August 11, 2017

McLeod Russel India Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan	360.00 (revised from 170)	[ICRA]AA (Negative); reaffirmed
Fund-based Bank Facilities	600.00 (revised from 550)	[ICRA]AA (Negative); reaffirmed
Fund-based Bank Facilities**	200.00	[ICRA]AA (Negative)/ [ICRA]A1+; reaffirmed
Non-fund-based Bank Facilities	18.80	[ICRA]A1+; reaffirmed
Commercial Paper Programme	300.00	[ICRA]A1+; reaffirmed
Total	**1478.80**	

**Instrument details are provided in Annexure-1*
***Fungible with LT facilities*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) assigned to the Rs. 360.00-crore[1] (enhanced from Rs. 170 crore) term loans, Rs. 600-crore (enhanced from Rs. 550 crore) long term fund based limits and Rs. 200.00-crore fund based working capital limits of McLeod Russel India Limited (MRIL). The outlook on the long-term rating has been revised from 'Stable' to 'Negative'. The Rs. 200.00-crore fund based working capital limits have also been rated on the short-term scale, for which ICRA has reaffirmed the rating at [ICRA]A1+ (pronounced ICRA A one plus). The rating for the Rs. 300-crore commercial-paper programme has also been reaffirmed at [ICRA]A1+.

Rationale

The revision in the outlook factors in MRIL's high level of exposure to group companies, largely funded by debt, leading to an adverse impact on its capital structure and debt-coverage indicators. The overall financial risk profile of the company also deteriorated in FY2017, with MRIL's operating profits (on a standalone basis) coming under pressure, primarily on the back of low tea realisations, notwithstanding considerable income received on account of compensation against compulsory land acquisition by the Government. However, the non-operating income supported net profitability and cash flows to a considerable extent, resulting in the company reporting a net profit of around Rs. 30 crore. Profits from overseas operations also supported operating profits on a consolidated basis. Going forward, ICRA expects average tea realisations of the company to witness an increase in the current year, which, in turn, is likely to lead to an improvement in MRIL's operating profitability as well. However, continued high exposure to group companies is likely to keep the debt metrics of MRIL under pressure. The trend in average realisations and the level of debt-funded group exposure would remain key rating sensitivities.

[1] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- **Status of being one of the largest bulk tea producers globally, with a geographically diversified production base –** The company produces around 85 MKgs of tea in FY2017, accounting for around 7% of the total domestic tea production. The current consolidated production accounts for around 5% of the global production of black tea. Globally diversified production base with gardens in Uganda, Rwanda and Vietnam mitigates the risks arising from adverse agro-climatic conditions to some extent, although exposure to geo-political risks remains.
- **Favourable outlook on the domestic bulk tea industry - C**urrent cropping patterns, particularly in international markets, indicate that the global production in the current year may be lower than that of CY2016, which, in turn, is expected to boost domestic tea realisations. Increased demand for Indian tea in the international market, in the light of supply issues in Kenya and Sri Lanka, is likely to support export volumes and realisations in the current year.
- **Superior quality of tea produced by MRIL; high productivity and bought-leaf operations reduce the risks associated with the fixed-cost intensive nature of operations to some extent -** The teas produced by MRIL are known for their quality, both in the domestic as well as in the export markets, fetching a premium over industry averages. The favourable age profile of MRIL's bushes, with around 93% of the same being below 50 years of age, results in MRIL recording a high tea estate yield. This directly impacts the cost structure due to the fixed-cost-intensive nature of the industry. Moreover, the inclusion of bought-leaf operations, which aids in better absorption of fixed overheads, in the company's sales mix also reduces the overall fixed cost intensity of the bulk tea business.
- **Healthy cash and bank balance; conservative capital structure on both standalone and consolidated basis; notwithstanding the increase in debt levels during FY2017 –** MRIL's plantation business continued to generate healthy cash accruals (on an absolute basis) in FY2017, which, supplemented by considerable non-operating income, led to a net cash accrual of Rs. 88 crore during the year. NABARD deposits built up over the past years led to a healthy bank balance as well, which supports the overall liquidity position of the company. Long-term debt levels remain low on both standalone and consolidated basis, with the capital structure also remaining conservative (0.58 times on both standalone and consolidated basis).

