Harrisons Malayalam Limited

October 08, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Remarks**
Long term Bank Facilities	122.0	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	9.26	**CARE A3 (A Three)**	Reaffirmed
Total Facilities	**131.26 (Rs One Hundred and thirty one crore and twenty six lakh 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 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 favourable judgements in favour of company in relation to on-going litigation with Government of Kerala over ownership of the land which would pave way for company to earn from tree felling aiding in incremental cash flows. While the FY18 financial performance continued to remain subdued, going forward, incremental income from tree felling is expected to support the financial position.

The ratings are, however, constrained by exposure to vagaries of nature and global demand-supply dynamics, labour intensive and fragmented nature of the industry.

Due to recent Kerala floods, company estimates crop losses in only 8 hectares of area out of total area planted of 6021 hectares in Tea division and loss of production during the month of August due to water clogging at rubber plantation, however, company has resumed normal operation from second week of September. Company estimates improved average price realization in both segments which would offset the losses incurred.

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.

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. 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+), CESC Ltd (CARE AA; Stable/A1+) Saregama India Ltd (CARE A+; Stable/A1+) are some of the prominent names in the group. Acquired by the RPG group in 1984, HML is engaged in manufacturing of tea and rubber. Mr N. Dharmaraj, Whole-time director, has 40 years of experience in the plantations business and has managed plantations and tea factories with Tea Estates India Ltd (part of Brooke Bond Group) and Doom Dooma Tea Estates, Assam (part of Hindustan Unilever Plantations). He looks after the overall management of the company and is well supported by a team of experienced professionals.

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 largest producer of tea in South India having a production capacity of 23 million kgs.

The tea division contributed to 50.8% of HML's sales in FY18. The revenue from the tea division registered a growth of 9.14% in FY18 to Rs. 185 crore from Rs. 169.5 crore. The segment reported PBILDT of Rs.7.40 crore during FY18 as against Rs.1.59 crore during FY17.

Rubber division registered a marginal revenue decline from Rs. 181.5 crore to Rs. 179.0 crore on account of decrease in production by 928 MT. The segment made a PBILDT of Rs 8.0 crore in FY18 as against profit of Rs 9.4 crore in FY17.

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

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

acres on 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 in April 2018, Company has received favourable judgements from division Bench of the Kerala High Court over title of land and in September 2018, Supreme Court also ruled in favour of the company. The judgement would allow company for tree felling income aiding in incremental cashflows.

Further GoK has issued an order in April 2018 to scrap plantation tax and also freezed the collection of agricultural income tax from plantation sector. GOK has also withdrawn levy of Seignior age as and when felling takes place.

Key Rating Weakness

Stable financial performance in FY18 but weak debt coverage indicators: During FY18, the company has reported revenue of Rs.383.5 crore as against Rs.367.4 crore in FY17. PAT has remained stable at Rs. 4.45 crore in FY18 as against Rs.4.09 crore in FY17. The production volumes of rubber witnessed decline and the price realizations remained stable in both segments. Due to absence of tree felling income and high cost structure, company's cash flow remains weak in relation to its debt repayment obligations. Sustained improvement in price and volume is critical from a credit perspective.

Nevertheless, additional income by way of tree felling income along with part refinancing of term loan is expected to improve liquidity.

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. Any significant increase in wages with no corresponding increase in price realization may negatively impact the profitability margin of HML in the future. Further, maintenance of cordial relationship with labourers is also an important factor for smooth functioning of the business.

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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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-; Stable
Fund-based - LT-Term Loan	-	-	September 2024	85.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	4.26	CARE A3
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-; Stable	-	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 (09-Oct-17)	1)CARE A3 (23-Jun-16)	-
3.	Fund-based - LT-Term Loan	LT	85.00	CARE BBB-; Stable	-	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 (09-Oct-17)	1)CARE A3 (23-Jun-16)	-

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