Dhunseri Tea & Industries Limited

October 08, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	9.00	**CARE A+; Stable (Single A Plus; Outlook:-Stable)**	**Assigned**
Long term Bank Facilities	106.69	**CARE A+; Stable (Single A Plus; Outlook:-Stable)**	**Reaffirmed**
Total	**115.69 (Rs. One hundred fifteen crore and sixty nine lakhs only)**		

Details of instrument/facilities in Annexure-1; for classification of instruments/facilities please refer to Annexure-3

Detailed Rationale

The rating assigned to the bank facilities of Dhunseri Tea & Industries Ltd (DTIL) continues to draw strength from the long & established track record of the promoters in the tea sector, satisfactory operational parameters of the domestic and overseas business coupled with satisfactory financial performance in FY20 (refers to the period from April to March) and comfortable capital structure. Further, the rating also takes into account the strong and sustained liquidity profile of the company post hiving of its packet tea brands "LALGHORA' and "KALAGHORA" for an aggregate consideration of Rs.100.7 crore to Tata Global Beverages Limited.

The rating however remains constrained by labor intensive nature of industry and susceptibility of tea business to agro climatic risks.

Rating Sensitivities

Positive Rating Sensitivities

- Substantial Improvement in the scale of operations on sustained basis
- Improvement in the operating margins beyond 25% on sustained basis

Negative Rating Sensitivities

- Significant deterioration in total operating income below Rs.300 crore and operating margin below 15% on a sustained basis
- Any un-envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators from the current levels

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoters with strong management team

Dhunseri group is one of the reputed industrialist groups of Kolkata with Shri C.K. Dhanuka and his son Shri M. Dhanuka, being currently at the helm of affairs of the company. They are ably supported by a strong management team which has rich experience in the Tea industry.

Long & established track record of the group in in the tea sector

Dhunseri group has been carrying on the tea business for over five decades. Despite the tea industry passing through a number of bad phases over the last few decades, the promoters have a successful track record in the tea business. Over the years, DTIL has also been able to grow by increasing the number of tea gardens in its portfolio and producing quality tea. Further, DTIL owns and operates two tea estates namely 'Makandi' and 'Kawalazi' 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 in Malawi.

Satisfactory operational parameters of the tea division

DTIL has been efficiently carrying out its operations across 10 tea gardens in Assam. Its average tea yield improved to 2,240 kg per hectare in FY20 from 2,006 kg per hectare in FY19 on account of favorable weather condition. Further, the average recovery rate (ranging at around 22.6-22.8% over FY18-FY20) for the company has been in line with the industry average of about 22%. Further, the operational performance of the overseas subsidiaries remained satisfactory with total

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

production of tea at 86.27 lakh Kg in CY19 (95.17 lakh Kg in CY18) followed by increase in the production of macadamia from 4.12 lakh kg in CY18 to 4.37 lakh kg in CY19.

Satisfactory financial performance in FY20 and comfortable capital structure
DTIL's operating income (consolidated) declined, although remained satisfactory, to Rs.302.51 crore in FY20 from Rs.325.88 crore in FY19 mainly due to fall in average sales realization of tea. Accordingly, PBILDT margin (consolidated) moderated from 19.84% (Rs.64.66 Cr.) in FY19 to 6.68% (Rs.20.21 cr.) in FY20 which further aggravated by some one time expenditures. However, PAT increased substantially to Rs.73.20 crore in FY20 from Rs.28.10 cr. in FY19 mainly on account of extraordinary income of Rs.100.7 crore attributable to sale of packet tea brand namely Lal Ghora and Kala Ghora to Tata Global Beverages. Consequently, GCA (consolidated) increased from Rs.52.07 cr. in FY19 to Rs.93.96 crore in FY20.
DTIL's overall gearing remained comfortable at 0.17x as on March 31, 2020 as against 0.13x as on March 31, 2019. Further, TD/GCA improved from 1.84x in FY19 to 1.42x in FY20 mainly on account of increase in GCA level.

Key Rating Weaknesses
Labor intensive nature of industry
The nature of the tea industry makes it highly labour intensive, entailing around 45-50% of total cost of sales. Therefore any steep upward revision in the wages has an adverse impact on the PBILDT margin of bulk tea players. However, labour cost in the African subsidiaries is relatively low, hence an overall impact on the PBILDT margins at the consolidated level would be somewhat moderated.

