Dhunseri Tea & Industries Limited (Revised)

October 7, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	105.50 (Reduced from 115.69)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Total Bank Facilities	**105.50 (Rs. One Hundred Five Crore and Fifty Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dhunseri Tea & Industries Limited (DTIL) continues to draw strength from the long experience of the promoters and established track record of the company in the tea industry with satisfactory operational parameters for both its domestic and overseas businesses.

The rating also takes note of improvement in the operating profitability (PBILDT) margin of DTIL in FY21 (refers to the period April 1 to March 31) on the back of significant increase in domestic sales price realisation during the year due to short supply of tea driven by the impact of the pandemic. The improvement was driven by the domestic operations as the production of tea and macadamia in its overseas operations in Malawi witnessed a decline due to vagaries of nature.

With surplus production of domestic tea along with higher imports in the current financial year (FY22), the tea prices have witnessed significant correction, which along with increase in wage rates is expected to lead to moderation in the operating profitability of its domestic operations during FY22. The profitability is expected to be supported by improvement in its overseas operations as well as the gains on its investment portfolio; consequently, the debt coverage indicators are expected to remain comfortable.

The company's comfortable capital structure and significant free liquidity in the form of quoted investments further underpin its rating. DTIL had sold two of its packet tea brands in FY20 for an aggregate consideration of about Rs.100 crore which has been retained in the company.

The rating remains constrained by DTIL's moderate scale of operation, labour intensive nature of the tea industry with increasing wage cost and susceptibility of tea business to agro-climatic risks.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial improvement in its scale of operations on a sustained basis
- Improvement in its operating (PBILDT) margins beyond 25% on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant deterioration in its total operating income (TOI) below Rs.300 crore impacting the PBILDT margin on a sustained basis.
- Any un-envisaged significant debt-funded capital expenditure leading to deterioration in its capital structure and/or significant dilution in its liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoters and established track record of the company in the tea industry

DTIL is a part of the Dhunseri group which has been carrying on the tea business for over five decades. Despite the tea industry passing through several bad phases over the last few decades, the promoters have demonstrated a successful track

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

record of managing their tea business. Shri C. K. Dhanuka, Chairman and MD of the company, is one of the reputed industrialists of Kolkata with long experience in the tea industry. The promoter group is ably supported by an experienced management team.

DTIL currently has eight tea gardens in Assam, producing quality tea and a blending and packaging unit in Rajasthan. The company sells tea via auctions, private sales through intermediaries and packaged tea.

Further, DTIL owns and operates two tea estates in Malawi, South Africa, having a cumulative tea production capacity of 10 million kg p.a. It also has 0.6 million kg p.a. capacity for Macadamia nuts in Malawi.

Stable operational parameters of the tea division

DTIL has been efficiently carrying out its operations across its tea gardens (now 8 in number) in Assam where the quality of black tea is superior compared to rest of India. The domestic average tea yield remained relatively stable in FY21 as compared with FY20 attributable to favourable weather conditions and the tea production increased to 11.44 mn kg as compared to 11.13 mn kg in FY20. The average recovery rate (ranging from 22.6% to 22.8% over FY18-FY21) for the company have been in line with the industry average of about 22%.

The production of tea in its overseas subsidiary witnessed a marginal dip to 8.43 mn kg in CY20 (P.Y.: 8.63 mn kg) but remained satisfactory. The production of macadamia nuts, however, declined to 0.29 mn kg in CY20 from 0.44 mn kg in CY19 due to adverse weather conditions.

Improvement in TOI and PBILDT margin in FY21; albeit profitability is expected to witness moderation during FY22

DTIL's scale of operations remains moderate with relatively stable sales volume. Its consolidated TOI improved to Rs.384.17 crore in FY21 from Rs.304.15 crore in FY20 mainly due to improved average realization of tea (from domestic operation) which improved by about 45% y-o-y in FY21. Accordingly, the PBILDT margin improved to 18.26% in FY21 (FY20: 6.64%). The sharp decline in PBILDT in FY20 was mainly due to fall in average realization of tea coupled with some one-time expenditures like write-off of debtors.

The company had incurred loss before tax of Rs.6.14 crore in FY20 excluding the extraordinary income of Rs.100.7 crore attributable to sale of packet tea brand namely *Lal Ghora* and *Kala Ghora* to Tata Global Beverages Ltd. The PBT level excluding extraordinary items improved to Rs.55.59 crore in FY21 with improvement in operating profitability. The company incurred extraordinary loss of Rs.14.89 crore in FY21 on sale of two tea gardens.

The operating profitability margins are, however, expected to moderate in FY22 due to fall in the tea realization on the back of surplus supply of tea along with recent increase in the wage rate. The overseas operations were impacted in CY20 due to weather conditions and impact of Covid-19. However, with the gradual recovery from the impact of Covid-19 and improved yield of tea, the overseas operations are expected to improve in CY21.

