Harrisons Malayalam Limited

October 9, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	90.80	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Reaffirmed
Short term Bank Facilities	17.26	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**108.06 (Rupees One Hundred Eight crore and 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 and accelerated re-plantation exercise in rubber plantations since FY09 (refers to the period April 1 to March 31) resulting in improved rubber production from own plantation in FY17 and expected to help sustain enhanced volume in future years.

The rating also takes into account company's improved operational and financial performance during FY17. Post subdued performance during FY15 and FY16 during which company reported operating losses, FY17 saw company turnaround supported by improved volume of sales and sustained increase in price realisation of both tea and rubber. The operational cash flow though remained weak in relation to its debt obligations. The company sustained satisfactory performance in Q1FY18 registering cash profit as against cash losses in the same period previous year. The ratings are, however, constrained by the on-going litigation with the Government of Kerala over ownership of the land and continuing ban on tree felling affecting incremental cash flows, exposure 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 and ever increasing labour costs and outcome of the on-going litigation with Government of Kerala over ownership of the land 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/A1+), KEC International (CARE A+; Stable/A1+), Phillips Carbon Black Ltd (CARE A+ 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.

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

Dharmaraj, Whole-time director, has 40 years of experience in the plantations business 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

Malayalam Plantations Limited, the predecessor of HML was incorporated in UK in 1921. To comply with the Foreign Exchange requirements under FERA 1973, in 1978 two separate Indian Companies were incorporated under the Indian Companies act, 1956 for the plantation and trading activities. Subsequent to the merger of the said two companies, the name of the company was changed to HML in 1984. 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 thus enabling it to enjoy pricing flexibility. HML is also the 2nd largest producer of tea in South India having a production capacity of 23 million kgs.

Improved performance of Tea division:

The tea division contributed to 46% of HML's sales in FY17. The revenue from the tea division registered a growth of 17% in FY17 to Rs. 181 crore from Rs. 155 crore. During FY17, due to the extended drought during Q1FY17, the production increased only marginally by 3.04% to 13.9mn kgs, resulting in the underachievement of the projected production of 18.5 million Kgs. In FY17, the segment reported a loss of Rs 4.64 crore as against Rs 25.5 crore in FY16, aided by increase in price realisation. However, sustenance of the firm price trend will be critical for the segment to turn profitable. In Q1FY18 the segment made a profit of Rs 4.65 crore.

Turnaround of rubber division:

The segment had reported losses during FY15 and FY16 on account of rising input and labour cost, global supply glut situation and falling crude oil prices resulting in declining volumes and sales realizations. The losses may also be attributed to absence of tree felling income since FY14 owing to on-going litigation with Government of Kerala. During FY17, however, the production of rubber significantly improved, helping the segment see a turnaround. During FY17, rubber division registered a revenue growth of 46% from Rs. 124 crore to Rs. 182 crore on account of increase in production by 4077 MT and increase in rubber price realizations. The increase in production from own plantations is attributable to an increase in mature area consequent to the accelerated replanting programme carried out by the Company from FY09. The segment made a profit of Rs 4.8 crore in FY17 as against a loss of Rs 13.3 crore in FY16. However, the quality and yield of the produce was lower than expected resulting in the company underachievement of the projected production targets. The company also restricted the bought operations on account volatility in the prices and lower than expected realizations.

Key Rating Weaknesses

On-going litigation with the Government of Kerala

In December 2014, the company was served with a notice by the Special Officer appointed by the Government of Kerala to resume 29,185 acres of land (held by HML), under the Kerala Land Conservancy Act, holding that the said lands are Government Lands. The company had approached the Hon'ble High Court of Kerala and had obtained a stay on the same. Meanwhile, the Special Officer had also issued a ban on the felling of rubber trees which had impacted incremental cash flows for the company. Though the management is confident of a favourable judgement, any unfavourable outcome on the proceedings is likely to affect the financial risk profile of HML as the land under enquiry represents more than half of company's total land holdings.

Weak debt coverage indicators

Supported by improved volume of sales and price realisation of both rubber and tea, HML's financial performance in FY17 showed significant improvement over FY16 and FY15 in which company had reported cash losses. However in the 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.

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
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 13,908 MT of Crush Tear and Curl (CTC) and Orthodox Tea. It has 11 rubber plantations spread across 7,297 hectares in Kerala, with a production of 12,927 MT in FY17. 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)	FY16 (A)	FY17 (A)
Total operating income	285.07	367.38
PBILDT	-32.16	4.73
PAT	-45.68	-5.21
Overall gearing (times)	1.16	1.02
Interest coverage (times)	NM	0.34

A-Audited

Status of non-cooperation with previous CRA:
ICRA vide its press release dated December 29, 2016 has suspended ICRA BB+; stable 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.*

Analyst Contact:
Name: Mr. Karthik Raj K
Tel: 08046625566
Mobile: +91 99805 62244
Email: karthik.raj@careratings.com

**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.

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
Non-fund-based - ST-Bank Guarantees	-	-	-	4.26	CARE A3
Fund-based - LT-Term Loan	-	-	Jan 2022	53.80	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	13.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB-; Stable	-	1)CARE BBB- (23-Jun-16)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	4.26	CARE A3	-	1)CARE A3 (23-Jun-16)	-	-
3.	Fund-based - LT-Term Loan	LT	53.80	CARE BBB-; Stable	-	1)CARE BBB- (23-Jun-16)	-	-
4.	Fund-based - ST-Working Capital Limits	ST	13.00	CARE A3	-	1)CARE A3 (23-Jun-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691