Harrisons Malayalam Limited

January 23, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	93.14 (Reduced from 102.41)	CARE BBB; Negative	Reaffirmed
Short-term bank facilities	9.26	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to 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. 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 helped 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.

However, CARE Ratings Limited (CARE Ratings) takes note of challenging business environment for tea segment owing to lower tea prices against high cost of production and expectation of lower production in rubber division, 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.

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 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.

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

Total debt to profit before, depreciation, interest, and taxation (TD/PBDIT) of over 5x or total outside liabilities to tangible net worth (TOL/TNW) of over 2.5x, on sustained basis.

Analytical approach: Standalone

Outlook: Negative

CARE Ratings continue to maintain negative outlook due to expectation of challenging business environment in the near term. The tea segment's losses are likely to continue owing to continuing lower tea prices against of cost of production. While the rubber production is envisaged to be lower, but it would be compensated by increased rubber prices. Lower-than-envisaged realisations may strain the company's liquidity. The outlook may be revised to 'Stable' in case of better production in rubber segment and sustenance of current prices

Detailed description of key rating drivers:

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

Key strengths

Increase in prices of commodities but lower production anticipated
Tea: Tea contributed to ~47% of the total sales of HML in FY24 against 46% in FY23. HML has ~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 improved in FY24, when compared to FY23. But average tea price declined by ₹10/Kg in FY24 for the company. Though tea cropping is anticipated to be lower in FY25 compared to FY24. The segment will be supported by tea prices, however high production cost is expected to put pressure on profitability of the tea segment.

Rubber: HML has ~7,354 hectares of area under rubber plantations. There has been decline in mature area of rubber plantation, which impacted the segment's profitability in FY24 despite increase in rubber prices. With matured area anticipated to further decline in FY25, the segment's profitability depends on sustenance of buoyant rubber prices. HML also enters barter arrangements with vendors, where they 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 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 ~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, the company generated ₹14 crore from tree felling income. The company is expected to generate tree felling of ~₹14 crore and cross cultivation, tourism income, among others of ~₹26-27 crore in FY25, which is anticipated to provide liquidity cushion to the company.

Promoters and management experience in 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, IT, pharmaceuticals among others, Santosh Kumar and Cherian M George are the company's current whole-time directors, who each have over 25 years of experience in plantation and allied businesses.

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 over 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 ~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

Deterioration in debt coverage indicators which is expected to improve in the medium term
Though overall gearing remained comfortable at 0.72x in FY24 (PY: 0.62x) even after reporting losses, however, TOL/TNW deteriorated to 2.28x as on March 31, 2024 (PY: 1.87x), primarily due to increase in creditors. ICR declined from 2.23x in FY23 to 0.80x in FY24 due to moderation in profitability against high interest charges. However, in the current fiscal year, the company is anticipated to report comparatively better profitability supported by price increase in tea and rubber segments and additional revenue from cultivation and tourism, improved is coverage indicator is anticipated. Since rubber segment is generally profitable segment for the company and increase in tapping from FY26-27 considering maturation of rubber plants is anticipated, hence improvement in TOL/TNW and coverage indicator is expected in medium term.

Labour and working capital intensive industry
The company's operations are highly labour- or human capital-based, which make up ~44% of the company's total cost through 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. 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. Domestic commodity prices are influenced by international prices, which impacts the demand-supply situation and leads to price fluctuations in domestic market.

Liquidity: Adequate
HML's liquidity is supported by financial flexibility derived from being part of stronger group and healthy operating cashflows due to increased creditors. It is important for the company to improve production in both segments to improve profitability and cash accruals considering large debt repayment obligations. Based on its strong parentage, company has been able to raise ICD of ₹12.50 crore thus providing liquidity support. Average working capital utilisation for 12-months ended September 2024 stood at 74%. HML had a cash and bank balance of ₹0.87 crore as on March 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 (A)	September 30, 2024 (UA)
Total operating income	486.77	488.12	234.95
PBILDT	27.26	10.46	3.10
PAT	17.78	-7.29	-1.49
Overall gearing (times)	0.62	0.72	0.68
Interest coverage (times)	2.23	0.80	0.47

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	39.50	CARE BBB; Negative
Fund-based - LT-Term Loan	-	-	-	28/02/2028	53.64	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; Negative (04-Jun-24)	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+ (04-Jun-24)	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	53.64	CARE BBB; Negative	1)CARE BBB; Negative (04-Jun-24)	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+ (04-Jun-24)	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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