April 04, 2017

Rossell India Limited

Instrument*	Rated Amount (in crore)	Rating Action
LT-Fund Based Limits*	72.00 (enhanced from Rs 53.0 crore)	Downgraded from [ICRA]A+ to [ICRA]A; outlook revised from Stable to Negative
LT- term loan	24.00 (enhanced from Rs 22 crore)	Downgraded from [ICRA]A+ to [ICRA]A; outlook revised from Stable to Negative
ST- Non Fund Based Limits	2.50	Downgraded from [ICRA]A1+ to [ICRA]A1
Total	**98.50**	

LT: Long term; ST- Short term; *includes STL/WCDL of Rs 20.0 crore
*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long-term rating assigned to the Rs. 72.0 -crore[1] (enhanced from Rs 53.0 crore) fund based limits and term loan of Rs 24.0 crore (enhanced from Rs 22.0 crore) of Rossell India Limited (RIL)[2] from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]A (pronounced ICRA A). The outlook on the long-term rating has been revised from 'stable' to 'negative'. ICRA has also revised the short-term rating assigned to the Rs. 2.50 crore non-fund based facility of RIL from [ICRA]A1+ (pronounced ICRA A one plus) to [ICRA]A1 (pronounced ICRA A one).

Detailed Rationale

The revision in ratings and outlook takes into account the expected deterioration in the financial risk profile of the company during FY2017, primarily on account of significant decline in tea realisation (almost Rs. 23-24/kg compared to the last financial year) coupled with own crop losses, which is likely to weaken the profitability as well as debt-coverage indicators of the company. This is further accentuated by significant losses in the Rossell Hospitality as well as Rossell Techsys division, which has adversely impacted the business returns of the Company. While the Techsys division is expected to turn around from the next financial year, owing to healthy order book position, the Hospitality division is expected to continue to report losses during FY2018, which would prolong the expected recovery in operating profitability as well as debt-coverage indicators of the Company.

The ratings continue to favourably take into account premium quality tea of the company, which fetch realisations that are higher than industry averages and relatively high yield of RIL's tea estates, which mitigates the risks associated with the fixed-cost intensive nature of the tea plantation business to some extent. Besides, the company's tea estates are primarily located in Upper Assam and produce superior quality of tea, mainly orthodox variety, which commands a premium over CTC variety of tea. ICRA also notes that the long-term demand outlook for the domestic bulk tea industry continued to remain favourable. The ratings, however, also take into account the risks associated with tea being an agricultural

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

commodity, which is dependent on favourable agro-climatic conditions as well as the inherent cyclicality of the tea industry that leads to variability in profitability and cash flows of bulk tea producers such as RIL. ICRA also notes that the tea plantation segment is characterised by high fixed-cost intensity. RIL's relatively small scale of operations and its geographical concentration increase such risks for the Company, although moderated by the high yield of its tea estates. In addition, growing conditions in Upper Assam is considered to be superior in the industry. ICRA further notes that Indian tea is essentially a price taker in the international market, and hence global supply-demand dynamics would continue to have a bearing on the domestic price levels to an extent.

Apart from the tea business, RIL also has an Aerotech Service Division (ASD), which is involved in installation, service and maintenance of products supplied by foreign Original Equipment Manufacturers (OEMs) primarily to clients in the domain of the avionics system. At present, the division has four contracts in hand. ICRA notes that one of the contracts was renewed at a much lower rate compared to the previous year, leading to significant revenue loss of around Rs. 5 crore. Rossell Techsys Division (RTD) is primarily involved in wire-harness engineering, design and development of embedded systems and test solutions. The division has received healthy orders in the current fiscal, which is likely to lower the losses during FY2017 and the turnaround is expected from next financial year, with higher order execution. RIL also forayed into the hospitality business during FY2013 by setting up fast-food outlets in the Delhi National Capital Region (NCR). Till December 2016, the Company had already set up 13 outlets in the NCR under the name, "Kebab xpress". The division continued to report losses owing to high cost of set up and lower increase in revenue as expected. Overall, non-tea divisions have reported losses of around Rs. 9.0 crore during the first nine months of FY2017.

