

July 01, 2019

McLeod Russel India Limited: Ratings downgraded to [ICRA]D; remains ISSUER NOT COOPERATING

Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	360.00	360.00	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]B-(Negative); continues to remain in issuer not cooperating category
Fund-based Bank Facilities	491.76	491.76	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]B-(Negative); continues to remain in issuer not cooperating category
Fund-based Bank Facilities**	163.92	163.92	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]B-(Negative)/[ICRA]A4; continues to remain in issuer not cooperating category
Non-fund-based Bank Facilities	15.41	15.41	[ICRA]D ISSUER NOT COOPERATING*; downgraded from [ICRA]A4; continues to remain in issuer not cooperating category
Total	1031.09	1031.09	

**Issuer did not cooperate; based on best available information; **Fungible with LT facilities*

Material Event

McLeod Russel India Limited (MRIL) has announced its annual results for FY2019 on June 29, 2019. The company reported an operating income of Rs 1719.7 crore with a net profit of Rs 38.8 crore during FY2019 as against an operating income of Rs 2055.1 crore and a net profit of Rs 219.20 crore during FY2018 on a consolidated basis. The total debt has significantly increased on account of high exposure to weak group companies, which has been largely funded by short-term debt.

Impact of the Material Event

ICRA has downgraded the ratings on the Rs 1031.09-crore fund-based and non-fund based bank facilities of MRIL to [ICRA]D (pronounced ICRA D) from [ICRA]B-(Negative)/[ICRA]A4 (pronounced ICRA B minus/ICRA A four). The ratings continue to remain in the Issuer Not Cooperating category owing to non-submission of no default declaration.

Rationale

The rating revision factors in MRIL's recent delays in meeting debt obligations in a timely manner. ICRA, in its earlier releases, had highlighted the continued pressure on the liquidity profile of the company owing to high financial exposure to weak group companies, which was largely funded by short-term debt, thus exposing the company to significant refinancing risks. ICRA had also earlier noted that, though the company had received a majority of the proceeds from sale of some of the tea estates, the delays in utilising such sale proceeds in debt reduction had resulted in significantly high financial leverage of the company, and the sizeable debt repayment obligations were unlikely to be met from its operational cash flows.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers

Credit strengths

Being one of the largest bulk tea producers in domestic markets; geographically diversified production base – Notwithstanding the reduction in volume post sale of some tea gardens, both in the domestic and overseas operations, MRIL continues to remain one of the largest bulk tea producers from India. The company produced around 89 mkg of tea in India during FY2018; however, after sale of 20 gardens in FY2019 and Q1 FY2020, the volume is likely to reduce to around 55 mkg. The overseas operations would make an additional 26 mkg (post sale of some gardens), taking the total consolidated production to around 81 mkg.

High productivity and bought-leaf operations reduce risks associated with the fixed-cost intensive nature of operations to some extent - The average realisation of MRIL's produce fetches a premium over the auction averages, indicating the good quality of teas produced. The favourable age profile of MRIL's tea bushes, with around 72% of the Indian bushes below 50 years of age, also helps record a healthy tea estate yield.

Credit challenges

Delay in debt-servicing owing to stretched liquidity position – MRIL has recently delayed meeting its debt obligation in a timely manner. The tight liquidity position owing to high advances to weak group companies, its loss-making tea operations and significantly high debt repayment requirements have led to the delay in its debt servicing.

Exposure to group companies increases the overall debt levels and puts pressure on debt coverage – MRIL has significantly increased the financial exposure to weak group companies, from Rs 645 crore in FY2018 to Rs 1745 crore in FY2019. These advances were largely funded by short-term debt raised in MRIL's books, exposing the company to significant refinancing risks. ICRA further notes that although the company has received a majority of the proceeds from the sale of tea estates, the delay in utilising such sale proceeds in debt reduction resulted in significantly high financial leverage of the company. The considerable increase in financial expenses in FY2019 on such high debt levels adversely impacted the debt coverage indicators of the company.

Significant deterioration in core tea operation- Pressure on core operating profitability persists as depressed tea prices were not adequately compensating for the increase in wage costs, notwithstanding the cost-reduction initiatives taken by the company. In FY2019, the company reported significant losses at the operating levels. The performance of the overseas operations in CY2018 was also adversely impacted owing to subdued tea prices in the African market.

Risks associated with tea for being an agricultural commodity as well as the inherent cyclicity of the fixed cost-intensive tea industry - Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Moreover, tea estate costs are primarily fixed with labour-related costs, which are independent of the volume produced, accounting for around 50% of the production cost. This leads to variability in profitability and cash flows of bulk tea producers such as MRIL.

Liquidity position

MRIL's liquidity position is stretched as evidenced by the delay in it meeting its debt obligation. The high advances to weak group companies, the loss-making tea operations and a significant debt obligation resulted in tight liquidity position of the company.

