

Harrisons Malayalam Limited

February 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	122.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short term Bank Facilities	9.26	CARE A3 (A Three)	Reaffirmed
Total	131.26 (Rs. One hundred and thirty one crore and twenty six lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from 'Stable' to 'Negative' reflects expected weakening of HML's credit profile if the subdued operational performance of both rubber and tea division sustains further. Company is taking steps to improve its cash flow position through tree felling income and improved productivity. Ability of the company to execute the same and sustain improvement in its performance in the backdrop of high repayments falling due in FY20 and FY21 will remain key rating monitorable.

The ratings assigned to the bank facilities of Harrisons Malayalam Ltd (HML) continue to derive strength from company being a part of RPG/RP-SG group, the promoter and 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, secure market for its centrifuged latex as well as established corporate relationship in tea business, accelerated replantation exercise in rubber plantations since FY09 (refers to the period April 1 to March 31) resulting in increased mature area under rubber production from own plantation. The rating takes note of commencement of tree felling aiding in incremental cash flows.

The ratings are, however, partially offset by lower than expected operational performance in both rubber and tea segments leading to losses in 9MFY19. While the 9MFY19 financial performance continued to remain subdued, going forward, incremental income from tree felling is expected to support the financial position. The ratings are also constrained by operations being exposed to vagaries of nature and global demand-supply dynamics, labour intensive and fragmented nature of the industry.

Sustained improvement in rubber and tea prices and enhanced volume helping improve the operational cash flow amidst volatile commodity prices, ever increasing labour costs will be the key rating sensitivities going forward.

Outlook: Negative. The negative outlook reflects expected deterioration in financial risk profile of HML credit profile in case of continuing lower production in tea and rubber division and increase in wages. Continued subdued performance of these businesses will weigh negatively on the ratings of the company. With high repayments falling due in FY20 and FY21, company's ability to generate enough cash profits is largely dependent upon timely realization of tree felling income and normal operations.

The outlook may be revised to 'Stable' in case of turnaround in performance of company on back of timely realization of tree felling income helping deleverage and recovery in operational performance of tea and rubber segments.

Detailed description of the key rating drivers

Company continues to post losses in Q3FY19 and has posted net losses of Rs. 24.99 crore during 9MFY19. During 9MFY19, company faced challenges due to Kerala floods and unfavourable climatic conditions which led to crop losses in both rubber and tea division. This alongwith provision for likely wage increase led to company incurring losses. Nevertheless, adequate bank lines available to the company ensured adequate liquidity with company. Though company has higher term loan repayments in FY20 and FY21, however, with realization of tree felling income and resumption of normal operations of company is expected to improve cash profits of the company. Continuing subdued performance could weigh negatively on company's credit profile and would be key rating monitorable.

Liquidity: Company had adequate liquidity in term of free cash balance of Rs. 6.6 crore, average CC utilization of 75% and undrawn bank lines of Rs. 1.8 crore.

The previous detailed press release of the company is available [here](#).

The detailed rationale of the company is available at www.careratings.com

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology-Manufacturing Companies

Financial ratios - Non-Financial sector

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 15 to 18 million kg of CTC and Orthodox Tea. It has 11 rubber plantations spread across 7306 hectares in Kerala, with a production of 11999 MT in FY18. 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)	FY17 (A)	FY18 (A)
Total operating income	367.39	383.45
PBILDT	14.04	12.69
PAT	4.09	4.45
Overall gearing (times)	0.96	0.94
Interest coverage (times)	1.01	1.00

A: Audited

Status of non-cooperation with previous CRA: ICRA vide its press release dated December 29, 2016 has 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

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	4.26	CARE A3
Fund-based - LT-Term Loan	-	-	September 2024	85.00	CARE BBB-; Negative
Fund-based - ST-Working Capital Limits	-	-	-	5.00	CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB-; Negative	1)CARE BBB-; Stable (08-Oct-18)	1)CARE BBB-; Stable (09-Oct-17)	1)CARE BBB- (23-Jun-16)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	4.26	CARE A3	1)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)	1)CARE A3 (23-Jun-16)	-
3.	Fund-based - LT-Term Loan	LT	85.00	CARE BBB-; Negative	1)CARE BBB-; Stable (08-Oct-18)	1)CARE BBB-; Stable (09-Oct-17)	1)CARE BBB- (23-Jun-16)	-
4.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A3	1)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)	1)CARE A3 (23-Jun-16)	-

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