October 09, 2024

Stewart Holl (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term / short term-unallocated-unallocated	0.42	0.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed
Long term / short term-cash credit-fund based	12.00	12.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed
Total	**12.42**	**12.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation in the ratings of Stewart Holl (India) Limited (SHIL) factors in the expected recovery in the credit profile of the Goodricke Group {Amgoorie India Limited (AIL, rated at [ICRA]A- (Stable)/ [ICRA]A2+), Goodricke Group Limited (GGL, rated at [ICRA]A (Stable)/ [ICRA]A2+), Koomber Tea Company Private Limited (KTCPL, rated at [ICRA]A- (Stable)/ [ICRA]A2+) and Stewart Holl (India) Limited (SHIL, rated at [ICRA]A- (Stable)/ [ICRA]A2+)}, on account of the significant improvement in the tea realisations witnessed in the current fiscal driven by a sizeable drop in North India tea production (~74 Mkg as of Aug '24). The average tea prices for the North India increased by ~Rs 30/Kg during 5M FY2025 compared to the corresponding period of the previous fiscal. GGL and its group entities, being established and quality tea producers, enjoy much sharper improvement in tea realisations compared to the market averages. Current year performance is likely to improve supported by the significant improvement in the tea realisations as well as the stable production (compared to decline in NI market) owing to significant effort by the management team. In addition, the directive of Tea Board of India to end the season by end of November 2024, is likely to keep the tea prices firm in the near term. Further, while the increase in wages last year will have some impact in the current fiscal, the same would primarily be offset by higher realisation in the current fiscal. There has been no announcement of further hike in wages in the current fiscal till date.

The company's profitability and debt coverage metrics deteriorated in the last fiscals on account of a severe pressure on profits and a higher debt level. SHIL reported an operating loss of ~Rs 13 crore in FY2024 compared to Rs. 12 crore of profits in FY2023. However, owing to better realisation and stable production, the same is expected to improve in the current fiscal.

Meanwhile, the ratings favourably factor in SHIL's status as one of the strategically important tea producing entities for the Goodricke Group, which has an established presence in the domestic tea industry. The ratings also consider SHIL's high quality of tea produced, which commands a significant premium over the average North Indian auction prices. Further, the ratings derive comfort from the conservative capital structure of the company.

The ratings, however, continue to be impacted by the risks associated with tea for being an agricultural commodity, which depend on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive nature of the tea industry that leads to variability in profitability and cash flows of bulk tea producers, including SHIL. The concentration of the company's all five gardens in North India further accentuates agro-climatic risks. In addition, domestic tea prices are influenced by international prices and hence the demand-supply situation in the global tea market, in ICRA's opinion, would continue to have a bearing on the profitability of Indian players, including SHIL.

The Stable outlook on the long-term rating reflects ICRA's expectations that an established position of the Goodricke Group in the tea industry, including SHIL, and the company's conservative capital structure would continue to support its business and credit profiles.

Key rating drivers and their description

Credit strengths

Improvement in performance expected in FY2025, owing to firm tea realisation- The NI tea prices are currently on an uptrend driven by a sizeable drop in NI's tea production (~ 74 Mkg as of Aug '24) and anticipation of the early end of operations in November '24. In addition, the group being a quality producer, the increase in tea realisation is much sharper compared to market averages. The same is likely to improve the credit metrics of the in the current fiscal, which were significantly impacted in the previous fiscal. The turnaround in the financial has already been reflected in Q1 FY2025 standalone performance of the flagship group entity, GGL.

Established position of the Goodricke Group in tea business–The company is a part of the Goodricke Group, which has an established presence in the tea industry for over four decades and accounted for almost 2.5% of India's total tea production in FY2024. Camellia Plc, UK, is the ultimate holding company of all the entities in the Group. The ratings of AIL draw comfort from the implicit support derived from its operational and managerial linkages with the Goodricke Group.

Superior quality of tea, as evident from the premium price commanded by the company's produce compared to average market prices–AIL is one of the established CTC players in the bulk tea industry with five tea estates spread across Assam and West Bengal (Darjeeling). AIL's superior quality of tea results in a premium for its produce compared to the industry average. The weighted average realisation of tea produced by the company stood at around Rs. 264/ kg in FY2024 compared to the North Indian auction average of around Rs. 180/ kg during the same period.

