Harrisons Malayalam Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	105.75 (reduced from 111.25)	**CARE BBB- ; Stable (Triple B Minus; Outlook: Stable)**	**Re-affirmed and outlook revised from Negative**
Short Term Bank Facilities	9.26	**CARE A3 (A Three)**	**Re-affirmed**
Total Facilities	**115.01 (Rupees one hundred fifteen crore and one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from 'Negative' to 'Stable' on long term rating of Harrisons Malayalam Limited (HML) takes into account improvement in operating cash flow during FY20 aided by tree felling income in FY20 which is likely to continue in near term. Cash flows would be further supported by improved productivity as well as higher realizations expected in tea segment.

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. Company's financial performance witnessed improvement in FY20 aided by profitability in rubber division with 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 is expected to continue in the future. The rating takes note of the scheme of amalgamation and arrangement applied by company being dismissed by NCLT with right for fresh application granted to the company, however, company have not filed any fresh application regarding the same.

The ratings are, however, constrained by subdued operational performance in FY20 in tea division resulting in continuing net loss in segment. The rating also factors in high repayment obligation going forward on account of additional debt taken in FY19. While the Q1FY21 financial performance continued to remain subdued, going forward, income from tree felling activity and improvement in tea price realizations along with improvement in production is expected to support the cash flows. Company's capital structure and debt coverage indicators continues to remain weak. The ratings are also constrained by operations being exposed to vagaries of nature and global demand - supply dynamics, volatile commodity prices, ever increasing labour costs with operations being labour intensive and fragmented nature of the industry.

<u>Rating Sensitivities</u>

Positive Factors- Factors that can lead to positive rating action/ upgrade

- Sustained improvement in rubber and tea prices and enhanced volume helping improve the operational cash flow

Negative Factors- Factors that can lead to negative rating action/ downgrade

- Increase in gearing (Debt/Net-worth) beyond 2x levels and/or debt coverage indicators- TD/GCA (>10x) on a sustained basis.
- Sharp deviation in envisaged sales volumes or realizations having a significant bearing on the company's operational performance.
- Significant deterioration in liquidity profile.

<u>Outlook</u>: The outlook revision takes into account commencement of tree felling income from FY20 which will continue in near to medium term and significant improvement in tea prices from which HML's operating cashflows are likely to witness further improvement over FY20 levels.

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

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-; Stable/A1+), CESC Ltd (CARE AA; Stable) 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 35 years in the industry and has earlier worked in plantations across Assam, West Bengal, Tamil Nadu Kerala and Karnataka. Mr C M George has 25 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 specialty 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 2^{nd} 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 13,500 hectares. The operations of the company are spread over 24 estates including 8 rubber factories and 12 tea factories along with a number of blending and processing units across state of Kerala, Karnataka and Tamil Nadu.

Commencement 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 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 Hon'ble Supreme Court in September 2018. Thereafter, HML resumed tree felling activity and booked income of around Rs. 7.4 crores in Q4FY19 and Rs. 36.48 crore in FY20. Tree felling is expected to continue in near to medium term which will aid the profitability of the company. 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.

Improvement in operational performance in rubber division aided by resumption in tree felling activity compensating for the losses in tea division
The tea division contributed to 46% of HML's sales in FY20. Company's production in tea segment has witnessed improvement in FY20. Due to lockdown in place to contain COVID-19, company had higher inventory as on March 31, 2020 and the same is expected to be liquidated in FY21. The profitability from the segment remained negative due to lower sales volume and higher wage cost.

The rubber division contributed 53% to total revenue with improvement in sales in division in FY20. The excess supply from other rubber producing nations and weak demand from end user industries had kept rubber prices under pressure. Sales in rubber segment was also aided by increase in tree felling income which translated into higher profits for division and compensating the loss of tea division.
HML has posted losses in Q1FY21 in line with its operational nature as first quarter is agricultural input season wherein HML undertakes soil preparation and re-planting exercise. However, company reported higher net loss of Rs.7.52 crore in Q1FY21 as against net loss of 6.78 crore in Q1FY20 with lower volumes and lower realization in both tea and rubber segment. However tea prices has witnessed significant improvement from Q2FY21 and the same is expected to be sustained during remainder of FY21 which together with improvement in sales volume will aid segment's profitability.

