October 09, 2024

Goodricke Group Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based - term loan	10.00	4.00	[ICRA]A (Stable); reaffirmed
Long term / short term - non fund based - Letter of Credit/Bank Guarantee	9.00	9.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Long term / short term - fund based - Cash Credit/WCDL	90.00	155.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	**109.0**	**168.00**	

**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 the 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 reaffirmation considers the significant improvement in the tea realisations witnessed in the current fiscal driven by a sizeable drop in North India tea production (~74 Mkg as of Aug '24). The average tea prices for the North India increased by ~Rs 30/Kg during 5M FY2025 compared to the corresponding period of the previous fiscal. GGL, being an established and quality tea producer, the improvement in tea realisation is much sharper compared to the market averages. In addition, the directive of Tea Board of India to end the season by end of November 2024, is likely to keep the tea prices firm in the near term. ICRA also notes that, the production at Goodricke Group is unlikely to witness any sharp decline (compared to NI market) owing to significant effort by the management team to enhance the production levels from the earlier levels. In addition, while the increase in wages last year will have some impact on the current fiscal, the same would primarily be offset by higher realisation in the current fiscal. There has been no announcement of further hike in wages in the current fiscal till date and the tea workers bonuses in West Bengal were also settled at lower % compared to previous year. The performance of the packet tea division and the instant tea division at GGL are also expected to improve in the current fiscal. Consequently, the credit metrics for the entire Group are expected to improve significantly compared to the earlier fiscal. The liquidity position of GGL continues to remain comfortable with average utilisation of around 65% in the working capital limits.

The Group's profitability and debt coverage metrics deteriorated in the last fiscals on account of a severe pressure on profits and a higher debt level. The Group's reported an operating loss of ~Rs 60 crore in FY2024 compared to profits of Rs 34 crore in FY2023. However, owing to better realisation and stable production, the same is expected to improve in the current fiscal.

The rating also factors in GGL's established position in the bulk tea industry, with a sizeable scale of operation and a diversified revenue stream, including packet tea and instant tea divisions along with export sales which offset the exposure to risks associated with the domestic bulk tea industry, to some extent. The ratings also favourably factor in the conservative capital structure of the Group, despite an increase in the working capital utilisations in the last fiscal. 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 long-term 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. 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

Improvement in performance expected in FY2025, owing to firm tea realisation- The NI tea prices are currently on an uptrend driven by a sizeable drop in NI's tea production (~74 Mkg as of Aug '24) and anticipation of the early end of operations in November '24. In addition, GGL being a quality producer, the increase in tea realisation is much sharper compared to market averages. The same is likely to improve the credit metrics of the GGL Group in the current fiscal, which were significantly impacted in the previous fiscal. The turnaround in the financial has already been reflected in Q1 FY2025 standalone performance, where in the company reported an OPBDITA of Rs 18.6 crore in Q1 FY2025 compared to Rs 4.4 crore in the corresponding period of the previous fiscal.

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 18.9 million kg (mkg) in FY2023. Production from bought leaves accounted for around 12% of GGL's overall production in FY2024. The Dooars region accounted for 80% of GGL's total production in FY2023, followed by Assam with 18%, and the rest by Darjeeling. The Group's overall production stood at 31.0 mkg in FY2024, out of which the share of production from bought leaves was 8%.

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 30% and 19% of GGL's standalone sales and the Group's consolidated sales, respectively, in FY2024. Though the packet tea sales remained muted in FY2024 the Group is likely to improve the performance in the current fiscal. The company also derives a small portion of its revenue from instant tea. Exports accounted for around 19% of GGL's sales in FY2024. While the export volumes declined in FY2021 and FY2022 mainly due to discontinuation of tea exports to Iran, the same improved in FY2023 and has been maintained at similar levels in FY2024 on the back of an increase in exports to other countries and restart of exports of Iran. The share of exports in the Group's consolidated sales stood at 16% in FY2024.

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. 257/kg in FY2024 compared to the North Indian auction average of around Rs. 180/kg during the same period, implying a premium of 44%. The premium for teas sold by other three Group companies (Koomber Tea Company Private Limited, Amgoorie India Limited and Stewart Holl (India) Limited) stood at 12%, 61% and 48%, respectively over the North Indian auction prices in FY2024.

