January 11, 2023

Goodricke Group Limited: Ratings downgraded to [ICRA]A+ (Stable) / [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	10.00	10.00	[ICRA]A+ (Stable); Downgraded from [ICRA]AA- (Stable)
Fund-based – Cash Credit/ WCDL	90.00	90.00	[ICRA]A+ (Stable) / [ICRA]A1; Downgraded from [ICRA]AA- (Stable) / [ICRA]A1+
Non-fund based – Letter of Credit/ Bank Guarantee	9.00	9.00	[ICRA]A+ (Stable) / [ICRA]A1; Downgraded from [ICRA]AA- (Stable) / [ICRA]A1+
Total	**109.00**	**109.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of Goodricke Group Limited (GGL) along with its three other Group companies (as mentioned in Annexure- II). GGL is the flagship company of the Group, while other companies are involved in the same line of business and have operational/ managerial/ financial linkages with GGL and other related entities of the Goodricke Group.

The ratings downgrade considers a significant rise in wage and other input costs along with moderation in yields, which are likely to keep the consolidated profits and cash flows of the Group under pressure. ICRA has also considered the deterioration in the Group's profitability and debt coverage metrics in FY2022 on the back of a significant wage hike for tea estate workers in North India and subdued yields due to adverse weather conditions and pest attacks in some of the estates. Further increase in wages both in West Bengal and Assam with effect from January 2022 and August 2022, respectively, along with significant cost inflations for other inputs as well as crop losses would keep the Group's cost structure under pressure in the current fiscal. Nevertheless, the Group's buoyant realisations driven by a significant premium fetched by its teas over the North Indian auction prices owing to superior quality of the Group's produces, and a sharp rise in the market prices for orthodox teas would offset the cost pressure to some extent. The ratings continue to factor in GGL's established position in the bulk tea industry, with a sizeable scale of operation. GGL has a diversified revenue stream, with packet tea and instant tea divisions along with export sales reducing its exposure to the risks associated with the domestic bulk tea industry. The ratings also favourably factor in the conservative capital structure and an adequate liquidity position of the Group. However, the Group remains vulnerable to the risks associated with tea for being an agricultural commodity as well as the cyclicality inherent in the fixed-cost intensive tea industry that leads to variability in profits and cash flows of bulk tea producers. Domestic tea prices are influenced by international prices and 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 the Goodricke Group.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectations that GGL's established position in the tea industry with a sizeable scale and diversified revenue stream would continue to support its business profile. A conservative capital structure and absence of any major capex/acquisition or borrowing plans would continue to support the consolidated financial profile of the Group.

Key rating drivers and their description

Credit strengths

Established player in the bulk tea industry with a sizeable scale of operation – Incorporated in 1977, GGL is an established player in the tea business, with a total tea production of 18.7 million kg (mkg) in FY2022. Production from bought leaves accounted for around 19% of GGL's overall production in FY2022. The Dooars region accounted for 78% of GGL's total production in FY2022, followed by Assam with 20%, and the rest by Darjeeling. The Group's overall production stood at 29.7 mkg in FY2022, out of which the share of production from bought leaves was 12%.

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 33% and 26% of GGL's standalone sales and the Group's consolidated sales, respectively, in FY2022. Though the packet tea sales declined in FY2022 compared to the previous fiscal, the Group is focussing on improving revenues and profitability from the segment. The company also derives a small portion of its revenue from instant tea. Exports accounted for around 12% of GGL's sales in FY2022 vis-a-vis around 21% in FY2020. While the export volumes declined over the last two fiscals mainly due to discontinuation of tea exports to Iran, the same is likely to improve in the current fiscal on the back of increasing exports to other countries. The share of exports in the Group's consolidated sales stood at 9% in FY2022.

Superior quality of tea, as evident from the premium price commanded by the Group's produce – The superior quality of tea of GGL and its Group companies results in a significant premium for its produce compared to the industry average. The average realisation of tea sold by GGL stood at Rs. 283/kg in H1 FY2023 compared to the North Indian auction average of around Rs. 220/kg during the same period, implying a premium of 29%. The premium for teas sold by other three Group companies stood at 9%, 63% and 69% over the North Indian auction prices in H1 FY2023. The Group's focus on quality and a sharp rise in the prices of orthodox tea (contributing around 20% to the Group's production), due to production loss in Sri Lanka, which is the largest supplier of orthodox tea in the international market, have supported high realisations. This is likely to offset the cost pressure to some extent.

Conservative capital structure – The Group's capital structure remained conservative due to limited borrowings vis-a-vis its healthy tangible net worth, as reflected by a consolidated gearing of 0.1 times as on March 31, 2022. Out of the consolidated debt of Rs. 65.5 crore as on March 31, 2022, loans from related parties stood at Rs. 20.5 crore. In the absence of any plans for major debt-funded capex/acquisitions, the Group's capital structure is likely to remain conservative.

Credit challenges

Significant rise in wage rates and other input costs along with crop losses adversely impacting the cost structure – The consolidated operating margin of the Group deteriorated to 4.2% in FY2022 from 7.9% in FY2021 due to a significant increase in wage rates in both West Bengal and Assam and subdued yield (~1,600 kg/hectare in FY2022). The Group's own crop declined by 2% in FY2022, while the overall production in North India recovered by 6% from the sub-optimal level of crop production in FY2021 owing to the pandemic. The decline in profitability resulted in weakening of the Group's consolidated interest coverage to 5.6 times in FY2022 vis-à-vis 8.2 times in FY2021. The Group has faced crop losses in some of its gardens in the current fiscal as well, which will continue to affect its yields. The basic daily wages for tea estate workers in West Bengal and Assam have increased by Rs. 32 per man-day (effective from January 2022) and Rs. 27 per man-day (effective from August 2022), respectively. Besides, a significant increase in the prices of power, fuel, fertilisers, pesticides etc. would keep the Group's cost structure under pressure in the current fiscal, despite a significant rise in realisations.

