

November 23, 2020

Goodricke Group Limited: Ratings assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	10.00	10.00	[ICRA]AA- (Stable); outstanding
Fund-based limits	75.00	90.00	[ICRA]AA- (Stable)/A1+; Assigned
Non-fund based limits	9.00	9.00	[ICRA]AA- (Stable)/A1+; Outstanding
Total	94.00	109.00	

Note: The CC limit is entirely interchangeable between long term and short-term borrowings. The NFB Limit is also fully interchangeable between short term and long term

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation considers the expected improvement in the financial performance of Goodricke Group Limited (GGL or the company) in FY2021, driven by a sharp increase in tea realisations. In CY2020, tea production has been adversely impacted during March-May due to the lockdown and adverse weather conditions including floods in Assam and North Bengal. This resulted in a shortage in the market, leading to a sharp increase in realisations. While the production loss is likely to result in an increase in the cost of production as well, a substantially higher increase in realisation is expected to offset the impact of the same, leading to an improvement in the operating margins of bulk tea companies, including GGL, in FY2021. ICRA notes that in H1 FY2021, GGL's weighted average realisation increased by ~30% compared to the same period last year.

The ratings continue to factor in GGL's established position in the bulk-tea industry, producing superior quality tea, which commands a significant premium over average North Indian auction prices. The company has a diversified revenue stream, with packet tea and instant tea divisions contributing to the profits of the company and providing a natural hedge against the risks associated with the bulk tea industry. The ratings also favourably factor in the conservative capital structure, strong debt coverage indicators and comfortable liquidity position of GGL and its fellow subsidiaries. The ratings, however, also continue to factor in the risks associated with tea for being an agricultural commodity as well as the cyclical nature inherent in the fixed-cost intensive tea industry that leads to variability in profits and cash flows of bulk tea producers such as GGL. However, high productivity of GGL's tea estates mitigates such risks to an extent. While prices in the current year have witnessed a substantial jump, sustainability of the same remains to be seen. In addition, ICRA expects cost pressure to continue for bulk tea companies. However, increasing proportion of packet tea sales, focus of the company in improving the quality of its produce and well established and efficient garden practices followed by the company are likely to support its overall profitability and cash flows.

The Stable outlook reflects ICRA's expectations that GGL's capital structure would remain strong and cash flows comfortable relative to its debt service obligations, going forward.

Key rating drivers and their description

Credit strengths

Improvement in operating profit in FY2021, driven by increased realisations – In CY2020, tea production was impacted during March-May due to the lockdown restrictions and adverse weather conditions, including floods in Assam and North Bengal. This resulted in a shortage in the market, leading to a sharp increase in tea prices. While the production loss is likely to result in an increase in the cost (of production), substantially higher realisations are expected to offset the impact of the same in FY2021. ICRA notes that in H1 FY2021, GGL's weighted average realisation increased by ~30%

compared to the same period last year.

Established player in the bulk tea industry - Incorporated in 1977, GGL is an established player in the tea business, accounting for almost 2% of India's tea production with a total output of around 26.5 mkg in FY2020. Production from bought leaves accounted for around 25% of the overall crop. Dooars region is the major contributor accounting for ~84-86% production in the recent past, followed by Assam with ~13-14%, and the rest from Darjeeling. With the acquisition of a tea estate in Assam in FY2019, GGL has been able to diversify its presence in North India and reduce its geographical concentration to an extent. In FY2020, Dooars' contribution to production fell to ~82% from ~84% in FY2019, whereas contribution from Assam increased from ~14% in FY2019 to ~17% in FY2020.

High productivity of tea estates mitigates risks arising from the fixed-cost intensive nature of the bulk tea industry - GGL's garden costs are largely fixed, in line with that of the industry, with labour costs accounting for the major part of the cost of production. The risks associated with high fixed-cost nature of the industry are mitigated, to an extent, by the significantly high productivity of GGL's estates, with the higher yield, favourably impacting the cost structure and hence profitability. GGL follows a policy of uprooting and re-planting around 2% of the area under cultivation annually. This resulted in a favourable age profile of its bushes, with more than 70% of the bushes being less than 50 years old.

Diversified revenue streams - GGL sells its produce through a combination of auction sales, private sales and exports. GGL also has a packet tea division, which accounted for ~36% of its domestic sales value in FY2020. Revenue from the packet-tea division witnessed a CAGR of ~6% in the last decade due to various marketing and brand-building initiatives undertaken by the company. In FY2020, exports accounted for ~22% of total sales. This year, while the exports volumes will be impacted, remunerative prices will support the company's revenues.