Conservative capital structure - The Group's capital structure remained conservative due to limited borrowings vis-a-vis its healthy tangible net worth, even amidst pressure on its profits in the last fiscal. This is reflected by a consolidated gearing of 0.4 times as on March 31, 2024 which remained healthy on an absolute basis even after somewhat moderation (0.2 times in FY2023) to support its stressed cashflows in the last fiscal. Out of the consolidated debt of Rs. 155.3 crore as on March 31, 2024, loans from related parties stood at Rs. 12.8 crore. The Group's working capital borrowings remains high; however, considering the expected improvement in performance in the current fiscal and absence of any plan for major debt-funded capex/acquisitions is likely to keep the Group's capital structure conservative.

Credit challenges

Adverse cost structure with increase in wage rates, resulting in moderate profits, impacting the coverage metrics in FY2024; likely improvement in FY2025 - The Group's consolidated profitability and debt coverage metrics deteriorated significantly in the last fiscal. The topline moderated by 9% in FY2024 however the operating profits suffered significantly amounting to sizeable losses worth Rs. 60 crores on an OPBIDTA level compared to profits worth Rs. 34 crore in FY2023. This was majorly on account of subdued realisations and impact of wage hike introduced from October ’23 in Assam and June’23 in W.B. Additionally, the group’s crop remained muted with crop loss in Assam and Dooars’ gardens. The subdued prices coupled with the higher cost of production (and lack of support from high productivity) the performance moderated significantly with a sizeable loss of Rs. 95 crore on net level. However, with the improvement in realisations and stable production levels recovery is expected in the current fiscal and the credit metrics would also improve significantly compared to the previous fiscal.

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 unremunerative 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. Volatility of exports of orthodox teas to Iran from India, keeps the Indian orthodox tea prices also volatile, thus adversely impacting the Group’s overall realisations. However, in the current fiscal, the orthodox realisation has significantly improved compared to previous fiscal.

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 debt repayment obligation (including lease liability) stands at ~Rs. 5.2 crore for FY2025 to FY2027. However, GGL's working capital limit has been enhanced by Rs. 35 crore in the last fiscal, and the undrawn limits stood at almost Rs. 75 crore as on August 30, 2024, on a standalone basis. This along with absence of any major capex and moderate free cash balance (~Rs. 14.5 crore as on March 31, 2024) are likely to support the consolidated liquidity position along with the likely healthy cash flow from operations in the current fiscal.

Rating sensitivities

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

Negative factors– Inability to improve the profitability or debt coverage matrices may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Tea
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 10,311 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 71% of its total production in FY2024, and the rest of the production is of orthodox variety. The Group has 29 tea estates with an area of 17,465 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

	Standalone		Consolidated	
	FY2023	FY2024	FY2023	FY2024
Operating income	887.3	827.1	1135.0	1036.8
PAT	-0.9	-69.3	7.7	-99.1
OPBDIT/OI (%)	1.8%	-4.9%	3.0%	-5.9%
PAT/OI (%)	-0.1%	-8.4%	0.7%	-9.6%
Total outside liabilities/Tangible net worth (times)	1.1	1.7	0.9	1.3
Total debt/OPBDIT (times)	4.2	NM	2.7	NM
Interest coverage (times)	2.9	NM	4.4	NM