The tea realisation is expected to improve in the next financial year, owing to better domestic demand as well as drought conditions in Kenya and Sri Lanka during recent months, which is likely to impact the global supply scenario, thus favourably supporting tea prices. RIL's tea production is expected to improve in the next fiscal, as severe pest attack impacted the crop during FY2017, which is unlikely to recur in the next financial year. ICRA notes that better tea realisation with improvement in production, the turnaround of Rossell Techsys division with higher order execution and loss minimisation at the Rossell hospitality division with increase in revenues, would remain the key rating sensitivities going forward.

Key rating drivers

Credit Strengths

- Premium quality of tea as evident from the significant premium commanded by its produce compared to average market prices
- Relatively high yield of tea estates, thus mitigating the risk associated with the fixed-cost intensive nature of bulk tea operations to some extent
- Favourable long-term demand outlook of the domestic bulk tea industry

Credit Weaknesses

- Significant decline in tea realisation coupled with own crop loss during FY2017 is likely to weaken the profitability as well as debt-coverage indicators
- Losses from hospitality and Techsys divisions have adversely impacted the business returns of the company; however, healthy order book is expected to turn around the Techsys division from the next fiscal to an extent
- Risks associated with tea being an agricultural commodity, which is dependent on agro-climatic conditions; concentration of tea estates in upper Assam region increases RIL's sensitivity to such risks
- Indian tea, in spite of its quality, is essentially a price taker in the international market; export market performance of Indian teas is also critical to sustain buoyancy in domestic tea prices

Description of key rating drivers highlighted above

RIL is an established player in the domestic tea industry, accounting for around 0.5% of the total tea produced in India. In FY2013, RIL acquired two tea estates in Assam, which increased the total number of tea estates to seven, with 2,916 hectares presently under tea cultivation (including Young Tea areas). RIL's tea estates are primarily concentrated in Upper Assam, which accentuates the crop and agro-climatic related risks to an extent. The Company produced around 5.08 million kg (Mkg) of black tea during FY2016, an increase of around 4% compared to the previous fiscal, primarily on account of better crop during March 2016. During 9MFY2017, RIL produced 4.58 Mkg of tea, which was down by around 1 lakh kg compared to the corresponding period last fiscal. In addition, the company is not expecting huge production during March 2017 and the full-year total production would be around 4.90 Mkg compared to 5.08 Mkg during FY2016 (almost 2% lower production). RIL's produce has historically fetched a premium price compared to the auction average, which reflects its quality. In FY2016, overall realisation continued to remain firm at around Rs. 240/kg. In the current year, RIL witnessed a significant decline in tea realisation (almost Rs. 23-24/kg) on account of poor performance of quality tea, which impacted the realisation of all quality producers, including RIL. In the orthodox variety, lower export to the Middle East, primarily to Iran, led to higher sales in the domestic market, thus adversely impacting the tea realisation as their exists significant difference between domestic and export realisations. The tea realisation is expected to improve in the next financial year, owing to better domestic demand as well as drought conditions in Kenya and Sri Lanka during recent months, which is likely to impact the global supply scenario, thus favourably supporting the tea prices.

Apart from the tea business, RIL also has an Aerotech Service Division (ASD), which is involved in installation, service and maintenance of products supplied by foreign Original Equipment Manufacturers (OEMs) primarily to clients in the domain of the avionics system. At present, the division has four contracts in hand. ICRA notes that one of the contracts was renewed at a much lower rate compared to the previous year, leading to significant revenue loss of around Rs. 5 crore. Rossell Techsys Division (RTD) is primarily involved in wire-harness engineering, design and development of embedded systems and test solutions. The division has received healthy orders in the current fiscal, which is likely to lower the losses during FY2017 and the turnaround is expected from the next financial year, with higher order execution. RIL also forayed into the hospitality business (RH) during FY2013 by setting up fast-food outlets in the Delhi National Capital Region (NCR). Till December 2016, the company had already setup 13 outlets in the NCR under the name, "Kebab xpress". The division continued to report losses, owing to high cost of set up and lower increase in revenue as expected, which is prolonging the recovery of the division. The division is in the process of making certain strategic changes, which is expected to increase the revenues with minimisation of losses during FY2018 and the turnaround is expected from FY2019 onwards.

