Darjeeling Dooars Plantations (Tea) Limited (Revised)

July 26, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	16.96	**CARE BB; Stable (Double B; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	0.80	**CARE A4 (A Four)**	**Assigned**
Total Facilities	**17.76 (Rupees Seventeen crore and Seventy Six lakh only)**		

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

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Darjeeling Dooars Plantations (Tea) Limited (DDPTL) are constrained by its modest scale of operation with weak profitability, susceptible to vagaries of the nature, labour intensive nature of business, volatility associated with tea prices, weak debt coverage indicators and its presence in a fragmented and competitive nature of industry. The ratings, however, derive strength from extensive experience of the promoters in the tea industry, satisfactory capital structure and moderate liquidity position.

Going forward, the ability of the company to increase its scale of operation along with improvement in profitability margins and debt coverage indicators and effective management of working capital will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation with weak profitability: The scale of operation of the company remained modest as marked by total operating income of Rs.45.19 crore with a net loss of Rs.2.34 crore in FY19 and tangible net worth base of Rs.16.39 crore as on March 31, 2019. Moreover, the total operating income of DDPTL grew at a CAGR of 4.21% during FY17-FY19. The company has reported net loss of Rs.2.34 crore during FY19 mainly due to higher increase in employee cost. Moreover the company has reported a loss in GCA of Rs.-0.01 crore (Rs.3.64 crore in FY18).

Susceptible to vagaries of the nature: The company has its owned tea gardens from where it meets around 95% of its total annual requirement of green tea leaves and balance green tea leaves are procured from other tea gardens. The company has two tea gardens namely Mechpara Tea Garden and Zurrantee Tea Garden located at Alipurduar and Jalpaiguri respectively in the state of West Bengal and the area is prone to erratic weather conditions. Therefore adverse natural events have negative bearing on the productivity of tea gardens in the region and accordingly DDPTL is exposed to vagaries to nature.

Labour intensive nature of business: The perennial nature of the tea industry has been highly labour intensive, entailing sizeable expenditure on employees (by way of salaries & wages, various employee welfare facilities, etc.). Though DDPTL has not experienced such labour problem during last few years, it remains a key factor in the smooth running of the business (as the location of the plant as well as the tea estate has history of labour unrest in the past).

Volatility associated with tea prices: The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in the international market. Hence, significant adverse price movement in the international tea market will affect DDPTL profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances arising out of both domestic and international scenarios. Tea is a perishable product and demand is relatively price inelastic, as it caters to all segments of the society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Weak debt coverage indicators: The debt coverage indicators deteriorated during FY19 due to negative cash inflow from operation owing to higher increase in employee costs and the same remained weak as reflected

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

by below unity interest coverage ratio. However, the company has served its debt obligation for FY19 through cash credit account.

Fragmented and competitive nature of industry: While the tea industry is an organised agro-industry, it is highly fragmented in India with presence of many small, mid-sized and large players. There are about 1000 of tea brands in India, of which 90% of the brands are represented by regional players while the balance of the 10% is dominated by big corporate houses. This, coupled with the growing shift from loose to branded tea among consumers, would further intense the competition for DDPTL.

Key Rating Strengths

Extensive experience of the promoters in the tea industry: DDPTL is into tea industry since 1919 and thus has long operational track record. Being in the industry since long period, the promoters have established satisfactory relationship with customers and suppliers. DDPTL is currently managed by Mr. Shashank Prasad, Managing Director, and Mr. Abhyuday Prasad, Executive Director supported by other directors and a team of experienced personnel. Mr. Shashank Prasad having more than four decades of experience in similar line of business along with other directors having more than one decade experience in similar line of business.

Satisfactory capital structure: The capital structure of the company remained satisfactory marked by long term debt equity and overall gearing ratios at 0.06x each as on March 31, 2019 mainly on account of lower dependence of the company on the external barrowings.

Moderate liquidity position: The liquidity position of the company remained moderate as reflected by its current ratio of 1.18x and quick ratio of 0.69x as on March 31, 2019. The liquidity of the company is supported by its cash and bank balance amounting to Rs.0.75 crore as on March 31, 2019. Further, the liquidity is also supported by liquid investment of Rs.11.03 crore in forms on investment in quote equity shares and mutual funds as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for manufacturing companies]
[Criteria for Short Term Instruments]

About the Company

Darjeeling Dooars Plantations (Tea) Limited (DDPTL) was incorporated in the year 1919. Since its inception, the company has been engaged in cultivation, processing and trading of CTC tea. Currently, the company has two tea gardens namely Mechpara Tea Garden and Zurrantee Tea Garden located at Alipurduar and Jalpaiguri respectively, in the state of West Bengal. The processing unit of the company is located at Dooars, West Bengal with a processing capacity of 30.00 lakh kgs per annum. The company mainly deals with CTC and Orthodox tea and sales happens mainly in the domestic markets through auction.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	44.73	45.19
PBILDT	3.69	-0.11
PAT	0.97	-2.34
Overall gearing (times)	0.06	0.06
Interest coverage (times)	12.77	-0.42

A-Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	16.96	CARE BB; Stable

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees	-	-	-	0.80	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	16.96	CARE BB; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	0.80	CARE A4	-	-	-	-

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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