Harrisons Malayalam Limited

October 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	111.25 (reduced from 122.0)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Short term Bank Facilities	9.26	CARE A3 (A Three)	Reaffirmed
Total Facilities	120.51 (Rupees one hundred twenty crore and fifty one lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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 activity post judgments in favour of the company in relation to the on-going litigation with Government of Kerala over the ownership of land. The rating also factors in demonstrated support of promoters/group in arranging unsecured loans/inter corporate deposits to meet liquidity gap in the past and expected to continue in the future.

The ratings are, however, constrained by subdued operational performance in FY19 in both tea and rubber division resulting in net loss and deterioration in capital structure and debt coverage indicators. The rating also factors in stretched liquidity position at present against enhanced repayment obligation in current financial year on account of additional debt taken in FY19. While the Q1FY20 financial performance continued to remain subdued, going forward, incremental income from tree felling is expected to support the cash flows. 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 and interest cost. Continued subdued performance of these businesses will weigh negatively on the ratings of the company. With high repayments falling due in current year, company's ability to generate enough cash profits is largely dependent upon timely realization of tree felling income and operations turning profitable.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters and management experience in the plantations business

Harrisons Malayalam Ltd (HML) is part of the RPG/RP-SG group of companies, acquired in 1984. The group is a business conglomerate with diverse business activities including presence in tyres, power transmission, electricity distribution, retail, IT, pharmaceuticals etc. CEAT (rated CARE AA; Stable/A1+), KEC International (CARE AA-; Stable/A1+), Philips Carbon Ltd (CARE AA-; Positive/A1+), CESC Ltd (CARE AA; Stable/A1+) and Saregama India Ltd (CARE A+; Stable/A1+) are some of the prominent names in the group.

Mr Venkitraman Anand and Mr Cherian Manamel George are whole time directors of the company. Mr. Venkitraman Anand has experience of over 34 years in the industry and has earlier worked in plantations across Assam, West Bengal, Tamil Nadu Kerala and Karnataka. Mr C M George has 23 years of association with HML and has thorough experience in plantation business and legalities.

Company's strong standing in tea and rubber industry

HML 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 kgs. HML is also the 2nd

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

largest producer of tea in South India having a production capacity of 23 million kgs. HML has a cultivated area in tea and rubber of approximately 13500 hectares. The operations of the company are spread over 24 estates, 8 rubber factories and 12 tea factories along with a number of blending and processing units across state of Kerala, Karnataka and Tamil Nadu.

Resumption of tree felling activity post favourable decisions with regard to on-going litigation with the Government of Kerala

In December 2014, the company was served with an eviction notice by the Special Officer appointed by the Government of Kerala (GoK) on the 29,185 acres land (held by HML), under the Kerala Land Conservancy Act, seeking to declare HML's land as Government Land. The company had approached the Hon'ble High Court of Kerala and had obtained a stay on the same. However the Revenue Department has continued its proceedings and issued a ban on the felling of rubber trees. However, High Court ruled the decision over the title of land in favour of HML in April 2018, followed by similar decision by Supreme court in September 2018. Thereafter, HML resumed tree felling activity and booked income of around Rs. 7 crores in Q4FY19 and further anticipates Rs. 50-55 crores to be booked in next two years which shall boost the profitability of the company. In current financial year, HML has realized Rs. 16 cores from tree felling activity till August 2019.
Further GOK has issued an order in April 2018 to scrap plantation tax and also froze the collection of agricultural income tax from plantation sector. GOK has also withdrawn levy of Seigniorage from FY18 onwards and HML is not required to make payment for the tree felling activity resumed from last year.

Key Rating Weaknesses

Subdued performance due to crop loss suffered under tea and rubber division

The tea division contributed to 50% of HML's sales in FY19 with 11.7% decline in revenues over previous year due to adverse climatic conditions for plantations (extended draught). The total tea production declined from 15.3 Mn kgs in FY18 to 13.4 Mn Kgs in FY19. Although, there was marginal improvement in tea prices from Rs. 122 per kg to Rs. 125 per Kg, the profitability from the segment remained negative due to lower volume of sales.
The rubber division contributed 48% to total revenue with decline in sales from Rs. 179 cr in FY18 to Rs. 173 cr in FY19 on account of crop loss of around 2200 MT suffered due to flood in Kerala. As operations of all plantations were affected due to flood resulting in overall reduction in crop, HMLs bought operations were also reduced to 5127 MT as against the targeted 6893 MT in FY19. The rubber prices continue to remain flat. The excess supply from other rubber producing nations and weak demand from end user industries had kept rubber prices under pressure.

Deterioration in capital structure and weak debt coverage indicators with subdued performance in FY19

During FY19, the company reported net loss of Rs. 24.09 crore in FY19 (as against net profit of Rs. 4.45 crore in FY18) resulting in deterioration in net worth. Although the price realization remained stable for both - tea and rubber segment, the production volumes witnessed decline on account of crop loss suffered in both divisions. Enhanced debt (Part–refinance) availed in FY19 resulted in lower repayment obligations but deterioration in debt coverage indicators with dependence on surplus from re-financing exercise to meet repayment obligations in view of stretched liquidity position post cash loss suffered last year. Overall gearing in FY19 stands at 1.55x as against 0.94x in FY18. Going forward, HML expects income from tree felling in addition to normal cash flows to august the liquidity position. HML has received Rs. 16 crore from tree felling activity till month ended, August 2019.

Labour intensive nature of the industry

The nature of the tea and rubber industry makes it highly labour intensive, entailing around 45-50% of total revenue by way of salaries & wages, various employee welfare facilities, etc. Renegotiation of wage rates and welfare related benefits takes place every 2-3 years (Last wage revision happened in July 2015). HML has been providing enhanced wages of Rs. 50 per man day from February 2019 onwards, in line with directive of GOK and has also accounted for 10-12% increase in wages going forward. However any significant increase in wages with no corresponding increase in price realization may negatively impact the profitability margin of HML in the future.

Liquidity Indicator: Stretched

HML's liquidity position is stretched with average utilization of 81% for past 12 months ended July, 2019 and limited cash and bank balance of Rs. 2.3 crore as on March 2019. However, operating cycle remains comfortable at 8 days with average receivables collection period of 14 days. Post refinancing activity in FY19, the working capital utilization remains lower at 81% (for 12 months ended July 2019) than 88% during corresponding period of previous year. HML has un-utilized cash credit limit of around Rs. 3-4 crore at any point of time.

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
Rating Methodology-Short Term Facilities

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 CTC and Orthodox Tea. It has 11 rubber plantations spread across 7306 hectares 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 (Rs. crore)	FY18 (A)	FY19 (A)
Total income	392.04	359.90
PAT	4.45	-24.09
Overall gearing (times)	0.94	1.55
Interest coverage (times)	1.00	NM

A: Audited; NM:Not Meaningful

Status of non-cooperation with previous CRA: *Not Applicable.*

Any other information: *Not Applicable.*

Rating History for last three years: Please refer Annexure-2

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	-	-	-	74.25	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (22-Feb-19) 2)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 (22-Feb-19) 2)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)	1)CARE A3 (23-Jun-16)
3.	Fund-based - LT-Term Loan	LT	74.25	CARE BBB-; Negative	-	1)CARE BBB-; Negative (22-Feb-19) 2)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 (22-Feb-19) 2)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)	1)CARE A3 (23-Jun-16)

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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