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	For arriving at the ratings, ICRA has analysed MRIL's consolidated financials comprising domestic operations as well as overseas operations through a wholly-owned subsidiary, Borelli Tea Holdings Limited, along with other stepdown subsidiaries mentioned in Annexure 2.

About the company

McLeod Russel India Limited (MRIL), the tea plantation company of the Kolkata-based B.M. Khaitan Group, was originally incorporated as Eveready Company India Private Ltd. on May 5, 1998. MRIL was formed after the demerger of the bulk-tea business from Eveready Industries India Ltd. (EIL) with effect from April 1, 2004. MRIL has acquired several other companies like Williamson Tea Assam in FY2006, Doom Dooma Tea Company in FY2007 and Moran Tea in FY2008. These acquisitions helped MRIL increase the number of tea estates to 53 in India with 33,723 hectares (Ha) of total land under tea cultivation. MRIL also acquired tea estates through its subsidiaries in Vietnam (three tea estates and seven factories), Uganda (six tea estates and five factories) and Rwanda (two tea estates and two factories) between CY2009 and CY2014, which took the total production to around 118 mkg on a consolidated basis in FY2018. In the recent past, MRIL has sold/signed MoUs for 20 tea estates, both in Assam and in the Dooars. MRIL is primarily a producer of CTC tea, which accounts for around 96% of the total tea production.

In FY2019, on a standalone basis, the company reported a net loss of Rs. 4.4 crore on an operating income of Rs.1309.9 crore, compared to a net profit of Rs. 67.3 crore on an operating income of Rs. 1,592.8 crore in the previous year. On a consolidated basis, the entity reported a net profit of Rs.38.8 crore in FY2019 on the back of an operating income of Rs. 1,719.7 crore against a net profit of Rs. 219.2 crore on operating income of Rs. 2,055.1 crore in the previous year.

Key financial indicators (audited)

Consolidated financials

	FY2018	FY2019
Operating Income (Rs. crore)	2055.13	1719.66
PAT (Rs. crore)	219.15	38.81
OPBDIT/OI (%)	8.2%	-2.8%
RoCE (%)	15.2%	12.4%*
Total Debt/TNW (times)	0.60	1.06*
Total Debt/OPBDIT (times)	6.59	Na
Interest coverage (times)	0.93	-0.14

Source: Annual Reports and financial results of Company; based on estimated total debt as break up of current portion of LT debt is not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)							Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating June 2019	Date & Rating April 2019	Date & Rating in FY2019 March 2019	Date & Rating in FY2019 October 2018	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 August 2016	
1	Term Loan	Long Term	360.00	NA	[ICRA]D ISSUER NOT COOPERATING	[ICRA]B- (Negative) ISSUER NOT COOPERATING	[ICRA]BBB- (Negative)	[ICRA]A (Negative)	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA (Negative)	[ICRA]AA (Stable)
2	Fund- based Bank Facilities	Long Term	491.76	NA	[ICRA]D ISSUER NOT COOPERATING	[ICRA]B- (Negative) ISSUER NOT COOPERATING	[ICRA]BBB- (Negative)	[ICRA]A (Negative)	[ICRA]AA- &	[ICRA]AA- &	[ICRA]AA (Negative)	[ICRA]AA (Stable)
3	Fund- based Bank Facilities**	Long Term/Short Term	163.92	NA	[ICRA]D ISSUER NOT COOPERATING	[ICRA]B- (Negative)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]AA- &/ [ICRA]A1+ &	[ICRA]AA- &/ [ICRA]A1+ &	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
4	Non-fund- based Bank Facilities	Short Term	15.41	NA	[ICRA]D ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A3	[ICRA]A2+	[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+

& Under rating watch with developing implications;

**Fungible with LT facilities

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	Mar, 2015 – Sep, 2017	NA	FY2020-FY2024	360.00	[ICRA]D ISSUER NOT COOPERATING
NA	Fund-based Bank Facilities	NA	NA	NA	491.76	[ICRA]D ISSUER NOT COOPERATING
NA	Fund-based Bank Facilities**	NA	NA	NA	163.92	[ICRA]D ISSUER NOT COOPERATING
NA	Non-fund-based Bank Facilities	NA	NA	NA	15.41	[ICRA]D ISSUER NOT COOPERATING

**Fungible with LT facilities

Source: MRIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Borelli Tea Holdings Limited	100.00%	Full Consolidation
Phu Ben Tea Company Limited*	100.00%	Full Consolidation
McLeod Russel Uganda Limited*	100.00%	Full Consolidation
Gisovu Tea Company Limited*^	60.00%	Full Consolidation
McLeod Russel Middle East DMCC*	100.00%	Full Consolidation
McLeod Russel Africa Limited*	100.00%	Full Consolidation
Pfunda Tea Company Limited*^	90.00%	Full Consolidation

*These are step-down subsidiaries of Borelli Tea Holdings Limited. ^in FY2019, the group has signed MoU to divest their entire stake in Gisovu Tea Company Limited and 50% of their stake in Pfunda Tea Company Limited; the remaining 50% stake was sold in current financial year

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