Key Rating Weaknesses
Moderate capital structure and weak debt coverage indicators albeit improved financial performance in FY20
During FY20, the company has reported revenue of Rs. 387.44 crore as against Rs. 354.38 crore in FY19. HML reported net profit of Rs. 9.29 crore in FY20 as against net loss of Rs. 24.09 crore in FY19. However on account of re-measurement of defined benefit plan on account of gratuity calculations on basis on increased wage resulted in lower accretion to net worth. Although the price realization remained stable for tea segment, profitability witnessed decline on account of increased wage expenses. Despite higher production, company's sales volume has remained stable and has maintained higher inventory in tea segment.

Aided by profit accretion and debt repayments in FY20, company's overall gearing has witnessed marginal improvement and stood at 1.49x as on March 31, 2020 as against 1.55x as on March 31, 2019.
HML had earlier availed Rs. 60 core term debt (part re-finance) in FY19 carrying moratorium period of 1 year resulting in lower repayment obligation resulting in higher debt repayment obligations going forward. Company had a scheduled repayment of Rs.18 crore in FY21 but HML availed moratorium from its lenders during March 2020 to August 2020 as per RBI COVID-19 regulatory package resulting in lower debt repayment obligation during FY21.

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). The Govt of Kerala (GOK), with a view to provide some relief to plantation workers post flood in FY18 announced that wage revisions shall be effective from January 2019 onwards. However GOK also came out with directive that all plantations have to provide advance wages with increase of Rs. 50 per man day w.e.f from February 2019 till actual settlements take place. Accordingly HML has been paying higher wages since then. The wage revision negotiation was settled at Rs. 52 per man day in December 2019. Ever increasing wages with no corresponding increase in price realization may negatively impact the profitability margin of HML in the future.

Liquidity Indicator: Adequate
HML's liquidity position is adequate with average CC utilization of 84.8% for past 12 months ended August 2020 and cash and bank balance of Rs. 3.3 crore as on June 30, 2020. Operating cycle also remains comfortable at 5 days with average receivables collection period of 10 days. HML has an average un-utilized cash credit limit of around Rs. 3-4 crore at any point of time. Company has been able to raise additional finance/refinance debt from the lenders in the past during period of cash losses on back of company being part of strong promoter group. Going forward, with expected improvement in tea prices and improvement in volume particularly from tea division and additional income from tree felling activity is expected to improve liquidity position of the company.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

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)	FY19 (A)	FY20 (A)
Total operating income	354.38	387.44
PBILDT	-11.47	23.74
PAT	-24.09	9.29
Overall gearing (times)	1.55	1.49
Interest coverage (times)	NM	1.49

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: ICRA vide its press release dated December 29, 2016 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
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	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	-	-	-	September 2024	68.75	CARE BBB-; Stable
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (03-Oct-19)	1)CARE BBB-; Negative (22-Feb-19) 2)CARE BBB-; Stable (08-Oct-18)	1)CARE BBB-; Stable (09-Oct-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	4.26	CARE A3	-	1)CARE A3 (03-Oct-19)	1)CARE A3 (22-Feb-19) 2)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)
3.	Fund-based - LT-Term Loan	LT	68.75	CARE BBB-; Stable	-	1)CARE BBB-; Negative (03-Oct-19)	1)CARE BBB-; Negative (22-Feb-19) 2)CARE BBB-; Stable (08-Oct-18)	1)CARE BBB-; Stable (09-Oct-17)
4.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A3	-	1)CARE A3 (03-Oct-19)	1)CARE A3 (22-Feb-19) 2)CARE A3 (08-Oct-18)	1)CARE A3 (09-Oct-17)

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

Term Loan, Cash Credit, Bank Guarantee	Detailed explanation
A. Financial covenants	
I. Current Ratio	Minimum of 0.41 to be maintained.
B. Non financial covenants	
I. Cash Collateral	10% of bank guarantee availed to be maintained as cash collateral in form of fixed deposit.
II. Unsecured loan from promoters	Unsecured loan from promoters shall not be repaid without prior approval from lender.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple

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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