Conservative capital structure and strong debt coverage indicators - GGL's capital structure remained conservative with a gearing of 0.3 times as of end-FY2020, notwithstanding some temporary debt contracted for meeting garden related expenses during the lockdown. Debt coverage indicators remained comfortable with an interest coverage of 4.2 times and Total debt/OPBITDA at 2 times in FY2020. The extended repayment tenure results in low repayment obligations over the near to medium term. The overall liquidity position continued to be supported by healthy cash and bank balances.

Credit challenges

Increasing trend of input costs, particularly wages, continues to impact profitability - Around 60%¹ of the cost of tea production is attributable to employee costs as tea is a labour-intensive industry. GGL's operating margin declined to 4.8% in FY2020 from 5.3% in FY2019 on account of high employee costs. This also resulted in a depressed RoCE of ~5.6% in FY2020. In the current year, however, the RoCE is expected to witness a significant jump on the back of a sharp increase in prices. However, sustainability of high prices over the medium term remains to be seen. Moreover, going forward, increasing cost pressure, particularly wage cost for workers, is expected to exert pressure on the profitability of all bulk tea players, including GGL. However, sustained focus on improving quality, efficient and well-established garden practices as well as increasing proportion of packet tea sales, would mitigate the same to an extent.

Risks associated with tea for being a cyclical agricultural commodity - Tea production depends on agro-climatic conditions. Additionally, the inherent cyclicity of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as GGL.

Liquidity position: Adequate

GGL's liquidity position is expected to be supported by healthy cash inflows from operations, healthy cash and bank balances and low external debt. Moreover, the extended repayment schedule of the term loan would keep the cash

¹ Including production from bought leaf and costs associated with non-tea businesses, labour costs as a proportion of total costs would be around 48%

outflows limited in the near to medium term. Therefore, ICRA expects the company's liquidity position to remain comfortable, going forward.

Rating sensitivities

Positive triggers – Sustained increase in realisations, along with higher profits from the packet tea division, leading to an improved profitability and cash flows, could result in an upgrade of ratings.

Negative triggers – Any major debt-funded capex adversely impacting the capital structure and debt coverage metrics and/or a sustained period of depressed RoCE could also be a trigger for a negative rating action.

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	While arriving at the ratings, combined financials for the four companies – Goodricke Group Limited, Amgoorie India Limited, Stewart Holl (India) Limited and Koomber Tea Company Private Limited have been considered.

About the company

Goodricke Group Limited (GGL) was incorporated on June 14, 1977 and cultivates tea across 18 gardens at present. The company operates 21 factories – one processing factory with each tea garden, four tea-blending units and one instant tea plant. The gardens, spread over ~10,275 hectares, are primarily located in West Bengal (Dooars and Darjeeling), with around 17% of the total area under cultivation located in Assam as well. GGL is primarily a tea producer of the CTC variety, which accounts for ~90% of its total produce, with the balance being orthodox variety of tea. Camellia Plc., UK, is the ultimate holding company, which through its subsidiaries, holds 74% in the company, with the rest being held by public shareholders.

In FY2020, the company reported a net profit of Rs. 16.3 crore on an operating income of Rs. 799.4 crore compared to a net profit of Rs. 9.5 crore on an operating income of Rs. 757.9 crore in the previous year.

Key financial indicators (audited) – Standalone

	FY2019	FY2020
Operating Income (Rs. crore)	757.9	799.4
PAT (Rs. crore)	9.5	16.3
OPBDIT/OI (%)	5.3%	4.8%
PAT/OI (%)	1.3%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.1
Total Debt/OPBDIT (times)	1.3	2.0
Interest Coverage (times)	8.2	4.2

Source: Company data

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	Rating		FY2020	FY2019		FY2018		
					23-Nov-2020	27-Oct-2020		22-Nov-2019	4-Oct-2018	8-May-2018	15-Mar-2018	13-Jul-2017
1	Term loan	Long-Term	10.0	10	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	Noted
2	Fund-based limits	Long-Term/Short-Term	90.0*	NA	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	Noted
3	Non-fund-based limits	Long-Term/Short-Term	9.0*	NA	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	Noted

*The CC limit is entirely interchangeable between long term and short-term borrowings. The NFB Limit is also fully interchangeable between short term and long term.
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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Mar-2019	NA	Mar-2028	10.00	[ICRA]AA-(Stable)
NA	Fund-based limits	-	-	-	90.0	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Non-fund based limits	-	-	-	9.0	[ICRA]AA-(Stable)/ [ICRA]A1+

Source:

Goodricke

Group

Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
A. Goodricke Group Limited	-	Aggregated
B. Amgoorie India Limited	-	Aggregated
C. Koomber Tea Company Private Limited	-	Aggregated
D. Stewart Holl (India) Limited	-	Aggregated

Analyst Contacts

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Maitri Vira

+91 33 7150 1103

maitri.vira@icraindia.com

Relationship Contact

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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents