Dhunseri Tea & Industries Limited

September 30, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	101.88 (Reduced from 105.50)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**101.88 (₹ One hundred one crore and eighty-eight lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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 with satisfactory operational parameters for both its domestic and overseas businesses. The rating also continues to draw strength from the comfortable capital structure and debt coverage indicators of the company along with significant free liquidity in the form of quoted investments, the gains on which have also been supporting its net profit.

The rating takes note of the decline in total operating income (TOI) and moderation in the operating profitability (PBILDT) margin of DTIL in FY22 (refers to the period April 1 to March 31). The decline in TOI was majorly on account of moderation in the realisation of tea owing to surplus supply of tea in the domestic market which also impacted profitability amidst increase in wage rate and power cost during the year. In FY23, 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 gardens which is expected to drive improvement in its operating profitability going forward, though the sales volumes are expected to reduce. The increase in realisations and stable demand scenario are expected to aid the improvement in its operating performance despite further increase in wage rates in Assam announced from August 2022.

The rating further continues to remain 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 PBILDT margins beyond 25% on sustained basis

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

- Significant deterioration in its TOI below Rs.300 crore on a sustained basis.
- PBILDT margin remaining below 8% on a sustained basis.
- Any un-envisaged incremental 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 record of managing their tea business. Mr 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 estates and ten tea factories 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.

During FY22, DTIL sold one loss-incurring tea garden in Lower Assam and has simultaneously also purchased one tea estate in Upper Assam, Balijan North Tea Estate.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 (8 in number) in Assam where the quality of black tea is superior as compared to the rest of India. The domestic average tea yield remained relatively stable in FY22 with marginal reduction reported as compared with FY21 attributable to unfavourable weather conditions during the year along with the impact of purchase/ sale of tea gardens. Further, capacity utilization of tea factories remained healthy being maintained above 100% in FY22 with marginal reduction in tea production to 11.34 million kg vis-à-vis 11.44 million kg in FY21. The average recovery rate (ranging from 22.6% to 22.9% over FY20-FY22) for the company have been in line with the industry average of about 22%. The production of tea in volume terms is expected to witness moderation during FY23 due to change in the strategy of the management to manufacture quality tea and lower usage of bought tea leaves.
The production of tea in its overseas subsidiary witnessed a marginal improvement to 8.89 mn kg in CY21 (P.Y.: 8.43 mn kg). The production of macadamia nuts, however, improved to 0.38 mn kg in CY21 from 0.29 mn kg in CY20 due to favourable weather conditions.

Comfortable capital structure: DTIL has a healthy networth base and relatively low debt level. Overall gearing stood comfortable at 0.15x as on March 31, 2022 (0.11x as on March 31, 2021). The marginal deterioration in gearing ratio was due to increase in the working capital borrowing. The working capital borrowings constitute around 62% of the total debt.
Interest coverage ratio, though witnessed deterioration in FY22 due to the decline in operating profitability, continued to remain comfortable at 3.57x (FY21: 6.66x). Total debt/PBILDT moderated to 4.33x (FY21: 1.50x) in FY22. However, with no major increase in debt planned and profitability expected to improve, the coverage ratios are expected to improve going forward.
The net debt/PBILDT continued to remain negative on back of maintenance of liquid investments in listed equity shares as compared to the debt availed by the company.

Liquidity: Strong
Liquidity of the company remains strong marked by sufficient cash accruals expected vis-à-vis the debt repayment obligations along with availability of high cash and cash equivalents of around Rs.169 crore (including liquid investment in the form of investment in equity shares of Rs.163 crore) as on March 31, 2022. Its unutilized working capital limits are sufficient to meet its incremental working capital needs over next one year. Further, the operating cycle remained satisfactory at 92 days (P.Y.: 93 days) in FY22. 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
Moderation in the TOI and operating profitability during FY22: DTIL reported a decline in its TOI by 7% y-o-y due to moderation in the tea realisation. The company reported a y-o-y growth in sales volume by around 6% while the realisation reduced by more than 18%. The reduction in tea realisation during FY22 was on back of surplus production creating excess supply of tea vis-à-vis the demand as almost of the tea gardens were back to operations post the economic recovery after the impact of COVID-19. The decline in tea realization and increase in power cost and wage rates for tea estate workers led to decline in the operating profitability of DTIL in FY22.
The company reported substantial net loss during FY22 owing to non-cash exceptional loss booked with regards to loss on sale of tea garden (Rs.15.14 crore) and impairment loss of Rs.123.91 crore on other existing tea assets (revalued based on current realizable value vis-à-vis carrying cost).
However, the tea realisations have improved in the current financial year (FY23) with the improvement in demand and increase in production of better quality of tea. Production of better quality of tea in its gardens is expected to drive improvement in operating profitability going forward, despite further increase in wage rates in Assam announced from August 2022.

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. Although Assam is the largest tea producing state in India, it 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 an improvement in June and July 2022 as against the same during the previous year backed by healthy demand in the domestic as well as the overseas market. The wage rate revisions are expected to continue to create pressure on the margins of tea players but the same is expected to be compensated by expected increase in the average realisation during the year.

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

Policy on default recognition

Consolidation

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Manufacturing Companies

About the company

DTIL is engaged in growing and cultivation of tea across 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 Financials - Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	377	349	80
PBILDT	63	26	8
PAT	31	-94	-9
Overall gearing (times)	0.11	0.15	NA
Interest coverage (times)	6.66	3.57	4.18

A: Audited; UA: Unaudited; NA: Not available

Financials have been classified as per CARE Ratings standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of the rated instruments/facilities: 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

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	-	-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT-Standby Letter of Credit	-	-	-	March 2027	25.00	CARE A+; Stable
Term Loan-Long Term	-	-	-	December 2022	0.88	CARE A+; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	9.00	CARE A+; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)
2	Non-fund-based - LT-Standby Letter of Credit	LT	25.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)
3	Term Loan-Long Term	LT	0.88	CARE A+; Stable	-	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)	1)CARE A+; Stable (03-Oct-19)
4	Non-fund-based - LT-Bank Guarantee	LT	9.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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 Guarantee	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 Management Services Ltd.	100
	Ntimbi Estate Limited	100

Note on 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 for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Mamta Muklania
Phone: 9830407120
E-mail: mamta.khemka@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in