Rossell India Limited

March 01, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	12.00	12.00	Downgraded from [ICRA]A- (Negative) to [ICRA]BBB+ (Stable)
Fund Based – Working capital limits	120.00	120.00	Downgraded from [ICRA]A- (Negative) to [ICRA]BBB+ (Stable)
Non fund based limit	2.50	2.50	Reaffirmed at [ICRA]A2
Total	**134.50**	**134.50**	

**Instrument details provided in Annexure 1*

Rationale

The downward revision in the long-term rating of Rossell India Limited (RIL) considers the sustained deterioration in the cost structure of the company's tea business due to inadequate increase in its average tea realisations vis-a-vis a significant increase in employee costs following a wage rate revision for tea workers in Assam. The ratings also consider the continuing losses in the Rossell hospitality division (RHD), adversely impacting the overall business returns and the significant increase in debt levels because of an increase in working capital requirement and debt-funded capital expenditure being undertaken in the Rossell Techsys division (RTD), which is likely to result in high repayment obligations in the medium term. ICRA notes that the revenue from RTD has improved to Rs. 68.16 crore in 9M FY2019 from Rs. 41.46 crore in the corresponding period last year and is expected to grow further going forward, given a favourable demand scenario in the segment. Nonetheless, significant working capital intensity and sizeable capital expenditure are likely to keep the cash flows of the segment under pressure.

The ratings continue to favourably consider the company's premium quality tea, which fetches higher realisations than industry averages and the 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. The ratings also take into account the risks associated with tea being an agricultural commodity, which depends on 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 RIL's relatively small scale of operations and its geographical concentration of tea estates, which increases such risks for the company. However, high yield of its tea estates and location of RIL's tea estates in the upper Assam, where tea growing conditions are superior in the industry, mitigate the said risks to some extent. 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 domestic price levels, to an extent.

Outlook: Stable

ICRA expects that RIL will continue to benefit from the company's premium quality of tea, which fetches a premium compared to industry averages and the relatively high yield of its tea estates, which mitigates the risks associated with the fixed cost intensive nature of the tea plantation business, to some extent. ICRA notes that despite the improvement in tea production and realisation, the profit from the tea division in likely to reduce to an extent in FY2019 on account of a significant increase in wage rates, adversely impacting the cost structure. The outlook may be revised to Negative in case of lower tea production or lower-than expected increase in tea realisation or lower-than expected growth in revenue and profits from RTD or continued losses from RHD, weakening the overall financial risk profile of the company.

Growth in revenue and profitability of RTD would remain critical from the credit perspective, given the sizeable debt-funded capital expenditure being undertaken for the division. The outlook may be revised to Positive if significant improvement in tea realisation improves the profitability of the division and if healthy execution of orders in RTD results in substantial growth in the company's revenue, profitability and cash accruals. The reduction in losses from RHD would continue to remain a key rating sensitivity.

Key rating drivers

Credit strengths

Established position in domestic bulk tea industry - RIL is an established producer of bulk tea (primarily the orthodox variety of tea), accounting for around 0.4% of India's tea production. RIL's tea commands a significant premium over auction averages on account of its established position in the industry and its superior quality with continued focus on improving the same. However, in FY2018, the weighted average realisation remained similar to that of the previous year at Rs. 217 per kg owing to a correction in orthodox tea prices in FY2018 compared to the previous year, weaker performance of the euro and the USD (as orthodox teas are primarily exported), and the increased proportion of CTC production and exports, which fetched lower realisations compared to the orthodox varieties. In 9M FY2019, the average realisation stood higher by Rs. 4.6 per kg compared to the prices during the corresponding period in the previous year on account of an improvement in the realisation of CTC variety of tea as well as improvement in orthodox tea prices from December 2018.

Relatively high yield of tea estates mitigates risks associated with fixed cost intensive nature of bulk tea operations to some extent - The favourable age profile of RIL's bushes results in the company recording a high tea estate yield at 1922 kg per hectare in FY2018, which directly impacts the cost structure because of the fixed-cost intensive nature of the industry. RIL's saleable production increased in FY2018 by 4.42% to 5.32 Mkg, and the overall crop is expected to improve further in FY2019 as already witnessed by a higher production of 5.28 Mkg during April-December 2018, compared to 5.16 MKg produced during the corresponding period of the previous year. The company's bought leaf production continued to account for a small portion (around 4.3%-4.8%) of the total tea produced.

