# Rossell India Limited

**April 04, 2018**

# Rossell India Limited: Ratings downgraded to [ICRA]A- (Negative)/[ICRA]A2; rated amount enhanced

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund Based – Term Loan | 24.00 | 12.00 | Downgraded from [ICRA]A (Negative) to [ICRA]A- (Negative) |
| Fund Based – Working capital limits | 72.0 | 120.00 | Downgraded from [ICRA]A (Negative) to [ICRA]A- (Negative) |
| Non fund based limit | 2.50 | 2.50 | Downgraded from [ICRA]A1 to [ICRA]A2 |
| **Total** | **98.50** | **134.50** | |

**Instrument details provided in Annexure*

## Rating action

ICRA has revised the long-term rating assigned to the Rs. 120.0 -crore[1] (enhanced from Rs. 72.0 crore) fund-based limits and Rs. 12.0-crore term loans (reduced from Rs. 24.0 crore) of Rossell India Limited (RIL)[2] from [ICRA]A (pronounced ICRA A) to [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating remains Negative. ICRA has also revised the short-term rating assigned to the Rs. 2.50-crore non-fund based facility of RIL from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A2 (pronounced ICRA A two).

## Rationale

The revision in the ratings takes into account the lower-than-expected increase in RIL's tea realisation in the last financial year primarily because of the correction in orthodox tea prices during FY2018 compared to the previous year, the continuing losses in the Rossell hospitality division (RHD) adversely impacting the overall business returns and the significant debt-funded capital expenditure to be undertaken in the Rossell Techsys division (RTD), which is likely to result in high fixed repayment obligations in the medium term. ICRA notes that RTD's scale has improved to Rs. 41.5 crore during 9M FY2018 from Rs. 17.6 crore in the corresponding period last year. Nonetheless, further improvement in scale would be required in the medium term for the better absorption of fixed costs. Moreover, ICRA notes that, in Assam, a revision in wage rates is due from January 2018 and remains under negotiation, at present. A sharp increase in wage rates would adversely impact the margins unless there is a commensurate increase in tea prices. ICRA will continue to monitor developments, in this regard, and will review the performance based on the formal wage rate announcement/finalisation of wage rate negotiation in Assam.

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[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*

The ratings continue to favourably take into account the company's premium quality tea, which fetches realisations that are higher than industry averages and 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. The ratings also take into account the risks associated with tea being an agricultural commodity, which is dependent on favourable agro-climatic conditions, as well as the inherent cyclicality of the tea industry that leads to variability in profitability and cash flows of bulk tea producers such as RIL. ICRA also takes note of RIL's relatively small scale of operations and its geographical concentration of tea estates, which increases such risks for the company, although moderated by the high yield of its tea estates. In addition, growing conditions in upper Assam are considered to be superior in the industry. ICRA further notes that Indian tea is essentially a price taker in the international market, and hence global supply-demand dynamics would continue to have a bearing on domestic price levels, to an extent.

Apart from the tea business, RIL has an Aerotech Service Division (ASD), which is involved in the installation, servicing and maintenance of products supplied by foreign original equipment manufacturers (OEMs) primarily to clients in the avionics system domain. At present, the division has four contracts in hand. ICRA notes that one of the contracts was renewed at a much lower rate in July 2016 compared to the previous year, leading to lower revenue during FY2017 and low expected revenues in FY2018. The RTD is primarily involved in wire-harness engineering, designing and development of embedded systems and test solutions. The division has a confirmed order book of around Rs. 350 crore, to be executed over the next 3-4 years, which is likely to increase its revenue in the short to medium term. However, a significant increase in execution would be required for better fixed cost absorption and a likely increase in repayment obligations in the medium term owing to high debt-funded capex planned in FY2019. RIL also forayed into the hospitality business in FY2013 by setting up fast-food outlets in the Delhi National Capital Region (NCR). The company has 13 outlets, at present, in the NCR under the name, "Kebab Xpress". The division continued to report losses owing to high set up costs and the lower-than-expected increase in revenue.

## Outlook: Negative

ICRA notes that any sharp increase in wage rates in the ongoing wage rate negotiation would adversely impact the cost structure. Moreover, growth in revenue and profitability of RTD would remain crucial given the sizeable debt-funded capital expenditure being undertaken for the division. The outlook may be revised to Stable if the improvement in tea realisation compensates for the expected increase in input costs on account of a likely wage rate revision and if the healthy execution of orders in the RTD results in substantial growth in the company's revenue, profitability and cash accruals.

