October 07, 2020

Rossell India Limited: Long-term rating and short-term rating upgraded to [ICRA]A- (Stable) / [ICRA]A2+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loans	55.57	53.43	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Fund Based – Working Capital Limits	138.00	172.50	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Non-Fund based – Bank Guarantee / Letter of Credit	2.50	4.00	[ICRA]A2+; upgraded from [ICRA]A2
Untied Limits	-	0.86	[ICRA]A- (Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+ (Stable) / [ICRA]A2
Total	**196.07**	**230.79**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings take into account the significant improvement in the profitability and cash accruals of Rossell India Limited (RIL) in FY2020 over the previous fiscal and the consequent improvement in its debt protection metrics. The ratings consider the substantial increase in its revenue and profit from the Techsys division leading to lower dependence on the tea division for its overall performance and closure of the loss-making hospitality division in FY2020. The ratings favourably consider RIL's established position in the domestic bulk tea industry and the company's premium quality tea, which fetches higher realisations than the industry averages. The ratings note 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 has factored in its current healthy order book position in the Techsys division, which provides medium-term revenue visibility and also gives more stability to the entity's top line.

The ratings, however, continues to remain impacted due to the high working capital-intensive nature of operations and high client concentration risk in the Techsys division. The ratings are constrained by the risks associated with tea being an agricultural commodity, which depends on agro-climatic conditions. Moreover, the inherent cyclicality of the fixed cost intensive tea industry 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 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. ICRA notes that despite the current increase in the tea realisation and strong order book in Techsys division, no significant improvement in top line is expected in the current fiscal owing to the impact of the Covid-19 pandemic.

The Stable outlook on the [ICRA]A-rating reflects ICRA's opinion that RIL will continue to maintain its business positioning while sustaining the profit levels.

Key rating drivers and their description

Credit strengths

Sizeable growth in revenue generated from Techsys division leading to diversified revenue stream and reduced dependence on tea division – The revenue from the Techsys division grew sharply in the past few years to Rs. 150.19 crore in FY2020 from Rs. 27.97 crore in FY2017, overtaking the tea division, which used to be the major revenue driver for the company till FY2019. In FY2020, the tea division clocked a revenue of Rs. 143.13 crore vis-a-vis Rs. 121.68 crore in FY2019, registering a growth of ~18%. The revenue growth from the Techsys division led to a reduction in RIL's dependence on the tea division, which has remained cyclical over the years, while providing stability to its revenue and profitability. The Techsys division has a confirmed order book of around Rs. 381 crore as on March 31, 2020, to be executed over the next two to five years, which provides revenue visibility over the near to medium term. RIL has participated in various tenders, the outcome of the same are awaited. The Techsys division has undertaken significant capital expenditure, entailing a capital outlay of around Rs. 80 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.

Improvement in financial profile in FY2020, aided by sizeable growth in profits – ICRA notes that profits and cash accruals from the business witnessed a significant improvement in FY2020 on account of improvement in profitability in both, tea and Techsys divisions. In FY2020, the company reported a profit before tax of Rs. 32.36 crore (Rs. 0.39 crore in FY2019) and net cash accruals of Rs. 34.52 crore (Rs. 10.52 crore in FY2019). 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 profitability to some extent. The improvement in profitability has strengthened the company's debt coverage indicators in FY2020, as reflected by interest coverage, total debt relative to OPBDITA, net cash accruals to debt of 5.55 times (2.10 times in FY2019), 3.33 times (6.29 times in FY2019) and 18% (8% in FY2019), respectively. However, its gearing increased to 1.05 times as on March 31, 2020 from 0.77 times as on March 31, 2019, primarily due to an increase in long-term debt for the capex under the Techsys division.

Established position in domestic bulk tea industry – RIL is an established producer of bulk tea (primarily the orthodox variety of tea), accounting for around 0.44% of India's tea production in FY2020. The company's promoter has around three decades of experience in the tea industry. It owns seven tea gardens, spread over a cultivable area of ~3,000 hectare (HA) and operates under the leadership of Mr. H. M. Gupta. The total production in FY2020 increased to 5.94Mkg from 5.51Mkg in FY2019 due to favourable weather conditions, lower incidence of pest attack and better management. However, some moderation in the production is likely in the current fiscal owing to loss in production because of the lockdown announced by the GoI, following the pandemic outbreak.

Significant improvement in tea realisation likely to support profitability – 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. 235/kg compared to the North Indian auction average of around Rs. 149/kg in FY2020. ICRA notes that the lockdown announced by the Government of India (GoI) following the Covid-19 pandemic has resulted in production loss by RIL, like all other major players in the industry. Thus, the overall shortage of tea availability in the market has led to the current sharp increase in the tea realisations. This is likely to provide some respite to the tea players and support the profitability, however, the sustainability of the same remains to be seen as some moderation in the realisation is likely going forward.