Credit challenges

Deterioration in cost structure of tea production and continuing losses in the hospitality segment continue to dent overall profitability – RIL reported a nominal net profit of Rs. 0.24 crore in FY2018, primarily because of stagnant tea prices in FY2018 and significant losses in RHD. In FY2018, RTD's performance improved owing to an increase in the scale of operations. However, the worsened cost structure in tea business owing to higher wage rates, coupled with continued losses in RHD, is likely to continue to adversely impact the company's profitability in FY2019.

Significant debt-funded capital expenditure planned for RTD in FY2019 likely to result in high fixed repayment obligations in the medium term – RTD has shown improvement, as witnessed by an increase in revenue to Rs. 68.16 crore in 9M FY2019 compared to Rs. 41.46 crore in the corresponding period last year. However, the division is undertaking significant capital expenditure of around Rs. 60 crore in FY2019 and FY2020, which would be primarily funded through additional term loans of Rs. 50 crore as well as inter-corporate deposits of Rs. 10 crore from the holding company. While such capital expenditure is likely to strengthen the division's business position, the benefits would only accrue over the medium term, post stabilisation. The division has a confirmed order book of around $44.01 million as on December 31, 2018, to be executed over the next 2-3 years, which is likely to increase its revenue in the short to medium term. However, a significant increase in execution would be required for better fixed cost absorption and the likely increase in repayment obligations in the medium term. The working capital limit of the division has recently been increased to Rs. 50.00 crore from Rs. 35.00 crore, which is also likely to result in higher interest expense, going forward.

Risks associated with tea for being an agricultural commodity - The profitability and cash flows of bulk tea producers like RIL may remain volatile owing to the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive industry. Additionally, given that Indian tea is essentially a price taker in the international market, low international prices affect domestic realisations to some extent as well.

Liquidity position

RIL's liquidity is likely to be supported by improved cash accrual from RTD and declining losses in RHD, notwithstanding the deterioration in performance of the tea business. Nevertheless, high working capital intensity of RTD and increased debt repayment obligation due to fresh long-term loans of around Rs. 50 crore (being availed for the capital expenditure undertaken in the division) are likely to exert pressure on the company's cash flows, to some extent, in the medium term. The repayment of the fresh term loan is scheduled to commence from October 2020.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology **Rating Methodology for Entities in the Indian Bulk Tea Industry**
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

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 and operates seven factories, one associated with each tea estate. The tea estates are located primarily in upper Assam, with a total mature area under tea of around 2,745 hectares. RIL also has a support service division, known as Aerotech Services, which is involved in the installation, servicing and maintenance of products supplied by foreign OEMs, primarily to clients in the avionics system domain. Another unit, RTD, is primarily involved in wire-harnessing engineering. RIL also forayed into the hospitality business in FY2013, known as RHD, by setting up several fast-food outlets in Delhi NCR.

Key financial indicators (audited)

	FY 2016	**FY 2017**	**FY2018**
Operating Income (Rs. crore)	160.84	162.85	198.19
PAT (Rs. crore)	10.57	-1.31	0.24
OPBDIT/ OI (%)	14.78%	2.09%	6.75%
RoCE (%)	7.46%	-0.59%	2.23%
Total Debt/ TNW (times)	0.42	0.48	0.59
Total Debt/ OPBDIT (times)	3.01	23.88	7.44
Interest coverage (times)	4.79	0.52	1.86

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding As on March 31, 2018 (Rs Crore)	Date & Rating in FY2019 March 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 April 2018	April 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 April 2015
1	Term Loan	Long-term	12.00	12.00	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Working capital limits	Long-term	120.00	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non fund based limit	Short -term	2.50	-	[ICRA]A2	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	9.20%	FY2022	12.00	[ICRA]BBB+ (Stable)
NA	Working capital limits	-	8.00%	-	120.00	[ICRA]BBB+ (Stable)
NA	Non fund based limit	-	NA	-	2.50	[ICRA]A2

Source: Rossell India Limited

Annexure-2: 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.

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