Harrisons Malayalam Limited

October 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	117.40 (Enhanced from 86.59)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short-term bank facilities	5.00	CARE A3+ (A Three Plus)	Assigned
Short-term bank facilities	4.26	CARE A3+ (A Three Plus)	Reaffirmed
Total bank facilities	**126.66 (₹ One hundred twenty-six crore and sixty-six lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Harrisons Malayalam Ltd (HML) continue to derive strength from the company being part of the Rama Prasad Goenka Group (RPG)/RP-Sanjiv Goenka Group (RP-SG) (RPG/RP-SG) group; the promoter and the management's experience in the plantations business; the company's 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; the secure market for its centrifuged latex as well as the established corporate relationship in the tea business.

The ratings also factor in the financial flexibility that the company derives from being part of the strong promoter group, which helps it 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. Furthermore, the ratings factor in the improvement in sales and profitability in Q1FY23, supported by improved prices of tea and rubber, and the comfortable capital structure and debt coverage indicators of the company.

The ratings are, however, constrained by the subdued operational performance in FY22 in the tea division, resulting in a net loss in the segment after it reported profits in FY21 due to the loss of production in the September-December-2021 period on account of unexpected rainfalls in certain regions. The ratings are also constrained by the operations being exposed to vagaries of nature and the global demand-supply dynamics, the volatile commodity prices, the ever-increasing labour costs with operations being labour-intensive, and the fragmented nature of the industry. The ratings also take into account the falling rubber prices and the wage revisions being fallen, which may impact the profitability of the company, and the same will be key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- 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 – Factors that could lead to negative rating action/downgrade:

- Total debt (TD)/gross cash accruals (GCA) >5x on a sustained basis.
- Significant deterioration in the liquidity profile of the company.

Detailed description of the key rating drivers

Key rating strengths

Consistent improvement in the rubber segment for FY22 and Q1FY23, but subdued performance of the tea segment:

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

Tea: The company's production saw a dip by almost 1,000 metric tonne (MT) on account of unexpected rainfall, resulting in a loss of tea production mainly from the months of September to December 2021. Furthermore, tea prices have fallen, which resulted in losses in the tea segment. Of the total tea sales, orthodox tea contributes around 75-80% and the rest is CTC tea (black tea prepared under crush, tear and curl technique). HML, being the second-largest tea producer in South India, benefited in terms of commanding a premium for its tea in the market. In Q1FY23, the prices have improved marginally, which is expected to sustain in FY23 with a dip in the orthodox supply from Sri Lankan tea producers. HML has been implementing best agricultural practices like bush plantation and drip irrigation out of many more, which may result in better yields in future years and will support the segment's profitability in the medium to long term.
Rubber: HML has around 7,354 hectares under rubber plantations. The benefit of the accelerated replantation programme (ARP) has started to yield results, due to which the mature area planted stood at 74.31% as on March 31,2022, to the ideal average of 75% of the total area planted. HML was able to achieve a higher yield of 1.10 MT per mature area planted in FY22 against 1.06 MT per mature area planted in FY21. With similar production levels and with improvements in the prices in the market, the company was able to generate a better margin in the rubber segment. Although the rubber produced by HML enjoys a premium in the market, however, with the correction in prices for RSS-4 grade rubber in the market, resulting in a dip in its prices for Q2FY23, it may have an impact on the company's profitability in the short run.

Tree felling income: Typically, the life of a rubber plant is around 25 years, after which it must be cut and a new plant is to be grown. The Government of Kerala had banned tree felling, which had impacted the rubber yield. HML had taken the matter to the Supreme Court and received a favourable order to commence tree felling. The company is likely to earn a steady state income of around ₹7-8 crore per annum, going forward.

Consistent improvement in Q1 sales and profitability supported by improved prices of tea and rubber: Generally, the profit-after-tax (PAT) margins of the company remain negative during Q1, as it needs to invest in soil preparation and replanting exercises, which gives it benefits in the subsequent quarters. During Q1, the company generally sells 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 improvement in the PAT levels both, in Q1FY22 and Q1FY23, is on account of the higher tea and rubber prices, supported by improved volumes.

Satisfactory capital structure with comfortable debt coverage indicators: The overall gearing of the company remained comfortable at 0.65x as on March 31, 2022, as against 0.87x as on March 31, 2021, along with improvement in the total outside liabilities (TOL)/tangible net worth (TNW) to 3.08x as on March 31, 2022, as the company's dependence on the working capital limits remained low in FY22 on account of better cash flows from operations. However, the company has availed additional term loans of ₹30 crore in FY22, of which around ₹15 crore was utilised in March 2022 and the balance in Q1FY23. These term loans were utilised for meeting its replantation expenses and its working capital requirements over the years. The ICR of the company stood at 2.79x in FY22 and 2.94x in Q1FY23. The TD/GCA of the company stood at 3.31x in FY22.