The operating income of RIL increased from Rs. 140 crore to Rs. 160 crore during FY2016 owing to better tea realisation and higher tea production compared to the last year. Moreover, its non-tea revenues continued to rise with further increase in the scale of operations for both the Techsys as well as Hospitality divisions. With around 80% of the production cost of bulk tea players being fixed in nature, RIL's operating profitability (OPM) primarily depends on the productivity of its tea estates and the average price of its product. In the current financial year, the own production was adversely impacted due to severe pest attack, which coupled with significant fall in realisation (almost Rs. 23-24/kg) is likely to adversely impact the operating profitability of the company during FY2017. This is further accentuated by significant losses in the Rossell hospitality as well as Rossell Techsys divisions, which has adversely impacted the business returns of the Company. The total debt of Rs. 71.54 crore as on March 31, 2016 comprises working capital loans of Rs. 49.56 crore and Rs. 21.98 crore of long-term loans taken from banks to fund the acquisition of two tea gardens. However, the healthy accretion to reserves till FY2014 on the back of firm tea prices had resulted in a conservative capital structure with a gearing of around 0.42 times as on March 31, 2016. In the current financial year, the expected fall in OPM in the Tea division, coupled with higher losses in the Hospitality division are likely to adversely impact the coverage indicators of the company. In the next financial year, the expected improvement in Tea division as well as Techsys division is likely to improve the coverage indicators to an extent. ICRA notes that the Company has capital expenditure (capex) plans in its non-tea businesses—primarily in the RTD business. In addition, RIL has significant debt-repayment requirement of over Rs. 10 crore during FY2018. Any shortfall in funding may get financed through infusion of inter-corporate deposit (ICD) of around Rs. 10 crore from the promoters.

Analytical approach: Not Applicable

Links to applicable criteria

Corporate Credit Rating –A Note on Methodology
ICRA Rating Methodology – Indian Bulk Tea Industry

About the Company:

Rossell India Limited (RIL) was incorporated in June 1994 by Mr. H.M. Gupta. The Company cultivates tea across seven tea estates. The Company also operates seven factories, one associated with each of the tea estate. The tea estates are located primarily in Upper Assam, with a total area under tea of around 2,916 hectares. RIL also has a support service division, known as Aerotech Services, which is involved in installation, service and maintenance of products supplied by foreign OEMs primarily to clients in the domain of avionics system. Another unit, Rossell Techsys division, is primarily involved in wire-harnessing engineering. RIL also forayed into the hospitality business, known as Rossell Hospitality Division, during FY2013 by setting up several fast-food outlets in Delhi NCR.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				April 2017	**March 2016**	**March 2015**	**March 2014**
1	Fund Based Limits*	Long Term	72.00	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loan	Long Term	24.00	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	--
2	Non-Fund Based Limits	Short Term	2.50	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*includes STL/WCDL of Rs 20.0 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple," "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund Based Limits*	-	-	-	72.00	[ICRA]A (Negative)
Term Loan- 1	July 2012	9.2%	April 2018	4.10	[ICRA]A (Negative)
Term Loan- 2	Nov 2016	9.2%	May 2018	1.50	[ICRA]A (Negative)
Term Loan-3	July 2016	8.45%	August 2021	12.00	[ICRA]A (Negative)
Term Loan-1	Dec 2012	9.68%	Dec 2018	4.20	[ICRA]A (Negative)
Term Loan-2	Nov 2016	9.68%	Dec 2017	2.20	[ICRA]A (Negative)
Non-Fund Based Limits	-	-	-	2.50	[ICRA]A1

*including STL/WCDL of Rs 20 crore

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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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