Risks associated with tea for being a cyclical agricultural commodity – 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 of production, accounting for the major portion of the production cost. Hence, the inherent cyclicality of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as GGL.

Realisation in the domestic market remains vulnerable to export market performance of Indian tea – Exports play a vital role in maintaining the overall demand-supply balance in the domestic tea market, notwithstanding the large domestic consumption base that India has. Healthy export realisation is also 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 despite the better quality of Indian tea.

Environmental and Social Risks

Environmental considerations: Tea, being an agricultural commodity, is susceptible to agro-climatic risks, with the production and quality of tea primarily dependent on rainfall, temperature and humidity. Among the different climatic factors, rainfall plays the most important role. Though these environmental factors pose supply-side risks, the demand side risks are largely protected as tea is one of the most popular, widely consumed and low-cost beverages. Adverse environmental conditions may potentially affect tea productivity, the extent of irrigation and pest control activities required, etc., thereby leading to revenue loss and/or an increase in the cost of production, in turn, resulting in margin contraction. ICRA considers such risks to be inherent in the tea production business.

Social considerations: Tea production is highly manpower intensive. A large proportion of the population, particularly women, in the major tea producing regions in the country is involved as workforce for tea production. The stakeholders of a tea production business include, inter alia, local communities and Government authorities, which influence the operating environment of the business. The wage rates for tea estate workers are regulated by the Government and are revised regularly as the level of wages and welfare costs for tea estate workers have significant socio-economic implications. Tea-estate costs are primarily fixed, with labour-related costs accounting for a significant portion of the production cost. Hence, any significant increase in wage rates may adversely impact the cost structure of tea producers, impacting the margins. Shortage of workers, due to diminishing interest in the garden-based field work on the back of sociological changes remains a concern.

Liquidity position: Adequate

The Group's consolidated liquidity position is likely to remain adequate. The consolidated cash flow from operations remained healthy at around Rs. 41 crore in FY2022. The consolidated normal capex and dividend payout are likely to remain significant. However, the Group's total long-term debt repayment obligation is likely to reduce gradually from around Rs. 15 crore in FY2023 to around Rs. 10 crore in FY2024 and around Rs. 8 crore in FY2025. Nevertheless, the Group's considerable free cash and liquid investments (around Rs. 22 crore as on March 31, 2022) and cushion in the working capital limits are likely to support the liquidity position.

Rating sensitivities

Positive factors – A significant improvement in the consolidated profitability and cash flows on a sustained basis may result in an upgrade of the ratings.

Negative factors – Pressure on GGL's ratings may arise if the consolidated profitability and cash accruals deteriorate. Weakening of liquidity, capital structure and debt protection metrics may also negatively impact the ratings. Specific credit metrics that may trigger ratings downgrade includes a consolidated interest coverage of less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Bulk Tea Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of GGL with three Group entities (as mentioned in Annexure-II).

About the company

Goodricke Group Limited (GGL) was incorporated in 1977 and cultivates tea across 18 gardens at present. The company operates 22 factories including a processing factory with each tea garden, tea-blending units and an instant tea plant. The gardens, spread over an area of 10,365 hectare under cultivation, are located in West Bengal (73% and 9% of area under cultivation in Dooars and Darjeeling, respectively) and Assam (18% of area under cultivation). GGL is primarily a producer of the crush-tear-curl (CTC) variety of tea, which accounted for 90% of its total production in FY2022, and the rest of the production is of orthodox variety. The Group has 29 tea estates with an area of 17,529 hectare under cultivation, almost equally spread over West Bengal and Assam. Camellia Plc, UK, is GGL's ultimate holding company, which through its subsidiaries, holds a 74% stake in the company and the rest is held by public shareholders.

Key financial indicators (audited)

GGL	Standalone		Consolidated^	
	FY2021	FY2022	FY2021	FY2022
Operating income	898.6	825.3	1,122.1	1,057.0
PAT	19.5	5.3	39.9	9.9
OPBDIT/OI	5.8%	3.4%	7.9%	4.2%
PAT/OI	2.2%	0.6%	3.6%	0.9%
Total outside liabilities/Tangible net worth (times)	1.1	1.0	0.9	0.8
Total debt/OPBDIT (times)	1.6	1.5	1.2	1.5
Interest coverage (times)	6.8	4.9	8.2	5.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^ICRA estimates; Amount in Rs crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 11, 2023	Dec 27, 2021	Oct 27, 2020 Nov 23, 2020	Nov 22, 2019
1	Term Loan	Long term	10.00	7.19	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Cash Credit/ WCDL	Long term /Short term	90.00	-	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
3	Letter of Credit/ Bank Guarantee	Long term /Short term	9.00		[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Term Loan	Simple
Long-term/ Short-term - Fund-based (Cash Credit / WCDL)	Simple
Long-term/ Short-term – Non-fund-based (Letter of Credit / Bank Guarantee)	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Mar 2019	NA	Dec 2028	10.00	[ICRA]A+ (Stable)
NA	**Cash Credit/ WCDL**	NA	NA	NA	90.00	[ICRA]A+ (Stable) / [ICRA]A1
NA	**Letter of Credit/ Bank Guarantee**	NA	NA	NA	9.00	[ICRA]A+ (Stable) / [ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	GGL's ownership	Consolidation Approach
Koomber Tea Company Private Limited	-	Full Consolidation
Amgoorie India Limited	-	Full Consolidation
Stewart Holl (India) Limited	-	Full Consolidation

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