Agro-climatic risks
DTIL's profitability is highly susceptible to vagaries of nature as all of its tea gardens are concentrated in Assam. Assam being the largest tea producing state in India (~50% of the total tea produced in India) has witnessed erratic weather conditions in the past (drought during October 2008, pest attack in 2010, heavy rainfall in 2012, and delay in monsoon during CY14). This apart, excessive rain in the month of May, June and July 2020 led to the flooding and waterlogging which resulted in the loss of tea plantations in the some part of Assam. DTIL's overseas tea gardens, located in Africa, are also susceptible to vagaries of nature.

Industry Outlook
Covid-19 pandemic induced lockdown in April and May 2020 has adversely impacted tea production, which in turn is expected to support tea realizations. While current tea prices are substantially higher on a year-on year basis, the same may not be an indicator of the likely trend for the full year, with production trends in the high cropping months from July to September are likely to determine the price trajectory, going forward. Nonetheless, prices are expected to remain high compared to the last year. Further, Indian tea industry is essentially a price taker in the international market and hence global supply-demand dynamics have a bearing on the domestic prices. Further, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. Healthy export realisation is also crucial for maintaining domestic realizations as un-remunerative prices in the export market may lead to exporters dumping the produce in the domestic market, which in turn would exert pressure on domestic prices.

Liquidity position: Strong
Strong liquidity is marked by healthy accruals against repayment obligations in FY20, supported by above unity current ratio. Further, the company has cash and cash equivalents of around Rs.99.77 crore (including liquid investment in the form of Mutual Funds/bonds to the tune of Rs.89.63 crore) as on March 31, 2020.
The company had availed the moratorium/deferment on repayment of term debt/ interest payment on Cash Credit limits under RBI's Covid-19 regulatory package.
Going forward, gross cash accruals (GCA) are expected to remain healthy vis-à-vis scheduled debt repayment obligations of ~Rs.13.90 crore in FY21. Further, its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Consolidated Approach as the subsidiaries have operational linkages and are operating under the common management coupled with exposure/financial support of DTIL in the said subsidiaries. Following subsidiaries have been considered while taking consolidated approach:

Sr.No.	Name of the Companies	% of holding*
1	Dhunseri Petrochem & Tea Pte Ltd. (DPTPL)	100
2	Makandi Tea & Coffee Estates Ltd. (MTCEL)	100
3	Kawalazi Estate Company Ltd. (KECL)	100
4	Dhunseri Mauritius Pte Ltd. (DMPL)	100
5	A.M. Henderson & Sons Ltd. (AMHSL)	100
6	Chiwale Estate Management Services Ltd. (CEMSL)	100
7	Ntimbi Estate Limited (NEL)-acquired on Dec.31, 2020	100

***as on March 31, 2020**

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Outlook and Credit Watch to Credit Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology- Manufacturing Companies
Complexity Level of Rated Instruments
Factoring Linkages in Ratings

About the Company:
Dhunseri Tea & Industries Ltd (DTIL) is engaged in growing and cultivation of tea over 10 tea estates in Assam (6 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 has sold its packet tea brand namely Lal Ghora and Kala Ghora to TGBL. DTIL also has 2 tea estates named 'Makandi' and 'Kawalazi' in Malawi, South Africa [which DTIL has acquired (100% stake) in FY13 through a Singapore based wholly owned subsidiary named 'Dhunseri Petrochem and Tea Pte Ltd. (DPTPL)]. 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 of DTIL(Rs. in crore)	FY19 (Audited)	FY20 (Audited)
Total Operating Income	325.88	302.51
PBILDT	64.66	20.21
PAT	28.10	73.20
Overall Gearing	0.13	0.17
Interest Coverage	8.89	1.92

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	-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT-Standby Letter of Credit	September 26, 2017	-	-	31.94	CARE A+; Stable
Term Loan-Long Term	-	-	Dec-2022	7.75	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)
2.	Non-fund-based - LT-Standby Letter of Credit	LT	31.94	CARE A+; Stable	-	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)
3.	Term Loan-Long Term	LT	7.75	CARE A+; Stable	-	1)CARE A+; Stable (03-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18)
4.	Non-fund-based - LT-Bank Guarantees	LT	9.00	CARE A+; Stable	-	-	-	-

Annexure-3: Complexity

Sr. No.	Name of the 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

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Abhishek Khemka
Group Head Contact no.-(033) 4018 1610
Group Head Email ID- **abhishek.khemka@careratings.com**

Business Development Contact
Name: Lalit Sikaria
Contact no. : 033 – 4018 1607
Email ID: **lalit.sikaria@careratings.com**

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**