Conservative capital structure – The company avails fund-based working capital facilities during the peak season only. Hence, the company has remained debt free as on the balance sheet date over the past few years. The capital structure of the company continued to remain conservative although at somewhat higher than last year as reflected by TOL/TNW of 0.7 times as on March 31, 2024 vis-à-vis 0.5 times as on March 31, 2023. This is on account of cash losses in the last fiscal and going forward with recovery in the cash flow the leverage is expected to remain comfortable at similar levels. The coverage indicators also moderated severely owing to the cash loss however the lower debt levels are expected to keep the debt metrices strong with recovery of operating performance in the current fiscal.

Credit challenges

Adverse cost structure with increase in wage rates, resulting in moderate profits, impacting the coverage metrics in FY2024; likely improvement in FY2025 - The Group's consolidated profitability and debt coverage metrics deteriorated significantly in the last fiscal. The topline moderated by 9% in FY2024 however the operating profits suffered significantly amounting to sizeable losses worth Rs. 60 crores on an OPBIDTA level compared to profits worth Rs. 34 crore in FY2023. This was majorly on account of subdued realisations and impact of wage hike introduced from October '23 in Assam and June'23 in W.B. Additionally, the group's crop remained muted with crop loss in Assam and Dooars' gardens. The subdued prices coupled with the higher cost of production (and lack of support from high productivity) the performance moderated significantly with a sizeable loss of Rs. 95 crore on net level. However, with the improvement in realisations and stable production levels recovery is expected in the current fiscal and the credit metrics would also improve significantly compared to the previous fiscal.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions–Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea-estate costs are primarily fixed, with labour-related costs, which are independent of the volume of production, accounting for around 50% of the production cost. This leads to a variability in profitability and cash flows of bulk tea producers such as SHIL.

Export market performance of Indian tea is crucial to sustain buoyancy in domestic tea prices–Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, notwithstanding the large domestic consumption base that India has. Healthy export realisation is also crucial for maintaining domestic realisations as unremunerative prices in the export market may lead to the exporters dumping their produce in the domestic market, which in turn would exert pressure on domestic prices.

Liquidity position: Adequate

The company is likely to generate positive cash flow from operations in the near-to-medium term. The average utilisation of fund-based working capital limits has remained at a moderate level in the last 12 months. The company has a moderate level of scheduled debt repayment obligation over the next few years, compared to its likely cash accruals from the business. In view of undrawn working capital facilities and absence of any major planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors–ICRA may upgrade the ratings if there is an improvement in the credit profile of the Goodricke Group.

Negative factors–Inability to improve the profitability or debt coverage matrices may lead to a rating downgrade. Weakening of linkages of the company with the Group or a deterioration in the credit profile of the Group may also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Tea Corporate Credit Rating Methodology
Parent/Group support	Implicit support from the Goodricke Group due to significant operational and managerial linkages
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 1978, SHIL primarily produces black tea of orthodox variety with the balance being crush, tear, curl (CTC) variety. The company sells its products in the domestic market through a mix of auction and private sales. The company has four gardens and one factory is associated with each of the gardens, in Assam with a total planted area of around 2,100 hectares. The company is a part of the Goodricke Group based in India. The Group has 29 tea estates with a total area of 17,465 hectare under cultivation, almost equally spread over West Bengal and Assam. Camellia Plc, UK, is the ultimate holding company, which through its subsidiaries holds the majority shareholding. The remaining stake is held by Lebong Investments Pvt. Ltd., a fellow subsidiary, and other financial institutions.

Key financial indicators (Audited)

	FY2023	FY2024
Operating income	124.2	97.3
PAT	9.3	-16.6
OPBDIT/OI (%)	9.6%	-13.3%
PAT/OI (%)	7.5%	-17.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	0.0	NM
Interest coverage (times)	427.9	NM

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 09, 2024	Date	Rating	Date	Rating	Date	Rating
Long term / short term-unallocated limits	Long Term/Short Term	0.00	-	20-NOV-2023	[ICRA]A-(Stable)/[ICRA]A2+	11-JAN-2023	[ICRA]A (Stable)/[ICRA] A1	27-DEC-2021	[ICRA]A+ (Stable)/[ICRA] A1+
Long term / short term-fund based cash credit	Long Term/Short Term	12.00	[ICRA]A-(Stable)/[ICRA]A2+	20-NOV-2023	[ICRA]A-(Stable)/[ICRA]A2+	11-JAN-2023	[ICRA]A (Stable)/[ICRA] A1	27-DEC-2021	[ICRA]A+ (Stable)/[ICRA] A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / short term- Fund based limits-Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit /WCDL**	-	-	-	12.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: Stewart Holl (India) Limited

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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