



MCLEOD RUSSEL  
*Believe in tea*

7<sup>th</sup> May, 2019

The Secretary,  
Bombay Stock Exchange  
Ltd.,  
P. J Towers, Dalal Street  
Mumbai - 400 001  
Scrip Code : 532654

The Secretary  
National Stock Exchange of  
India Ltd.  
Exchange Plaza  
5<sup>th</sup> Floor  
Plot No. C/1, G Block,  
Bandra- Kurla Complex,  
Bandra( E )  
Mumbai - 400 051  
Scrip Code: MCLEODRUSS

The Secretary  
The Calcutta Stock  
Exchange Ltd.  
7, Lyons Range,  
Kolkata - 700 001  
Scrip Code: 10023930

Dear Sir,

**Sub: Intimation regarding Credit Rating**

In terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we write to inform you that ICRA Limited has reviewed and assigned the credit rating for the long term borrowing programme of the Company to [ICRA] BBB- (pronounced ICRA triple B minus) and also assigned the short term rating at [ICRA] A3 (pronounced ICRA A three).

We also enclose a copy of the aforesaid letter(s) received from ICRA on 6<sup>th</sup> May, 2019 giving details and reasons of the rating as aforesaid for your information.

Thanking You

Your faithfully,

**MCLEOD RUSSEL INDIA LIMITED**

**(DEBANJAN SARKAR)  
COMPANY SECRETARY &  
COMPLIANCE OFFICER**

Encl: As above

*Registered Office :*

**MCLEOD RUSSEL INDIA LIMITED**

Corporate Identity Number (CIN) : L51109WB1998PLC087076

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**A Williamson Magor Group Enterprise**



ICRA

ICRA Limited

Ref: ICRA/KOL/RA/2019-20/063

May 06, 2019

Mr. K.K. Baheti  
Director  
McLeod Russel India Limited  
Four Mangoe Lane  
Surendra Mohan Ghosh Sarani  
Kolkata – 700 001

Dear Sir,

**Re: Review of ICRA-assigned Credit Rating for Rs. 1031.09 crore Line of Credit of McLeod Russel India Limited (instrument details in Annexure)**

Please refer to the Rating Agreement dated August 03, 2017 between ICRA Limited ("ICRA") and your company, whereby, ICRA is required to review its ratings, on an annual basis, or as and when the circumstances so warrant.

Based on a review of the latest developments, the rating committee of ICRA, after due consideration has revised the long-term rating from [ICRA]A (pronounced ICRA A) to [ICRA]BBB- (pronounced ICRA triple B minus). The short-term rating has also been revised from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A3 (pronounced ICRA A three). The Outlook on the long-term rating is Negative.

The aforesaid ratings will be due for surveillance anytime before July 31, 2019.

The ratings as stated above are specific to the terms and conditions of the LOC as indicated to us by you. In case there is any change in the terms and conditions, or the size of the rated LOC, the same must be brought to our notice immediately. Any such change would warrant a rating review, following which there could be a change in the ratings assigned. Notwithstanding the foregoing, any change in the over-all limit of the LOC from that specified in the first paragraph of this letter would constitute an enhancement that would not be covered by or under the said Rating Agreement.

ICRA reserves the right to review and/or, revise the above rating at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the rating assigned to you.

You are requested to furnish a monthly 'No Default Statement (NDS)' (in the format enclosed) on the first working day of every month, confirming the timeliness of payment of all obligations against the rated debt programme [interest and principal obligations for fund based as well as obligations under LOC/BG for non-fund based facility]. This is in accordance with requirements prescribed in circular dated June 30, 2017 on '*Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)*' issued by the Securities and Exchange Board of India.

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**RATING • RESEARCH • INFORMATION 26149**



ICRA

You are also requested to inform us forthwith of any default or delay in the payment of interest and/or principal against the rated debt programme, or any other debt instruments and/or borrowings of your company. Further, you are requested to keep us informed of any other developments that could have a direct or indirect impact on the debt servicing capability of your company, with such developments including, but not limited to, any proposal for re-schedulement or postponement of repayment against any dues and/or debts of your company with any lender(s) and/or investor(s).

We thank you for your kind co-operation extended during the course of the rating exercise. Please let us know if you need any clarification.

We look forward to further strengthening our existing relationship and assure you of our best services.

