorated and stood at 0.80x owing to decline in profitability as against increasing interest charges. The company's TD/gross cash accruals (GCA) stood negative in FY24 considering negative cash accruals. However, the company expects to generate positive net profit in FY25 supported by high rubber prices, tree-felling and cross cultivation income. With no major debt-funded capex plan in place, CARE Ratings expects HML's capital structure to remain at satisfactory levels.

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 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-; Negative/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 plantation and allied businesses.

The company's strong standing in tea and rubber industries

Incorporated in 1978, HML 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 India's corporate sector, having production capacity of more than 13 million kg. HML is also the second-largest producer of tea in South India, having production capacity of 23 million kg.

HML has a cultivated area of approximately 13,500 hectares in tea and rubber. The company's operations 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, and several blending and processing units across Kerala, Karnataka, and Tamil Nadu. Products under rubber range from concentrated rubber latex, crepe, block, and sheet rubber forms, whereas under tea, it ranges from CTC tea to orthodox tea.

Key weaknesses

Deteriorating profitability due to increasing cost of production, low cropping and decline in prices

The company reported net loss of ₹7.29 crore in FY24 as against net profit of ₹17.78 crore in FY23 reason being decline in average tea prices by 6% in FY24. Though tea segment reported increase in production by ~16% in FY24 but due to low incremental pricing against high cost of production resulted in decline in profitability. Tea segment reported losses in FY24 of ₹14.13 crore as against ₹11.08 crore in FY23. Owing to geopolitical tensions, the company witnessed decline in exports, which further impacted profitability of tea segment. In addition to this, the company witnessed decline in rubber cropping by ~18% in FY24 due to heavy rainfall in the tapping season, which resulted in drop in production of rubber though Average market rubber price increased by 8% in FY24 which resulted in profit of ₹23.44 crore in rubber segment. As rubber segment supports the company's overall profitability and with uncertainty involved in rubber cropping due to erratic monsoon, recovery in this segment would be critical.

Labour and working capital-intensive the industry
The company's operations are highly labour- or human capital-based, which make up nearly 44% of the company's total cost by way of contract cost, salaries and wages, and employee welfare facilities, among others. Per the company, wage revision was done in January 2023 for tea and rubber divisions, which increased wages of labourers by ₹42 per day. Increase in wage cost and increase in other production cost has impacted profitability of the tea segment in FY24. FYL's working capital requirements primarily arise from its tea division, where, credit is offered to export customers and auctioned sale, while the rubber division has largely been on a cash-and-carry model.

Exposure to agro-climatic risk and susceptibility to price volatility
Tea and rubber are agricultural commodities, exposing HML to agro-climatic and price volatility risks. Moreover, the cost associated in production of tea is primarily fixed, mainly in terms of labour cost, which varies irrespective of production volume. This fixed cost-intensive nature of the industry leads to variability in the company's profitability and cashflows. Additionally, rainfall plays a vital role in rubber cropping and the quality of tea. Erratic rainfall can potentially impact the company's productivity, which in turn, affects 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
The company derives financial flexibility from being part of strong promoter group, which aids with funding support. Despite incurring continued losses, the company has not relied on additional bank finance but has managed liquidity with fund infusion of ₹17.50 crore in form of inter corporate deposits, of which, only ₹ one crore is outstanding as on March 31, 2024. The company also has healthy cash flow from operations, which stood at around ₹37 crore in FY24. HML had a cash and bank balance of ₹0.87 crore as on March 31, 2024. The company's ability to generate liquidity from its planation operations would be a key monitorable.

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

About the company and industry

Industry classification

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

Incorporated in 1978, HML is primarily engaged in cultivating and manufacturing tea and natural rubber. The company has 13 tea estates spread across 6,021 hectares in Kerala and Tamil Nadu, producing CTC and orthodox tea. It has 11 rubber plantations spread across 7,306 hectares 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, 2023 (A)	March 31, 2024 (UA)
Total operating income	486.77	488.12
PBILDT	27.26	10.46
PAT	17.78	-7.29
Overall gearing (times)	0.62	0.68
Interest coverage (times)	2.23	0.80

A: Audited; UA: Unaudited; Note: These are latest available financial results.

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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; Negative
Fund-based - LT-Term loan	-	-	-	28/02/2028	62.91	CARE BBB; Negative
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 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	39.50	CARE BBB; Negative	-	1)CARE BBB; Stable (01-Dec-23)	1)CARE BBB; Stable (28-Oct-22)	1)CARE BBB; Stable (06-Oct-21)
2	Non-fund-based - ST-Bank Guarantee	ST	4.26	CARE A3+	-	1)CARE A3+ (01-Dec-23)	1)CARE A3+ (28-Oct-22)	1)CARE A3+ (06-Oct-21)
3	Fund-based - LT-Term Loan	LT	62.91	CARE BBB; Negative	-	1)CARE BBB; Stable (01-Dec-23)	1)CARE BBB; Stable (28-Oct-22)	1)CARE BBB; Stable (06-Oct-21)
4	Fund-based - ST-Working Capital Limits	ST	-	-	-	-	-	1)Withdrawn (06-Oct-21)
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	5.00	CARE A3+	-	1)CARE A3+ (01-Dec-23)	1)CARE A3+ (28-Oct-22)	-

LT: Long term; ST: Short term.

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

Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

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About us:

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