



BITTER BREW

McLeod Russel's teacup of woes

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Amritanshu Khaitan (right), Managing Director, and Aditya Khaitan, Chairman, McLeod Russel - BUSINESSLINE

How the world's largest bulk producer brewed a crisis for itself by trying to save other BM Khaitan group companies

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There was not a whiff of trouble in the tea leaves for the BM Khaitan group company McLeod Russel, the world's largest bulk tea producer, in early 2018. The 152-year old company's estates were well managed, it had quality bushes and a steady market.

But a slew of inter corporate deposits (ICDs) — unsecured borrowings from other entities — extended to some of the other BM Khaitan group companies, hurtled the tea major into a serious crisis. The company that had survived two World Wars and staved off slowdowns in the tea industry was battling to stay in business. All because it had borrowed to save other group companies, which could not pay back.

Till March 2018, McLeod had 52 tea estates in the country producing 67 million kg (mkg) with total saleable production of 89 mkg. By FY20, its total saleable quantity had dropped by nearly 53 per cent to 42 mkg with the company selling estates to square off debts. But asset sales were not enough to repay creditors. It was dragged to the National Company Law Tribunal by Techno Electric & Engineering, over an ICD of ₹100 crore taken in 2018, which it failed to pay back on the due date of March 31, 2019. The case was admitted for insolvency by NCLT this August.

Dramatically, the tea producer settled with Techno Electric. Although the details of the deal are not available, sources said a major part of the ₹100 crore loan was paid-off by the Khaitans, and speculated that PP Gupta, MD of Techno Electric, may have been offered a minority stake in McLeod.

It might have managed to survive, but the big question is: Will McLeod be able to brew a revival? What happens to the tea-to batteries-to-engineering empire that ‘Gentleman Raider’ BM Khaitan built through crafty acquisitions — especially now as all the Williamson Magor group companies’ finances and fortunes are badly interlinked?

The McNally factor

The liquidity crisis of McLeod can be traced to early 2018 when the company’s board received shareholders’ approval to sell up to 35 per cent of assets in India. It sold nearly 20 tea estates in Assam and West Bengal, raising about ₹800 crore, which was used to repay high cost debts. In addition to cash flows from the sale, the company sought short-term borrowings to fund promoter group companies to help them meet their financial obligations. McLeod had given ICDs aggregating ₹2,837 crore, as on June 30, 2021 (including interest of ₹19 crore accrued till March 31, 2019). According to auditors the amount outstanding was doubtful of recovery.

In its notes to accounts accompanying the financial result for quarter ended June 30, 2021, the company said, one of the bankers has issued a notice of default and recalled the amount granted under various facilities. The total indebtedness was ₹2,245 crore as on March 31, 2020. A chunk of this is towards McNally Bharat and other group entities.

Sources blame McNally Bharat Engineering Company for the tea major's current condition although McLeod does not single it out in its annual report. The aggregate amount of the Comfort Letter issued and outstanding as on March 31, 2020, is ₹1,460.99 crore according to the annual report. The group companies mentioned include McNally, Kilburn Engineering, Seajuli Developers & Finance Limited, Babcock Borsig Ltd, Williamson Magor & Co and Williamson Magor Financial Holdings.

McNally, which had debts of ₹2,112 crore till FY20, is in the final stages of its debt resolution, say sources.

How Eveready survived

The ICD conundrum even hit Eveready Industries, the country's largest dry cell battery-maker and another flagship of the BM Khaitan Group. However, Eveready got a white knight in the Burmans, promoters of Dabur India, who picked up nearly 20 per cent stake in the firm. The company during Q4FY21 (Jan-Mar) made full provisions for ICDs and corporate guarantees given to group entities over the years by taking a one-time hit of nearly ₹630 crore. Provisioning included ₹489 crore on account of ICDs, corporate guarantees and interest of ₹69 crore thereof; and also provided for ₹72 crore given as advance to a third party for a land parcel.

While Eveready did end FY21 with a loss (because of the provisioning), it bounced back in Q1FY22 with an improved show, reporting a 30 per cent rise in net profit YoY (at ₹31 crore) and a 100 per cent jump in operating net profit, YoY, at ₹38 crore. The company's current debt-burden stands

at ₹418 crore, but Managing Director, Amritanshu Khaitan, in a recent interaction with *Business Line* said it was “on-track with its repayment schedule”. The company brought in a joint MD, Suvomoy Saha, the second time in its history to have professional management.

Aditya Khaitan, Chairman, McLeod Russel, did not respond to queries by *BusinessLine*. However, industry sources say now that the company is out of insolvency, it can pursue its debt resolution plan with banks. Based on a 2019 circular by the Reserve Bank of India, lenders had initiated a resolution process of stressed assets; and appointed an independent professional to carry out a techno-economic viability study. SBI Capital Markets was appointed to recommend a resolution plan. A forensic audit for utilisation of past funds borrowed has been conducted and accepted. Inter-creditor agreement for implementing the resolution plan has been confirmed and signed by “certain lenders” and “is in the process” of being approved by others too.

But the acquisition of pledged shares by lenders due to defaults has pushed the promoters’ shareholding in some firms to single-digit figures. Sources say options for the company include “partial sale of estates” and / or restructuring of outstanding loans to tide over the crisis. Unlike 2018, it might be difficult for the company to find buyers now. “The wages are rising, there is overproduction of tea in the country, prices are not increasing commensurately. Until and unless the situation stabilises I don’t think anyone will come forward to buy any more estates,” says Atul Asthana, MD & CEO, of rival Goodricke Group, which acquired two of McLeod’s estates in Assam.

Ironically, McLeod’s business did not suffer due to its gardens. Even during the pandemic, when overall (tea) production dropped, it recorded a 30 per cent growth in revenue at ₹1,112 crore during FY21, compared with ₹856 crore in FY20.

For McLeod, this is no tempest in the teapot, but a battle for survival. The Khaitans are familiar figures in Kolkata's Turf Club which they restored, but have they gambled too much when it comes to business?

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