With kind regards,

Yours sincerely,  
for ICRA Limited

Kaushik Das  
Vice President  
[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

Sumit Jhunjunwala  
Assistant Vice President  
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Annexure

Rated on Long Term Scale			
Facility	Amount in Rs crore	Rating	Assigned on
Fund Based Limits-CC/EPC		[ICRA]BBB- (Negative)	May 03, 2019
ICICI Bank	143.43		
State Bank of India	142.81		
United Bank of India	107.07		
HDFC Bank	106.54		
Allahabad Bank	61.47		
UCO Bank	41.57		
Axis Bank	20.00		
RBL Bank	20.49		
Yes Bank	12.29		
Term Loans			
ICIC Bank Limited	98.97		
HDFC Bank Limited	29.97		
RBL Bank Limited	60.00		
Yes Bank Limited	132.22		
Others	38.84		
<b>Total</b>	<b>1015.68</b>		

Rated on Long Term and Short Term Scale (facilities interchangeable)			
Facility	Amount in Rs crore	Rating	Assigned on
Fund Based Limits-EBD		[ICRA]BBB- (Negative) / [ICRA]A3	May 03, 2019
ICICI Bank	20.49		
State Bank of India	36.47		
United Bank of India	39.45		
HDFC Bank	34.42		
Allahabad Bank	20.49		
UCO Bank	8.50		
Axis Bank	4.10		
<b>Total</b>	<b>163.92</b>		





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Rated on Short Term Scale			
Facility	Amount in Rs crore	Rating	Assigned on
Non-Fund Based Limits		[ICRA]A3	May 03, 2019
ICICI Bank	2.62		
State Bank of India	2.62		
United Bank of India	2.05		
HDFC Bank	2.05		
Allahabad Bank	0.82		
Axis Bank	5.25		
<b>Total</b>	<b>15.41</b>		

## McLeod Russel India Limited

May 06, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	360.00	360.00	Revised from [ICRA]A(Negative) to [ICRA]BBB- (Negative)
Fund-based Bank Facilities	491.76	491.76	Revised from [ICRA]A(Negative) to [ICRA]BBB- (Negative)
Fund-based Bank Facilities**	163.92	163.92	Revised from [ICRA]A(Negative)/[ICRA]A2+ to [ICRA]BBB- (Negative)/[ICRA]A3
Non-fund-based Bank Facilities	15.41	15.41	Revised from [ICRA]A2+ to [ICRA]A3
<b>Total</b>	<b>1031.09</b>	<b>1031.09</b>	

\*Instrument details are provided in Annexure-1

\*\*Fungible with LT facilities

### Rationale

The rating revisions factor in further deterioration in MRIL's liquidity profile due to a slower-than-anticipated progress on asset monetisation and continued pressure on the profitability of the core tea operations of the company. While ICRA notes that a majority of the proceeds from the sale of the second tranche of tea estates has been received recently with a delay, MRIL's overall leveraging remains high. The high exposure to weak Group companies has been largely funded by short-term debt, thus further aggravating the tight liquidity position and exposing the company to significant refinancing risks. The company also has sizeable repayment obligations of its long-term debt in the near term, which would keep its liquidity position under stress, notwithstanding the receipt of the garden sale proceeds recently. Going forward, input costs pressure is expected to keep the operating profitability (OPM) of the company under pressure, despite the cost-control exercises undertaken. Trend in tea prices relative to costs and timely fruition of further deleveraging plans of the company and group would be important factors determining the overall financial risk profile. The ratings continue to favourably factor in MRIL's leading position among tea plantation companies in India, and the premium quality of its tea, which fetches higher realisation than industry averages. Moreover, profits from overseas operations, although reduced in the current year, have supported operating profits on a consolidated basis. However, the ratings also factor in the risks associated with tea for being an agricultural commodity, which depends on agro-climatic conditions, as well as the inherent cyclicity of the fixed-cost intensive tea industry that leads to variability in profitability and cash flows of bulk tea producers such as MRIL. In 9M FY2019, the improvement in tea prices was not commensurate with the increase in wage costs, which adversely impacted the operating profitability of most of the organised bulk tea players in North India, including MRIL. ICRA, nonetheless, notes that MRIL's considerable bought-leaf operations, along with the favourable age profile of its tea bushes, mitigate the risks associated with the fixed cost intensive nature of the bulk tea industry to an extent.



## Outlook: Negative

The Negative outlook underpins ICRA's expectation that input cost pressure would continue to impact the operating profitability and cash flows from operation, which along with higher debt level (on account of exposure to Group companies) would keep coverage indicators depressed and liquidity stretched. The outlook could be revised to Stable in case of a significant increase in prices, relative to costs, thus leading to healthy operating profitability and/or higher-than-expected reduction in exposure to Group companies, leading to a lower debt burden. The quantum and timeliness of the reduction in debt would be a key rating sensitivity. Revision in outlook to Positive looks unlikely at present.

## Key rating drivers

### Credit strengths

**Status of being one of the largest bulk tea producers in domestic markets, notwithstanding reduction in scale; geographically diversified production base** – MRIL produced around 89 mkg of tea in FY2018, accounting for almost 7% of the total domestic tea production. The consolidated production of around 118 mkg accounted for approximately 5% of the global production of black tea. The standalone production increased by around 5% during the year, and consolidated production, by around 3%. The globally diversified production base of the consolidated entity, with gardens in India, Uganda, Rwanda and Vietnam mitigates the risks arising from adverse agro-climatic conditions to some extent. MRIL has sold 21 gardens in India, which is expected to reduce almost ~32 mkg of total production, while the African stake sale will reduce almost 5 mkg of tea production, thus reducing the global production to around ~80 mkg, going forward. Notwithstanding the reduction, MRIL still remains one of the largest bulk tea producers from India.