Relatively high yield of tea estates mitigates risks associated with fixed cost intensive nature of bulk tea operations – The favourable age profile of RIL's bushes results in the company recording a high tea estate yield of 2,110 kg per hectare in FY2020 (1,970 kg per hectare in FY2019). This positively impacts the cost structure due to the fixed cost intensive nature of the industry. It has been able to maintain the quality of its produce owing to nominal dependence on the bought leaf operations, which accounted for around 3% of the total tea produced in FY2020.

Credit challenges

Highly working-capital intensive nature of operations of Techsys division – RIL's working capital intensity remains high primarily due to the highly working capital-intensive nature of operations of the Techsys division as they need to maintain high level of raw materials, to execute the orders in the timely manner. The closing stock as on March 31, 2020 of ~Rs. 103 crore, included stock of Techsys division of around Rs. 97 crore. The working capital intensity of operations (NWC/OI) stood at 33% in FY2020, which continues to exert pressure on its liquidity position.

Despite improvement in tea realisation and revenues in Techsys division, no significant improvement in top line expected in current fiscal – ICRA notes that the tea prices have risen significantly in the first five months in the current fiscal compared to the prices in the corresponding period in the previous year. The Techsys division posted revenues of Rs. 47.51 crore in Q1 FY2021 compared to Rs. 35.23 crore in Q1 FY2020. Despite the improved performance of both the divisions in Q1 FY2021, ICRA does not expect significant improvement in its top line in the current fiscal, primarily due to loss in production because of the lockdown imposed due to the Covid-19 pandemic. At present, the Techsys division is operating at a sub-optimal level due to the pandemic.

High client concentration risk with significant dependence on Boeing in Techsys division – Around 99% of the revenues from the Techsys division was contributed by Boeing. Its current order book remains skewed towards Boeing, accounting for around 68%, which exposes the company to high client concentration risk.

Risks associated with tea being an agricultural commodity and dependence of tea realisation on export performance – The profitability and cash flows of bulk tea producers remain volatile owing to the risks associated with tea 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. Notwithstanding the large domestic consumption base of India, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is 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. 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.

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 exerts 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 could upgrade ratings if the company is able to scale up its operations while maintaining profitability, improving capital structure and coverage indicators. Specific credit metrics that could lead to an upgrade of ratings include Total Debt/ OPBITDA less than 2.0 times and interest coverage of more than 5.50 times on a sustained basis.

Negative triggers – Significant drop in profitability, or any adverse industry scenario and/or increase in working capital intensity may impact the entity's rating negatively. Specific credit metrics that could lead to downgrade of ratings include Total Debt/ OPBITDA above 3.0 times and interest coverage of less than 4.00 times.

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

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 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. It 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.

A wholly-owned subsidiary company of Rossell India Ltd has been incorporated, based in the state of Delaware of United States in the name of RossellTechsys, Inc. The subsidiary has been incorporated on August 6, 2020 in the form of C-Corp. The objective of formation of this company is to expand the operation of Rossell Techsys Division in the USA.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	Q1 FY2021 (Unaudited)	Q1 FY2020 (Unaudited)
Operating Income (Rs. crore)	248.69	309.31	63.69	66.18
PAT (Rs. crore)	0.57	18.55	9.12	7.22
OPBDIT/OI (%)	8.33%	18.96%	30.35%	19.85%
RoCE (%)	3.76%	14.95%		
Total Outside Liabilities/Tangible Net Worth (times)	0.94	1.31	-	-
Total Debt/OPBDIT (times)	6.29	3.33	-	-
Interest Coverage (times)	2.10	5.55	3.99	5.02

Source: RIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding March 31, 2020	Current Rating	Earlier Rating	FY2020	FY2019		FY2018
					7- October-2020	13-April-2020	1-April-2019	1-March-2019	4-April-2018	4-April-2017
1	Term Loans	Long-term	53.43	55.12	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A(Negative)
2	Working capital limits	Long-term	172.50	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A(Negative)
3	Bank Guarantee / Letter of Credit	Short term	4.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A1
4	Untied Limits	Long-term /Short term	0.86	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-	-

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	3.43	[ICRA]A- (Stable)
NA	Term Loan	FY2019	-	FY2026	50.00	[ICRA]A- (Stable)
NA	Working capital limits	-	-	-	172.50	[ICRA]A- (Stable)
NA	Bank Guarantee / Letter of Credit	-	-	-	4.00	[ICRA]A2+
NA	Untied Limits	-	-	-	0.86	[ICRA]A- (Stable) / [ICRA]A2+

Source: RIL

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.

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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