April 13, 2020

Rossell India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	urrent Rated mount ₹s. crore)	Rating Action
Fund Based – Term Loans	58.57	55.57	[ICRA]BBB+ (Stable); Reaffirmed
Fund Based – Working Capital Limits	135.00	138.00	[ICRA]BBB+ (Stable); Reaffirmed
Non-Fund based – Bank Guarantee / Letter of Credit	2.50	2.50	[ICRA]A2; Reaffirmed
Total	**196.07**	**196.07**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers the established position of Rossell India Limited (RIL) in the domestic bulk tea industry and the significant growth that the company has achieved on a sustained basis over the years in the aviation business, which is likely to contribute around 52% to the revenues in FY2020 (against around 23% in FY2017). The ratings also favourably consider the company's premium quality tea, which fetches higher realisations than the 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. While arriving at the ratings, ICRA also factored in the current healthy order book position in the aviation division, which not only provides revenue visibility over the medium term, but also gives more stability to the entity's top line.

The ratings, however, continues to be impacted by the risks associated with tea being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of all bulk tea producers, including RIL. The presence of all the seven gardens in the Assam region further accentuates the agro-climatic risks to an extent. In addition, domestic tea prices are influenced by international prices. 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 RIL. Further, ICRA notes the lockdown announced by the Government of India (GoI) following the COVID-19 outbreak. The same is likely to result in production loss and would also have a bearing on the quality and realisation, and negatively impact the business profile of all the tea growers in Q1 FY2021 at least, including RIL. ICRA will continue to monitor the developments related to the COVID-19 outbreak on the company's credit profile.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that RIL will continue to benefit from the long experience of the promoter in the tea business and healthy order book position in the Techsys division.

Key rating drivers and their description

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 0.46% of India's tea production in 9M FY2020. The promoter of the company has around three decades of experience in the tea industry. The company owns seven tea gardens, spread over a cultivable area of ~ 3,000 hectare (HA) and operates under the leadership of Mr. H.M. Gupta. During April 2019- December 2019 the total production grew by ~11% to 5.86 Mkg compared to 5.28 Mkg during the corresponding period in the previous year. Maintaining a similar production level in the current year would remain a challenge.

Premium quality of tea as evident from significant premium commanded by its tea produce – RIL's superior quality of tea in the domestic market 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. 248/kg compared to the North Indian auction average of around Rs. 158/kg during the first nine months of FY2020.

Relatively high yield of tea estates mitigates risks associated with fixed cost intensive nature of bulk tea operations to some extent – Favourable age profile of RIL's bushes results in the company recording a high tea estate yield of 1970 kg per hectare in FY2019. This positively impacts the cost structure due to the fixed-cost intensive nature of the industry. The company has been able to maintain the quality of its produce due to nominal dependence on the bought leaf operations, which accounted for around 4% of the total tea produced in FY2019.

Closure of the loss-making hospitality division and ramping up of the Techsys division are credit positives for the overall business risk profile of the company – The revenue from the aviation segment grew consistently to Rs. 124.88 crore in 9M FY2020 from Rs. 38.38 crore in FY2017. The division has a confirmed order book of around $44.47 million as on December 31, 2019, to be executed over the next 2-3 years, which provides revenue visibility over the medium term. The Techsys division has undertaken significant capital expenditure, entailing an outlay of around Rs. 72 crore, primarily funded through a term loan of Rs. 50 crore. While such capital expenditure is likely to strengthen the division's business position, the benefits would only accrue over the near to medium term, post stabilisation. However, a significant increase in execution would be required for better fixed cost absorption. The operations of the division are highly working capital intensive, with high inventory requirements, which constrains its liquidity position.

ICRA also notes that the company has shut down the operations of its loss-making hospitality division with effect from October 1, 2019, which going forward would support the entity's profitability to some extent.

Credit challenges

Uncertainty over the company's top line and profitability in view of the worldwide outbreak of Covid -19 – ICRA notes the lockdown announced by the Government of India (GoI) following the Covid-19 outbreak. This would not only result in production loss but would also have a bearing on the quality and realisation and negatively impact the business profiles of all the tea growers in Q1 FY2021 at least, including RIL with some impact in March, 2020 as well. ICRA also notes that the Karnataka Government has recently issued an order to exempt the Techsys division from the nationwide lockdown and permitted it to resume manufacturing activities with certain restrictions, which may provide some stability to the cash flows in the near term, till normalcy is attained.

Risks associated with tea for being an agricultural commodity, dependent on favourable agro-climatic conditions – The profitability and cash flows of bulk tea producers remain volatile owing to the risks associated with tea for being an agricultural commodity, as the production volume and quality of tea depend on agro-climatic conditions as well as the inherent cyclicality of the fixed-cost intensive industry. Such risks are accentuated by the geographical concentration of RIL's tea operations, with all the gardens located in the Assam region.

Prices of Indian tea remain vulnerable to price fluctuation in the international market – Notwithstanding the large domestic consumption base that India has, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is also crucial for maintaining domestic realisations as un-remunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert pressure on domestic prices.

Liquidity position: Adequate

ICRA notes that the company has significant long-term debt-servicing obligations in the near to medium term. However, cash accruals from the business would be sufficient to meet the long-term debt repayment obligations. The high working capital intensity in the Techsys division and disruptions caused by the Covid-19 outbreak may exert pressure on the liquidity position in the near term. However, sufficient cushion in the working capital limits would provide some comfort.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings if the company is able to scale up its operations while maintaining profitability and improving capital structure, and coverage indicators.

Negative triggers – A significant drop in profitability, or any adverse industry scenario and/or an increase in the working capital intensity may impact the entity's ratings negatively. Specific credit metrics that may lead to a downgrade of ratings include Total Debt / OPBITDA above 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Bulk Tea Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity

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 3,000 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, Rossell Techsys division, is involved in wire-harnessing engineering, custom embedded systems, design and development of test solutions for clients in aerospace and defence domains. RIL had also forayed into the hospitality business in FY2013, known as Rossell Hospitality division, by setting up several fast-food outlets in the Delhi NCR region. However, the same has been shut down with effect from October 1, 2019.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Unaudited)	9M FY2019 (Unaudited)
Operating Income (Rs. crore)	198.19	248.69	255.11	201.40
PAT (Rs. crore)	0.24	0.57	37.36	15.71
OPBDIT/OI (%)	6.67%	8.33%	26.33%	16.95%
RoCE (%)	2.27%	3.76%	-	-
Total Outside Liabilities/Tangible Net Worth (times)	0.71	0.94	1.08	0.84
Total Debt/OPBDIT (times)	7.53	6.29	2.00	2.69
Interest Coverage (times)	1.81	2.10	8.12	4.02
DSCR	0.90	1.24	-	-

Source: RIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding December 31, 2019	Rating	FY2020	FY2019		FY2018
					13-April-2020	1-April-2019	1-March-2019	4-April-2018	4-April-2017
1	Term Loans	Long-term	55.57	51.98	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)
2	Working capital limits	Long-term	138.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)
3	Bank Guarantee / Letter of Credit	Short term	2.50	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A1

Amount in Rs. 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: Instrument details

ISIN o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	-	FY2022	5.57	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2019	-	FY2026	50.00	[ICRA]BBB+ (Stable)
NA	Working capital limits	-	-	-	138.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee / Letter of Credit	-	-	-	2.50	[ICRA]A2

Source: RIL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

Mr. K Ravichandran
+91 44 4596 4301
avichandran@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

Mr. Akash Gupta
+91 33 7150 1127
akash.gupta@icraindia.com

Relationship Contact

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999