**Superior quality of tea produced by MRIL; high productivity and bought-leaf operations reduce risks associated with the fixed-cost intensive nature of operations to some extent** - The superior quality of tea fetches a premium over industry averages both in the domestic as well as in the export markets. The average realisation of MRIL's produce fetches a premium over auction averages, indicating superior 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, helps record a healthy tea estate yield. This directly impacts the cost structure because of the fixed-cost intensive nature of the industry. Though the operating cost has increased primarily owing to increase in wages, ICRA understands that the company has taken major cost-reduction initiatives to reduce the overall impact of the same and the benefits are expected in the current year itself. Nonetheless, increase in input costs would continue to keep the profitability under pressure. A large bought-leaf operation, which aids in better absorption of fixed overheads, reduces the overall fixed cost intensity of the bulk tea business.

### Credit challenges

**Slower than anticipated progress on asset monetisation** - The company has made slower-than-expected progress on its asset monetisation plans that has delayed the planned deleveraging of its balance sheet to an extent. While ICRA notes that a majority of the proceeds from the sale of the second tranche of tea estates has been received with a delay, MRIL's overall leveraging remains high.

**Tightness in liquidity position**- Delay in asset monetisation, loss making tea operations and significant debt repayment in the near term would keep liquidity position tight as per ICRA's estimates.

**Exposure to Group companies increases the overall debt levels and puts pressure on debt coverage** – Although MRIL used the proceeds from the sale of gardens to reduce debt, however, contrary to ICRA's expectation, the total debt outstanding still remains high on account of increased exposure to Group companies. ICRA notes that the company has plans to reduce its debt over the short term; however, continued exposure to Group companies, would keep MRIL's borrowings elevated at least over the short term.



**Significant deterioration in financial risk profile-** Pressure on core operating profitability persists as depressed tea prices not adequately compensating for the increase in wage costs, notwithstanding the cost-reduction initiatives taken by the company. In 9M FY2019, there was a considerable decline in operating profitability of the company. The performance of the overseas operations in CY2018 was also adversely impacted owing to subdued tea prices in the African market. Though non-operating income is likely to support the net profitability to an extent, input costs pressure is expected to keep the profitability of the company under pressure.

**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 remains stretched with deterioration in its core operating profitability and continued high exposure to Group companies. The delay in asset monetisation, loss making tea operations and significant debt repayment in the near term would keep liquidity position tight as per ICRA's estimates. Quantum and timeliness of deleveraging, for the company as well as the group, would be the key factor influencing the overall liquidity position going forward.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<u>Corporate Credit Rating Methodology</u> <u>Rating Methodology for Entities in the Indian Bulk Tea Industry</u>
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 12 tea estates in Assam region and has signed an MoU to sell more estates, both in Assam and in Dooars. Post conclusion of the sale, the company would have a capacity to manufacture around 42 mkg of tea from its own leaves. MRIL is primarily a producer of CTC tea, which accounts for around 96% of the total tea production.

In FY2018, on a standalone basis, the company reported a net profit of Rs. 67.3 crore on an operating income of Rs. 1,597.8 crore, compared to a net profit of Rs. 30.5 crore on net sales of Rs. 1,388.7 crore in the previous year. On a consolidated basis, the entity reported a net profit of Rs. 219.2 crore in FY2018 on the back of an operating income of Rs. 2,055.1 crore against a net profit of Rs. 64.5 crore on net sales of Rs. 1,772.1 crore in the previous year. In 9M FY2019, the company reported a net profit of Rs. 314 crore on an operating income of Rs. 1,134 crore on a standalone basis.

## Key financial indicators (audited)

### Consolidated financials

	FY2017	FY2018
Operating Income (Rs. crore)	1806.29	2055.13
PAT (Rs. crore)	64.45	219.15
OPBDIT/OI (%)	2.8%	8.2%
RoCE (%)	7.3%	15.2%
Total Debt/TNW (times)	0.58	0.60
Total Debt/OPBDIT (times)	18.76	6.59
Interest coverage (times)	0.37	0.93

Source: Annual Reports of Company

Note:

1. The above table includes profit on compulsory acquisition of land by Government received in FY2017 and FY2018 as part of operating revenue; however, while assigning the rating, ICRA has considered the same as non-operating income

### 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 May 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	350.00	[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]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]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]A3		[ICRA]A2+	[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+

& Under rating watch with developing implications;

### 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](http://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]BBB-(Negative)
NA	Fund-based Bank Facilities	NA	NA	NA	491.76	[ICRA]BBB-(Negative)
NA	Fund-based Bank Facilities**	NA	NA	NA	163.92	[ICRA]BBB-(Negative)/[ICRA]A3
NA	Non-fund-based Bank Facilities	NA	NA	NA	15.41	[ICRA]A3

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 the current financial year, 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.

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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](http://www.icra.in)

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