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, IT, pharmaceuticals, etc. CEAT (rated CARE AA; Stable/A1+), KEC International (CARE AA-; Stable/A1+), PCBL Ltd (CARE AA; Stable/A1+), CESC Ltd (CARE AA; Stable), and Saregama India Ltd (CARE AA-; Stable/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. They have 25 years of experience with HML and has deep knowledge of plantation and allied businesses.

The company's strong standing in the tea and rubber industries: 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 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 in tea and rubber of approximately 13,500 hectares. The operations of the company are spread across 11 rubber estates and 13 tea estates, of which two tea estates are in Tamil Nadu and the rest are in Kerala. The operations of the company are spread over 24 estates, eight rubber factories, and 12 tea factories, along with several blending and processing units across the states 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 and orthodox tea.

Key rating weaknesses

Labour and working capital-intensive nature of the industry: The operations of the company are highly based on labour or human capital, which costs the company nearly 40-50% of the total cost by way of salaries and wages, various employee welfare facilities, etc. As per the company, the wage revision was due on July 2022, but there is no further development as the discussion is yet to be started and in case of any revision in the wage rates, the following will be applicable retrospectively from the month of July 2022. HML's working capital requirement primarily arises from its tea division, wherein, credit is offered to export customers and auctioned sales, while the rubber division has largely been on a cash-and-carry model. On average, the working capital limits were utilised at 54.14%, having a cushion of ₹10-12 crore, which helps the company pay off financial liabilities.

Exposure to the volatility in commodity prices: Both tea and rubber prices are determined by the global demand-supply scenario and have shown high volatility in the past. During FY22 and Q1FY23, orthodox tea production from Sri Lanka was affected due to the shift from chemical fertilisers to organic fertilisers, resulting in a drop in production during the period. Furthermore, the prices have corrected in FY22 from their all-time high with an increase in the production levels in India. However, the prices for South Indian tea remained higher than the pre-COVID levels. With respect to rubber, production stood low in South-East Asian countries, which resulted in improved prices of rubber in the market in FY21 and continued up to July 2022. China being the largest consumer of rubber, followed by India, had imposed lockdowns to curb the increasing COVID-19 cases, which resulted in a dip in rubber consumption in the country. However, with an increase in production levels and muted demand for rubber in China, the import of rubber in the country has seen a significant increase with lower prices, resulting in the correction of prices in the Indian market.

Liquidity: Adequate

HML's liquidity position has improved following the improvement in cash flows of both commodities, leading to reduced working capital utilisation. The average working capital utilisation stood at around 80% for the last 12 months ended September 30, 2022. The company had a cash and bank balance of ₹4.41 crore as on September 30, 2022. The operating cycle also remains comfortable at three days, with an average receivables collection period of 12 days. The company has been able to raise additional finance and refinance debt from lenders in the past during cash losses on the back of the company being part of a strong promoter group.

Analytical approach: Standalone

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

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. The company belongs to the RPG/RP-SG group, which has interests in tyres, power, transmission, electricity distribution, retail, IT, pharmaceuticals, etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022(UA)
TOI	448.75	471.53	109.88
PBILDT	52.96	31.23	8.70
PAT	40.45	22.95	4.83
Overall gearing (times)	0.87	0.65	NA
Interest coverage (times)	3.90	2.79	2.94

A: Audited; UA: Unaudited; NA: Not 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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	37.00	CARE BBB; Stable
Fund-based - LT-Term loan	-	-	-	February 28, 2028	80.40	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Cash credit	LT	37.00	CARE BBB; Stable	-	1)CARE BBB; Stable (October 06, 2021)	1)CARE BBB-; Stable (October 06, 2020)	1)CARE BBB-; Negative (October 03, 2019)
2.	Non-fund-based - ST-Bank guarantee	ST	4.26	CARE A3+	-	1)CARE A3+ (October 06, 2021)	1)CARE A3 (October 06, 2020)	1)CARE A3 (October 03, 2019)
3.	Fund-based - LT-Term loan	LT	80.40	CARE BBB; Stable	-	1)CARE BBB; Stable (October 06, 2021)	1)CARE BBB-; Stable (October 06, 2020)	1)CARE BBB-; Negative (October 03, 2019)
4.	Fund-based - ST-Working capital limits	ST	-	-	-	1)Withdrawn (October 06, 2021)	1)CARE A3 (October 06, 2020)	1)CARE A3 (October 03, 2019)
5.	Fund-based - ST-Bill discounting/bill purchasing	ST	5.00	CARE A3+				

LT: Long term; ST: Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	i. Minimum debt service coverage ratio (DSCR) of 1.50x to be maintained ii. TD to TNW should not exceed 1.25x
B. Non-financial covenants	i. Asset cover of 1.50x to be maintained during the term of the facility.

Annexure-4: Complexity level of the 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-Bill discounting/bills purchasing	Simple
4.	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the 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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