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years						
			FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term Loan	Long Term	4.00	**Oct 09, 2024**	**[ICRA]A (Stable)**	**Nov 20, 2023**	**[ICRA]A (Stable)**	**Jan 11, 2023**	**[ICRA]A+ (Stable)**	**Dec 27, 2021**	**[ICRA]AA- (Stable)**
Letter of Credit/ Bank Guarantee	Long Term/ Short Term	9.00	**Oct 09, 2024**	**[ICRA]A (Stable)/ [ICRA]A2+**	**Nov 20, 2023**	**[ICRA]A (Stable)/ [ICRA]A2+**	**Jan 11, 2023**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**Dec 27, 2021**	**[ICRA]AA- (Stable)/ [ICRA]A1+**
Cash Credit/ WCDL	Long Term/ Short Term	155.00	**Oct 09, 2024**	**[ICRA]A (Stable)/ [ICRA]A2+**	**Nov 20, 2023**	**[ICRA]A (Stable)/ [ICRA]A2+**	**Jan 11, 2023**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**Dec 27, 2021**	**[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 - non fund based - Letter of Credit/Bank Guarantee	Very simple
Long term / short term - fund based - Cash Credit/WCDL	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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Mar 2019	NA	Dec 2028	4.00	[ICRA]A (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	9.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Cash Credit/ WCDL	NA	NA	NA	155.00	[ICRA]A (Stable)/ [ICRA]A2+

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	Ownership	Consolidation Approach
Koomber Tea Company Private Limited	-	Full Consolidation
Amgoorie India Limited	-	Full Consolidation
Stewart Holl (India) Limited	-	Full Consolidation

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 440693396410
vikram.v@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Rishin Devnath
+91 8340059424
rishin.devnath@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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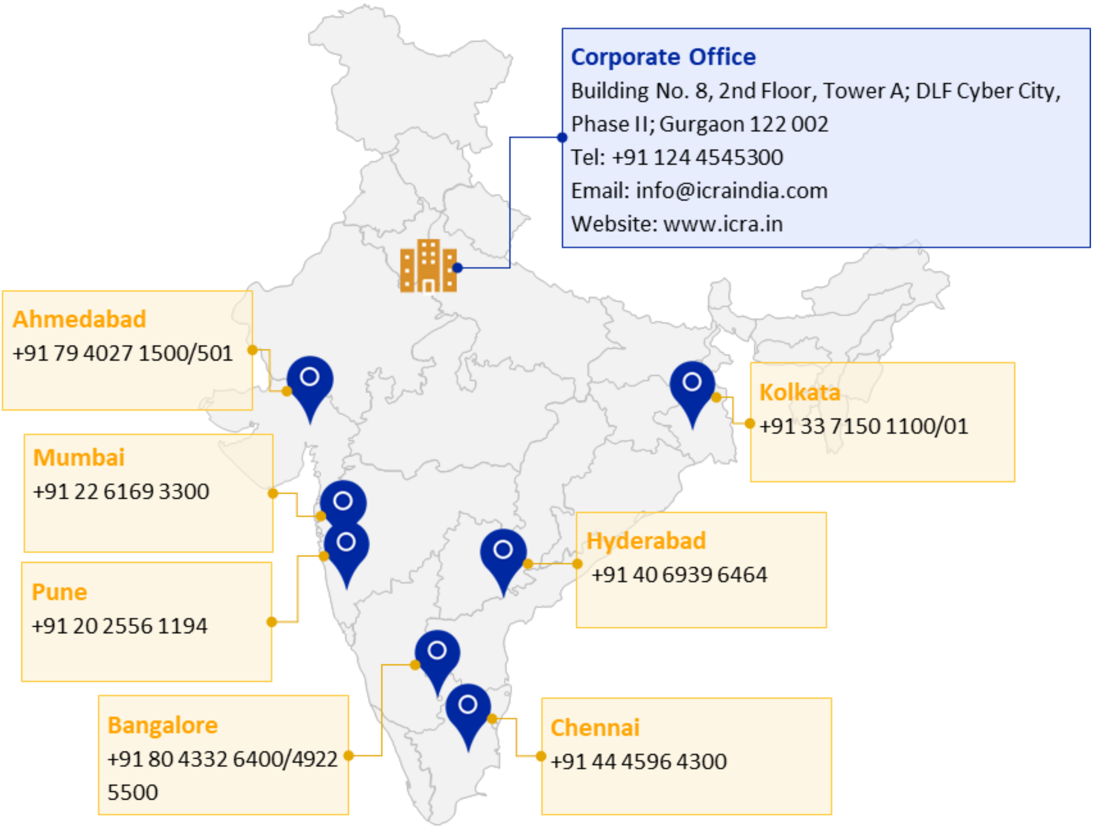

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