Credit weaknesses

- **Largely debt-funded exposure to group companies leads to increase in overall debt levels and results in pressure on debt coverage –** The total debt in FY2017 increased by around Rs. 140 crore to reach Rs. 807 crore, primarily due to additional bank borrowing being raised to fund loans to group companies. Enhanced debt levels, together with the consequent rise in interest costs, exerted pressure on debt-protection metrics.
- **Significant deterioration in financial risk profile in the past year –** Pressures on core operating profitability led to considerable weakening of debt coverage indicators in FY2017. However, significant non-operating income supported net profitability and cash flows to a considerable extent. Moreover, on a consolidated basis, the company reported an operating profit of Rs. 50.73 crore in FY2017, supported by healthy profitability from overseas operations.
- **Risks associated with tea for being an agricultural commodity, as well as the inherent cyclicality of the fixed-cost intensive tea industry -** Tea production depends on agro-climatic conditions, which subjects it to agro-climatic risks. Moreover, tea estate costs are primarily fixed, with labour-related costs, which are independent of the volume produced, accounting for around 50% of the production cost. This leads to variability in profitability and cash flows of bulk tea producers such as MRIL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Rating Methodology for Entities in the Indian Bulk Tea Industry

About the company:
McLeod Russel India Limited (MRIL), the tea plantation company of the Kolkata-based B.M. Khaitan Group, was originally incorporated as Eveready Company India Private Ltd. on May 5, 1998. MRIL was formed after the demerger of the bulk-tea business from Eveready Industries India Ltd. (EIIL) with effect from April 1, 2004. MRIL has acquired several other companies like Williamson Tea Assam in FY2006, Doom Dooma Tea Company in FY2007 and Moran Tea in FY2008. These acquisitions helped MRIL increase the number of tea estates to 53 in India at present, with the total land under tea cultivation being 33,723 hectares (Ha). MRIL has also acquired tea estates through its subsidiaries in Vietnam (three tea estates and seven factories), Uganda (six tea estates and five factories) and Rwanda (two tea estates and two factories) between CY2009 and CY2014, which took the total production to around 115 Mkg during FY2017. MRIL is primarily a producer of CTC tea, which accounts for around 96% of the total tea production.

In FY2017, the company reported a net profit of Rs. 30.53 crore on net sales of Rs. 1,388.65 crore, compared to a net profit of Rs. 4.10 crore on net sales of Rs. 1,478.71 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1506.79	1485.40
PAT (Rs. crore)	4.10	30.53
OPBDIT/ OI (%)	5.9%	2.1%
RoCE (%)	4.9%	6.0%
Total Debt/ TNW (times)	0.48	0.58
Total Debt/ OPBDIT (times)	7.54	26.32
Interest coverage (times)	0.88	0.24
NWC/ OI (%)	15%	18%

Source: Annual Reports of Company
Note: The above table includes profit on compulsory acquisition of land by Government as part of operating revenue; however, while assigning the rating, ICRA has considered the same as non-operating income
OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					August 2017	August 2016	August 2015	August 2014
1	Term Loan	Long Term	360.00	195.86*	[ICRA]AA (Negative)	[ICRA] AA (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
2	Fund-based Bank Facilities	Long Term	600.00	NA	[ICRA]AA (Negative)	[ICRA] AA (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
3	Fund-based Bank Facilities**	Long Term/ Short Term	200.00	NA	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA] AA (Stable)/ [ICRA] A1+	[ICRA] AA+ (Stable)/ [ICRA] A1+	[ICRA] AA+ (Stable)/ [ICRA] A1+
4	Non-fund-based Bank Facilities	Short Term	18.80	NA	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
5	Commercial Paper Programme	Short Term	300.00	200.00	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

**As on June 30, 2017*

****** *Fungible with LT facilities*

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

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	-	-	Sep, 2018 – Sep, 2021	360.00	[ICRA]AA (Negative)
-	Fund-based Bank Facilities	-	-	-	600.00	[ICRA]AA (Negative)
-	Fund-based Bank Facilities*	-	-	-	200.00	[ICRA]AA (Negative)/ [ICRA]A1+
-	Non-fund-based Bank Facilities	-	-	-	18.80	[ICRA]A1+
INE942G14213	Commercial Paper Programme	May 22, 2017	6.85%	August 21, 2017	300.00	[ICRA]A1+
INE942G14221	Commercial Paper Programme	June 15, 2017	6.73%	September 14, 2017		
INE942G14239	Commercial Paper Programme	June 20, 2017	6.73%	September 15, 2017		
INE942G14247	Commercial Paper Programme	June 19, 2017	6.73%	September 18, 2017		

** Fungible with LT facilities*

Source: the company

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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.

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