

## Dhunseri Tea & Industries Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	155.31	CARE A+; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of Dhunseri Tea & Industries Limited (DTIL) continues to draw strength from the vast experience of its promoters and established track record of the company in the tea industry. The rating continues to draw strength from DTIL's comfortable capital structure, despite increased debt level (in view of increased working capital requirement) and lower networth (in view of losses). The rating derives significant comfort from the available liquidity at group level in the form of cash and liquid investments in mutual funds and listed securities. The promoter group has demonstrated support by infusing Rs.22.5 crore of unsecured loans in April 2024. Also, promoter group has shown their preparedness to provide support of Rs.25 crore, if required, in FY25.

The rating is, however, constrained by significant moderation in the financial performance of the company in FY24 (refers to the period April 1 to March 31). The company incurred net loss and cash loss in FY24 (standalone) primarily due to crop loss in view of adverse weather conditions, reduced realizations of tea, and increase in wage rates. Additionally, the Malawi subsidiaries experienced a notable drop in Macadamia prices, compounded by a considerable devaluation of the Malawian currency against the USD, resulting in substantial exchange rate losses for the Malawi subsidiaries.

While CARE Ratings Limited (CARE Ratings) believes that the significant deterioration in profitability is an exceptional event due to coinciding of crop loss, lower realisation and currency devaluation in FY24, the ability of the company to recover its profitability in the ensuing quarters, remains a key rating monitorable.

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

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Substantial improvement in its scale of operations on a sustained basis.
- Improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin beyond 25% on a sustained basis.

#### Negative factors

- Significant deterioration in its total operating income (TOI) below ₹300 crore on a sustained basis and inability to achieve envisaged production and improved operating profit in coming quarters.
- Any un-envisaged incremental debt-funded capital expenditure leading to deterioration in its capital structure and/or significant dilution in its liquidity profile.
- Any significant dilution in the liquidity profile at group level.

**Analytical approach:** Consolidated along-with factoring strong financial flexibility by virtue of being part of Dhunseri group.

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**. The ratings also take into account substantial liquidity available at group level providing financial flexibility.

### Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' on the expectation of continued pressure on the profitability of the company amidst volatility in tea and macadamia prices and exposure to agro climatic conditions. The outlook may be revised to 'Stable' upon y-o-y improvement in the operating profitability in H1FY25 and its consequent positive impact on the liquidity position of the company.

### Detailed description of the key rating drivers:

#### Key strengths

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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 record of managing their tea business. 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. The rating derives significant comfort from the available liquidity at group level aggregating around ₹1,200 crore as on March 31, 2024 in the form of cash and liquid investments in mutual funds and listed securities.

DTIL currently has 12 tea estates and 12 tea factories, producing quality tea and a blending and packaging unit in Rajasthan. The company sells tea via auctions, private sales through intermediaries and packaged tea.

#### **Moderation in yield albeit production growth due to new tea gardens**

DTIL has been efficiently carrying out its operations across its tea gardens (12 in number) in Assam where the quality of black tea is superior as compared to the rest of India.

The domestic average tea yield decreased to around Rs 1831 kg per hectare in FY24 as compared to 2150 kg per hectare in FY23 due to adverse weather conditions resulting in crop loss. However, the tea production from own tea leaves increased from 6.4 mn kg in FY23 to 10.91 mn kg in FY24 on account of tea production from five new tea estates.

The average recovery rate (ranging from 22.6% to 22.9% over FY18-FY23) for the company has been in line with the industry average of about 22%.

The production remained largely stable in its overseas subsidiary with tea production at 7.34 mn kg in CY23 as against 7.44 mn kg in CY22 along with increase in production of macadamia nuts to 0.55 mn kg in CY23 from 0.38 mn kg in CY22.

#### **Comfortable capital structure albeit moderation in debt protection metrics**

The debt level has increased as on March 31, 2024, due to increase working capital requirements amidst increased production levels and operational losses. Further company has availed term loans in Malawi for capex related to the plantation whereby due to currency devaluation in FY24 leading to exchange rate losses, debt level has gone up. However, DTIL continues to have a healthy net worth base and relatively low debt levels. Overall gearing ratio, though moderated, stood comfortable at 0.49x as on March 31, 2024 (0.27x as on March 31, 2023).

Interest coverage ratio and total debt/PBILDT witnessed deterioration in FY24 due to the losses at operating level.

