

Goodricke Group Limited

May 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	75.00	75.00	[ICRA]AA-(Stable)/ [ICRA]A1+; Outstanding
Non- fund based limits	8.00	9.00	[ICRA]AA-(Stable)/ [ICRA]A1+; Assigned/ Outstanding
Total	83.00	84.00	

*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.

Rating action

ICRA has assigned a long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 9-crore¹ (enhanced from Rs. 8 crore) non-fund based bank facilities of Goodricke Group Limited (GGL)². The outlook on the long-term rating is Stable. ICRA also has a long-term rating of [ICRA]AA- with a stable outlook and a short-term rating of [ICRA]A1+ outstanding on the company's Rs. 75-crore fund-based bank facilities. GGL's bank facilities are entirely fungible between long term and short term facilities.

Rationale

The ratings takes into account GGL's established position in the bulk-tea industry, producing superior quality tea, which commands a significant premium over average North Indian auction prices. Additionally, the company continues to have a conservative capital structure, strong debt-coverage indicators and comfortable liquidity position, a trend which is expected to continue going forward. The ratings also positively factor in the company's diversified revenue streams, with packet tea and instant tea divisions contributing to the profits of the company and providing a natural hedge, to an extent, against the risks associated with the bulk tea industry. The acquisition of the packet tea brands of Godfrey Philip in the current year is expected to further strengthen the operating profile of the company. The ratings, however, also continue to factor in the risks associated with tea 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 estates mitigates such risks to an extent. Although rising input costs have resulted in a higher cost of production for the industry including GGL, the company has been able to mitigate the impact of the same by increasing average tea realisations, given its focus on improving the quality of its tea, along with changes in sales mix. In the current year, North Indian auction prices have been marginally higher during 9M FY2018, which along with higher volumes till date will have a favourable impact on GGL's performance in the current year. While ICRA expects cost pressure to continue for bulk tea companies, increasing proportion of packet tea sales is likely to support the overall profitability and cash flows of the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA expects GGL will benefit from its established presence in the tea industry and the uptrend in tea realisations on the back of favourable demand during the current year. The outlook may be revised to 'Positive' if a favourable trend in tea realisations, relative to input costs, leads to a substantial growth in revenue and profitability, strengthening the financial risk profile. The outlook may be revised to 'Negative' if there is a sharp increase in input costs leading to deterioration in profitability on a sustained basis.

Key rating drivers

Credit strengths

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 production of around 23.41 mkg in FY2017, with production from bought leaves accounting for around 20% of the overall crop in FY2017.

High productivity of tea estates mitigates the 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 majority 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 of around 2% of the area under cultivation annually. This has 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 accounts for ~30-35% of its domestic sales value. Revenue from the packet-tea division has grown at a CAGR of ~8% in the last six years, on account of the various marketing and brand-building initiatives undertaken by the company. Moreover, the acquisition of the packet tea brands of Godfrey Philip in the current year is expected to further strengthen the operating profile of the company, on account of the strong presence of the packet tea brands of Godfrey Philips in the North Indian packet tea market, wherein GGL's presence is limited.

Conservative capital structure and strong debt-coverage indicators – GGL's capital structure continues to remain conservative with nil debt as on March 31, 2017. Debt-coverage indicators remained strong with interest coverage at 47.6 times and DSCR at 37.1 times during FY2017. The overall liquidity position continued to be supported by healthy cash and bank balances.

Favourable outlook on the domestic bulk-tea industry – Increasing domestic demand for black tea, combined with limited rise in domestic production, is likely to support a positive price trajectory for the Indian bulk-tea industry, although export volumes would play a key role.

Credit challenges

Increasing cost pressures likely to put some pressure on profitability; however, increase in volumes and realisations would mitigate the impact to some extent – Tea, being a labour-intensive industry, around 40% of the cost of production is attributable to employee costs. Increasing cost pressures, particularly wage cost for workers on account of the scheduled increase in wage rate per man day, is expected to keep profitability under pressure. However, increase in average realisations, as well as sales volumes, would mitigate the same to an extent. Moreover, the company has undertaken various initiatives to effectively manage its cost of production, while continuing to focus on quality of its tea.

Risks associated with tea being a cyclical agricultural commodity - Tea production depends on agro-climatic conditions, which subject it to various agro-climatic risks. 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.

Export market performance of Indian tea remains a critical factor influencing the performance of the bulk-tea industry - While tea exports from India account for only around 20% of the total domestic tea production, the volume and pricing of exports remain crucial for maintaining the overall demand-supply balance in the domestic market.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Indian Bulk Tea Industry](#)

About the company

Goodricke Group Limited (GGL) was incorporated on June 14, 1977 and cultivates tea across 17 gardens at present. The company operates 20 factories – one processing factory with each tea garden, four tea-blending units and one instant tea plant. The gardens, spread over 9,706 hectares, are primarily located in West Bengal (Dooars and Darjeeling), with around 15% of the total area under cultivation being located in Assam as well. GGL is primarily a tea producer of the CTC variety, which accounts for ~90-95% 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 the majority shareholding of 74% in the company, with the rest being held by public shareholders.

During 9M FY2018, GGL reported an operating income (OI) of Rs. 608.39 crore and profit after tax (PAT) of Rs. 86.81 crore compared to an OI of Rs. 579.27 crore and PAT of Rs. 88.33 crore in 9M FY2017. During FY2017, the company reported an OI of Rs. 692.94 crore and PAT of Rs. 33.13 crore compared to an OI of Rs. 742.31 crore and net loss of Rs. 12.14 crore in 15MFY2016.

Key financial indicators (audited)

	15MFY 2016	FY 2017
Operating Income (Rs. crore)	742.31	692.94
PAT (Rs. crore)	-12.14	33.13
OPBDIT/ OI (%)	3.46%	9.19%
RoCE (%)	1.47%	17.19%
Total Debt/ TNW (times)	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.00
Interest coverage (times)	9.82	47.61
NWC/ OI (%)	13%	9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				May 2018	March 2018	October 2016	September 2015
1	Fund-based limits	75.0*		[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
2	Non- fund based limits	9.0*		[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+

**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.*

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
	Fund-based limits				75.0	[ICRA]AA- (Stable)/ [ICRA]A1+
	Non- fund based limits				9.0	[ICRA]AA- (Stable)/ [ICRA]A1+

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.

Source: Goodricke Group Limited

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