## Key rating drivers

## Credit strengths

**Established position in domestic bulk tea industry** - RIL is an established producer of bulk tea (primarily the orthodox varieties of tea) accounting for around 0.4% of India's tea production. RIL's tea commands a significant premium over auction averages on account of its established position in the industry, its superior quality with continued focus on improving the same and higher proportion of orthodox tea production. However, during FY2018, the weighted average realisation is likely to remain at the previous year's level of Rs. 215-216/kg, owing to a correction in orthodox tea prices during FY2018 compared to the previous year, weaker performance of the Euro and the dollar as orthodox teas are primarily exported, and the increased proportion of CTC production and exports, which fetched lower realisations compared to the orthodox varieties.

**Relatively high yield of tea estates mitigates risk associated with fixed cost intensive nature of bulk tea operations to some extent** - The favourable age profile of RIL's bushes results in the company recording a high tea estate yield, which directly impacts the cost structure because of the fixed cost intensive nature of the industry. After a slight drop of around 3% in saleable production in FY2017, the overall crop is expected to improve by around 7-8% during FY2018, as already witnessed by higher production during April-December 2017, compared to the corresponding period last year.

## Credit challenges

**Expected net losses is likely to have an adverse impact on the debt coverage indicators during FY2018** - RIL's financial risk profile deteriorated considerably in FY2017 with the company reporting losses at the net level, primarily on account of the severe correction in tea prices (by around Rs. 25/kg) during FY2017 and higher losses in RHD. During FY2018, RTD's performance improved owing to an increase in the scale of operations. However, the marginal improvement in tea prices, coupled with continued losses in RHD, is likely to continue to adversely impact the company's debt coverage indicators, notwithstanding a slight improvement.

**Significant debt-funded capital expenditure planned for RTD in FY2019 likely to result in high fixed repayment obligations in the medium term** – RTD has shown improvement, as witnessed by an increase in revenue to Rs. 41.5 crore during 9M FY2018 compared to Rs. 17.6 crore in the corresponding period last year. However, the division is undertaking significant capital expenditure of around Rs. 60 crore during FY2019, which would be primarily funded through additional term loans as well as inter-corporate deposits from the holding company. While such capital expenditure is likely to strengthen the division's business position, the benefits would only accrue over the medium term, post stabilisation. The division has a confirmed order book of around Rs. 350 crore, to be executed over the next 3-4 years, which is likely to increase its revenue in the short to medium term. However, a significant increase in execution would be required for better fixed cost absorption and the likely increase in repayment obligations in the medium term.

**Risks associated with tea being an agricultural commodity, dependent on agro-climatic conditions** - The profitability and cash flows of bulk tea producers like RIL may remain volatile owing to the risks associated with tea being an agricultural commodity, which depends on agro-climatic conditions as well as the inherent cyclicality of the fixed cost intensive industry. Additionally, given that Indian tea is essentially a price taker in the international market, low international prices affect domestic realisations to some extent as well.

**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:

Rossell India Limited (RIL) was incorporated in June 1994 by Mr. H.M. Gupta. The company cultivates tea across seven tea estates. It also 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 2,622 hectares. RIL also 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, RTD, is primarily involved in wire-harnessing engineering. RIL also forayed into the hospitality business, known as the RHD, in FY2013 by setting up several fast-food outlets in Delhi NCR.

## Key financial indicators (audited)

| | FY 2016 | FY 2017 |
|---|---|---|
| Operating Income (Rs. crore) | 160.84 | 163.50 |
| PAT (Rs. crore) | 10.57 | -5.55 |

| | | |
|---|---|---|
| OPBDIT/ OI (%) | 14.78% | 3.32% |
| RoCE (%) | 7.46% | -0.35% |
| | | |
| Total Debt/ TNW (times) | 0.42 | 0.49 |
| Total Debt/ OPBDIT (times) | 3.01 | 14.95 |
| Interest coverage (times) | 4.79 | 0.82 |
| NWC/ OI (%) | 15% | 22% |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | | Current Rating (FY2018) | | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Date & Rating in FY2018 | | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | March 2018 | April 2017 | April 2016 | April 2015 | May 2014 |
| 1 | Term Loan | Long-term | 12.00 | 12.00 | [ICRA]A- (Negative) | [ICRA]A (Negative) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) |
| 2 | Working capital limits | Long-term | 120.00 | - | [ICRA]A- (Negative) | [ICRA]A (Negative) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) |
| 3 | Non fund based limit | Short - term | 2.50 | - | [ICRA]A2 | [ICRA]A1 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 + |

## 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 | FY2017 | 8.60% | FY2022 | 12.00 | [ICRA]A- (Negative) |
| NA | Working capital limits | - | 8.35% | - | 120.00 | [ICRA]A- (Negative) |
| NA | Non fund based limit | - | NA | - | 2.50 | [ICRA]A2 |

Source: Rossell India Limited

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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.

For more information, visit www.icra.in

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