#### **Liquidity: Adequate**

In view of losses in FY24, the company has managed its capex and other liquidity needs from selling of liquid investments and loss-making tea assets apart from higher utilisation of working capital limits. In FY24, the company has sold current investments to the tune of ₹54.26 crore and Hatibari tea factory and Shivani tea factory for ₹15 crore. Further there has been fund infusion from promoter group at Rs 22.50 crore in April 2024. These funds have been provided largely to support overall liquidity profile amidst operational losses. Financial flexibility due to DTIL being a part of the CK Dhanuka group and need-based fund infusion from the group aids its liquidity.

The average fund based working capital limit utilisation remained moderate at 72% for the last 7 months ended April 2024, providing adequate liquidity buffer. The company does not have significant capital expenditure plans in the medium term.

#### **Key weaknesses**

##### **Substantial moderation in operating profitability during FY24 albeit increased TOI**

DTIL achieved an increase in its consolidated TOI by 17% y-o-y from Rs.337.48 crore in FY23 to Rs.395.42 crore in FY24 due to increase in production, on the back of addition of new tea gardens. On a standalone level, while the sales volume grew by around 52%, the realisation decreased by more than 10% on account of surplus supply and low export demand. Thereby despite having higher scale of operations, a decrease in realization, crop loss and higher wage rate led to operational losses. This coupled with substantial drop in macadamia realisation and currency devaluation led to consolidated net loss of Rs.141.09 crore in FY24.

The company has reduced its consumption of bought leaf to produce tea and increased its focus on production of better quality of tea in its existing and newly acquired gardens which is expected to drive improvement in its operating profitability. Additionally, recovery in tea realizations is expected to remain crucial in the near term.

##### **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 get somewhat moderated.

### Inherent agro-climatic risks

DTIL's profitability is highly susceptible to the vagaries of nature as all its domestic tea gardens are concentrated in Assam. Although Assam is the largest tea-producing state in India, it has witnessed erratic weather conditions in the past years. In FY24, company suffered crop loss of ~2 mn kg of tea due to adverse weather including hailstorm in Assam. DTIL's international tea gardens, located in Africa, are also susceptible to the vagaries of nature.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food & other products	Tea & coffee

DTIL is engaged in growing and cultivation of tea across 12 tea estates in Assam having a cumulative production capacity of 12.80 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 two 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.).

During FY23, DTIL sold the Khagorijan Tea Estate and it acquired five tea estates in Assam. In FY24, company sold Shivani tea factory and Hatibari tea factory.

Brief Financials - Consolidated (₹ crore)	FY23 (A)	FY24 (Abridged)
Total operating income	337.48	395.42
PBILDT	-9.68	-148.48
PAT	-23.79	-141.09
Overall gearing (times)	0.27	0.49
Interest coverage (times)	NM	NM

A: Audited; NM: Not meaningful; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not available

**Rating history for last three years:** Please refer Annexure-2

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

**Complexity level of various facilities rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	125.00	CARE A+; Negative
Non-fund-based - LT-Standby Letter of Credit		-	-	March 2027	20.96	CARE A+; Negative
Term Loan-Long Term		-	-	December 2030	9.35	CARE A+; Negative

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	125.00	CARE A+; Negative	-	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
2	Non-fund-based - LT-Standby Letter of Credit	LT	20.96	CARE A+; Negative	-	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
3	Term Loan-Long Term	LT	9.35	CARE A+; Negative	-	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)Withdrawn (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)

LT: Long term;

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable****Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Standby Letter of Credit	Simple
3	Term Loan-Long Term	Simple

**Annexure-5: Lender details**To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of all the entities consolidated.**

S. No.	Name of the Companies	Extent of consolidation*	Rationale for consolidation
1	Dhunseri Petrochem & Tea Pte Ltd.	Full	Subsidiary
2	Makandi Tea & Coffee Estates Ltd.	Full	Step-down subsidiary
3	Kawalazi Estate Company Ltd.	Full	Step-down subsidiary
4	Dhunseri Mauritius Pte Ltd.	Full	Step-down subsidiary
5	A.M. Henderson & Sons Ltd.	Full	Step-down subsidiary
6	Chiwale Estate Management Services Ltd.	Full	Step-down subsidiary
7	Ntimbi Estate Limited	Full	Step-down subsidiary

\*as on March 31, 2024

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

## Contact Us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>  <b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	<b>Analytical Contacts</b>  Hardik Manharbhai Shah Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3591 E-mail: <a href="mailto:hardik.shah@careedge.in">hardik.shah@careedge.in</a>  Richa Bagaria Associate Director <b>CARE Ratings Limited</b> Phone: +91-33-4018 1653 E-mail: <a href="mailto:richa.jain@careedge.in">richa.jain@careedge.in</a>  Ankit Hapani Assistant Director <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Ankit.Hapani@careedge.in">Ankit.Hapani@careedge.in</a>
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### About us:

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