Dhunseri Tea & Industries Ltd

October 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Cash Credit	67.00	CARE A+;Stable (Single A Plus; Outlook:-Stable)	Re-affirmed
Long term Bank Facilities – Standby Letter of Credit	48.47 (reduced from 58.11)		
Total Facilities	**115.47 (Rs. One hundred and fifteen crore and forty seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The aforesaid rating assigned to Dhunseri Tea & Industries Ltd (DTIL) continues to draw comfort from established & experienced promoters and satisfactory operating parameters, satisfactory capital structure and improvement in performance of the subsidiary companies. The rating also factors in deterioration in profitability of DTIL in FY17 & Q1FY18. However, the ratings are constrained by labor intensive nature of industry, susceptibility of tea business to the vagaries of nature.

Ability of the company to improve its profitability margin, maintain its capital structure and further exposure in its subsidiary companies would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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

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.

Experience of the promoters with strong management team

Dhunseri group is one of the reputed industrialist group 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.

Relatively better operational parameters of the tea division vis-à-vis the industry

DTIL's average tea yield for domestic estates has increased by 3.76% from 2126 kg per hectare in FY16 to 2206 kg per hectare in FY17. Net sales for the overseas subsidiaries at Malawi have also increased from Rs.73.32crore in CY15 to Rs.115.92crore in CY16.

Improvement in performance of the subsidiary companies

The profitability of the subsidiary companies (Makandi Tea & Coffee Estates Ltd and Kawalazi Estate Company Ltd) has improved in CY2016 with improvement in revenue (arising out increase sales volume) and profitability.

Comfortable capital structure

DTIL's overall gearing remained comfortable at 0.21x as on March 31, 2017. Total debt/GCA also remained comfortable at 2.09x in FY17 vis-à-vis 0.67x in FY16. On a consolidated basis, overall gearing was 0.82x as on March 31, 2017.

Key Rating Weaknesses

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

Declining profitability during FY17 &Q1FY18

Depressed market prices for CTC on account of increased quantity available for sale contributed to lower sales realization during FY17.PBILTD margin declined from 18.31% in FY16 to 12.75% in FY17 on account of lower sales realization for bulk tea as well as due to increase in employee costs. During Q1FY18 DTIL reported total operating income of Rs.22.18crore vis-à-vis Rs.33.03crore in Q1FY17. The decline was on account of lower production of tea on account of adverse effect of pest attack and lower sales price realization for packet tea. In line with the decline in net sales, PBILTD and PAT margins of the company declined from 17.95% and 9.41% respectively during Q1FY17 to -0.36% and -11.04% in Q1FY18.

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. During FY17, significant increase in wages with decrease in average sales price realization negatively impacted the operating margins of the company.

Concentration of all DTIL tea gardens in Assam leading to higher agro-climatic risk

DTIL's profitability is highly susceptible to vagaries of nature as all of its tea gardens are concentrated in Assam

Analytical approach: Standalone. However, it factors in the investment in subsidiary companies.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies

About the Company

Incorporated in 1916, Dhunseri Petrochem & Tea Ltd demerged its tea division w.e.f April 1, 2014 to Dhunseri Tea & Industries Ltd (DTIL). DTIL is promoted by Kolkata-based Dhanuka family of Dhunseri Group. The company is engaged in growing and cultivation of tea over 10 tea estates in Assam (6 in Upper Assam and 4 in Lower Assam) covering an area of 3,054 hectares. DTIL has a tea processing capacity of 11 million kg p.a. in Assam and blending & packing capacity of 4 million kg p.a. in Jaipur, Rajasthan. The company produces CTC (Crush, Tear and Curl) and Orthodox variety of tea, which it sells in the domestic market through a mix of auctions, private sales and direct retailing. The company sells its packet tea in Rajasthan under the brands namely 'Lal Ghora', 'Kala Ghora', 'Bahipookri' and 'Dhunseri Gold'. The company also operates 2 tea estates in Malawi, South Africa through its wholly owned subsidiary.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Analyst Contact:
Name: Mr Vineet Chamaria
Tel: (033) 4018 1600
Mobile: +91 9051730850
Email: vineet.chamaria@careratings.com

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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.

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-Letter of credit	-	-	-	48.47	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+ (17-Oct-16)	1)CARE A+ (19-Feb-16) 2)CARE A+ (09-Oct-15)	1)CARE A+ (16-Oct-14)
2.	Non-fund-based - LT-Letter of credit	LT	48.47	CARE A+; Stable	-	1)CARE A+ (17-Oct-16)	1)CARE A+ (19-Feb-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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