April 05, 2021

Rossell India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	53.43	45.00	[ICRA]A- (Stable); Reaffirmed
Fund Based – Working Capital Limits	172.50	181.79	[ICRA]A- (Stable); Reaffirmed
Non-Fund based – Bank Guarantee / Letter of Credit	4.00	4.00	[ICRA]A2+ Reaffirmed
United Limits	0.86	-	-
Total	**230.79**	**230.79**	

**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 company's premium quality tea, which fetches higher realisations than the industry averages. The ratings consider a substantial increase in revenue and profit from the Techsys division over the years, leading to lower dependence on the tea division. 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 revenue visibility over the medium term and gives more stability to the entity's top line.

The ratings, however, continue to remain constrained by the high working capital intensity of its Techsys division and significant client concentration risk. However, the counterparty risk remains low due to the strong credit profile of the customers. The ratings are also constrained by the risks associated with tea for 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 tea realisation and a strong order book in the Techsys division, no significant improvement in the top line is expected in the current fiscal owing to the impact of the Covid-19 pandemic. ICRA also notes the event risk associated with any large debt-funded capital expenditure plan for acquisition of tea estates, which remains a key rating monitorable.

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

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 0.45% of India's tea production in 9M FY2021. The company's promoter has around three decades of experience in the tea industry. RIL owns seven tea gardens, spread over a cultivable area of ~3,000 hectare (HA) and operates under the leadership of Mr. H. M. Gupta. Recently, the company has announced its decision to sell the smallest garden (around 300 hectares), Bokakhat, which produced 4.85 lakh kg in FY2020. The management indicated that the company may utilise the sale proceeds for acquiring tea garden/s, however, nothing has been finalised yet. The same would remain a key rating monitorable. The total production in FY2021 will remain low compared to the production in FY2020 owing to production loss because of the lockdown announced by the GoI, following the pandemic.

Diversification of revenue stream 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. This trend is expected to continue in the current fiscal also, with revenue from the Techsys division being more than that of the tea division. The revenue growth from the Techsys division in the recent years 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. 329 crore as on February 1, 2021, to be executed over the next two to five years, which provides revenue visibility over the near to medium term. RIL has also participated in various tenders, the outcome of the same are awaited. The Techsys division had 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.

Significant improvement in tea realisation in the current fiscal 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. 287/kg compared to the North Indian auction average of around Rs. 229/kg in 9M FY2021. ICRA notes that the lockdown announced by the Government of India (GoI) following the Covid-19 pandemic resulted in production loss by RIL, like all other major players in the industry. Thus, the overall shortage of tea availability in the market led to the current sharp increase in tea realisations. This is likely to provide some respite to the tea players and support profitability in the current fiscal. However, the extent of sustainability of such an improvement in price, going forward, remains to be seen considering the moderation in realisation already witnessed in the third quarter of the current fiscal. Also, the recent announcement of wage hike would increase the cost of production for bulk tea companies and exert pressure on their profitability, 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 resulted 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 impacted the cost structure due to the fixed cost intensive nature of the industry. RIL has been able to maintain the quality of its produce owing to nominal dependence on the bought leaf operations, which accounted for around 5% of the total tea produced in 9M FY2021.

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 it needs to maintain a high level of raw materials to execute the orders in a timely manner. The closing stock as on March 31, 2020 of ~Rs. 103 crore, included stock of the Techsys division of around Rs. 97 crore. The working capital intensity of operations (NWC/OI) stood high at 33% in FY2020, which continues to exert pressure on its liquidity position, and no significant improvement is expected in the near term, at least given the nature of operations of its Techsys division.

No significant improvement in top line expected in current fiscal despite improvement in tea realisation – ICRA notes that the tea prices have increased significantly in the first half of the current fiscal compared to prices in the corresponding period of the previous year. Despite the same, ICRA does not expect a significant improvement in its top line in the current fiscal, primarily due to loss in production because of the lockdown. Also, the Techsys division is operating at a sub-optimal level due to the pandemic at present.

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 61%, which exposes the company to high client concentration risk. However, the counterparty risk remains low due to the strong credit profile of the customers.

Risks associated with tea for 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 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. 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. High working capital intensity in the Techsys division exerts pressure on the liquidity position in the near term. However, expected sanction of fresh GECL loans and an increase in working capital limits would provide some comfort.

Rating sensitivities

Positive factors – 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 of less than 2.0 times and an interest coverage of more than 5.50 times on a sustained basis.

Negative factors – A significant drop in profitability, or any adverse industry scenario and/or an increase in the working capital intensity may impact RIL's ratings negatively. Specific credit metrics that could lead to a downgrade of ratings include Total Debt/ OPBITDA above 3.0 times and an interest coverage of less than 4.00 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 company's standalone financial statements.

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. Recently, the company has announced its decision to sell the smallest garden (around 300 hectares), Bokakhat, which produced 4.85 lakh kg tea in FY2020. 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. The contracts for this division are going to expire by March 31, 2021, and hence the management has decided to close this division. 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 also forayed into the hospitality business in FY2013, known as the 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. Going forward the company would have two major divisions, Tea and Techsys.

A wholly-owned subsidiary company of Rossell India Ltd. named RossellTechsys, Inc has been incorporated, based in Delaware, the United States. The subsidiary was incorporated on August 6, 2020 in the form of C-Corp. This company was formed to expand the operation of Rossell Techsys Division in the US.

Key financial indicators (audited)

AIL Standalone	FY2019	FY2020	9M FY2021	9M FY2020
Operating Income (Rs. crore)	248.69	309.31	255.75	255.11
PAT (Rs. crore)	0.57	18.55	55.79	37.36
OPBDIT/OI (%)	8.33%	18.96%	32.94%	26.33%
PAT/OI (%)	0.23%	6.00%	21.81%	14.64%
Total Outside Liabilities/Tangible Net Worth (times)	0.94	1.31	0.92	1.08
Total Debt/OPBDIT (times)	6.29	3.33	1.61	2.06
Interest Coverage (times)	2.10	5.55	6.46	8.12

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Apr 5, 2021	Oct 7, 2020	Apr 13, 2020	Apr 1, 2019	Mar 1, 2019	Apr 4, 2018
1	Term Loans	Long-term	45.00	45.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
2	Working Capital Limits	Long-term	181.79	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
3	Bank Guarantee / Letter of Credit	Short term	4.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Untied Limits	Long-term /Short term	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-

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	FY2019	-	FY2026	45.00	[ICRA]A- (Stable)
NA	Working Capital Limits	-	-	-	181.79	[ICRA]A- (Stable)
NA	Bank Guarantee / Letter of Credit	-	-	-	4.00	[ICRA]A2+

Source: *Company*

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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