Comfortable capital structure

DTIL has a healthy networth base and relatively low debt levels. Overall gearing stood comfortable at 0.11x as on March 31, 2021 (0.17x as on March 31, 2020). PBILDT interest coverage improved to 7.46x in FY21 as compared with 1.92x in FY20. Total debt/PBILDT was comfortable at 1.34x as on March 31, 2021.

Liquidity: Strong

DTIL had strong liquidity marked by cash and liquid investments of around Rs.107 crore as on March 31, 2021. The average utilisation of its fund based working capital limits was also low at around 39% over the trailing 12 months ended August 2021. DTIL had unutilized working capital limits of around Rs.33 crore on August 31, 2021 which is expected to be sufficient to meet its incremental working capital needs over the next one year. The internal accruals are expected to be sufficient to meet the debt repayment obligations. Further, the company does not have significant capital expenditure plans in the medium term and the routine capex requirement can be met out of its internal accruals.

Key Rating Weaknesses

Labour intensive nature of tea industry

The inherent nature of the domestic tea industry makes it highly labour intensive, with wage cost entailing around 45-50% of total cost of sales. Therefore, steep upward revision in the wages has an adverse impact on the PBILDT margin of bulk tea players. However, labour cost in its African subsidiaries is relatively low, hence its overall impact on the PBILDT margins at the consolidated level gets somewhat moderated.

Inherent agro-climatic risks
DTIL's profitability is highly susceptible to vagaries of nature as all its domestic tea gardens are concentrated in Assam. Assam is the largest tea producing state in India and has witnessed erratic weather conditions in the past years. DTIL's international tea gardens, located in Africa, are also susceptible to vagaries of nature.

Industry Outlook
Tea auction prices witnessed a sharp fall in July 2021 due to oversupply in the market including from cheaper imports. This, coupled with rising wages, is expected to lead to moderation in the profitability margins of bulk tea players in FY22.
However, retail demand has picked up across the country with the easing of Covid (2nd wave)-led restrictions. With good monsoon, there will be boost in the demand for tea in the rural areas, where tea is the main beverage. Further, the orders are also picking up on the export front.

Analytical approach: Consolidated
The subsidiaries are in similar line of business with common management and financial support extended by DTIL in the form of Standby Letter of Credit to one of its subsidiaries. List of entities consolidated is shown as **Annexure 6**.

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies

About the company
DTIL is engaged in growing and cultivation of tea over 8 tea estates in Assam (4 in upper Assam and 4 in lower Assam) having a cumulative production capacity of 11 million kg p.a. This apart the company has a 4 million kg p.a. blending and packing unit at Jaipur, Rajasthan. DTIL also has 2 tea estates named 'Makandi' and 'Kawalazi' in Malawi, South Africa [whereby DTIL had acquired (100% stake) in FY13 through its Singapore based wholly owned subsidiary 'Dhunseri Petrochem and Tea Pte Ltd]. The cumulative production capacity of these two estates is 10 million kg p.a. Besides tea, the Malawi estates also produce macadamia (installed capacity of 0.60 million kg p.a).

Brief Consolidated Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	304.15	384.17
PBILDT	20.21	70.13
PAT	73.20	30.72
Overall gearing (times)	0.17	0.11
Interest coverage (times)	1.92	7.46

A: Audited
As per its unaudited results for Q1FY22, DTIL reported a PAT of Rs.26.00 crore (Q1FY21: Rs.14.94 crore) on a TOI of Rs.81.68 crore (Q1FY21: Rs.62.79 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Bank lender details: Annexure 5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT-Standby Letter of Credit		-	-	-	24.25	CARE A+; Stable
Term Loan-Long Term		-	-	Dec-22	5.25	CARE A+; Stable
Non-fund-based - LT-Bank Guarantees		-	-	-	9.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)
2	Non-fund-based - LT-Standby Letter of Credit	LT	24.25	CARE A+; Stable	-	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)
3	Term Loan-Long Term	LT	5.25	CARE A+; Stable	-	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)
4	Non-fund-based - LT-Bank Guarantees	LT	9.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Oct-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantees	Simple
3	Non-fund-based - LT-Standby Letter of Credit	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here]

Annexure 6:

Following subsidiaries have been considered in the consolidation of DTIL:

Type	Name of the Companies	% holding
Subsidiary	Dhunseri Petrochem & Tea Pte Ltd.	100
Step-down Subsidiary	Makandi Tea & Coffee Estates Ltd.	100
	Kawalazi Estate Company Ltd.	100
	Dhunseri Mauritius Pte Ltd.	100
	A.M. Henderson & Sons Ltd.	100

	Chiwale Estate M/anagement Services Ltd.	100
	Ntimbi Estate Limited	100

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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