Dhunseri Tea & Industries Limited

October 03, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	112.46 (reduced from 124.16)	**CARE A+;Stable (Single A Plus; Outlook:-Stable)**	**Reaffirmed**
Total	**112.46 (Rs. One hundred twelve crore and forty six lakhs only)**		

Detailed Rationale

The rating assigned to 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 with improvement in the financial performance of DTIL in FY19 (refers to the period from April to March) and comfortable capital structure.

The rating also takes into account the improvement in the liquidity position of the company post selling of its packet tea brands "LALGHORA' and "KALAGHORA" for an aggregate consideration of Rs.101crore to Tata Global Beverages Limited.

Further, the ratings continue to remain constrained by labor intensive nature of industry and susceptibility of tea business to agro climatic risks.

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

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 remained satisfactory at 2,006 kg per hectare in FY19. Further, the average recovery rate (ranging at around 22.7-22.9% over FY17-FY19) for the company has been in line with the industry average of about 22%. Further, the operational performance of the overseas subsidiaries also improved with total production of tea to 95.17 lakh Kg in CY18 vis-à-vis 87.04 lakh Kg in CY17 followed by surge in the production of macadamia from 3.03 lakh kg in CY17 to 4.12 lakh kg in CY18.

Satisfactory financial performance in FY19 and comfortable capital structure

DTIL’s operating income (consolidated) witnessed a y-o-y growth of around 9.8% in FY19, attributed to increase in the sales volume (34% y-o-y) of macadamia nuts and tea (~3% y-o-y) coupled with higher realization of macadamia nut (overseas operation). Accordingly, PBILDT margin (consolidated) improved from 18.12% (Rs.53.75 Cr.) in FY18 to 19.84% (Rs.64.66 cr.) in FY19. Further, GCA (consolidated) remained comfortable at Rs.52.07 crore vis-à-vis its long term debt repayment obligation in FY19.

DTIL’s overall gearing remained almost in line with FY18 at 0.13x as on March 31, 2019. Further, TD/GCA improved from 2.45x in FY18 to 1.85x in FY19 mainly on account of increase in GCA level coupled with gradual repayment of term debt.

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

Strong Liquidity position

Strong liquidity is marked by strong accruals against repayment obligations. Its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year, supported by above unity current ratio. Liquidity position of the DTIL improved and remained comfortable post selling of its packet tea brands "LALGHORA' and "KALAGHORA" for an aggregate consideration of Rs.101crore to Tata Global Beverages Limited (TGBL) in August 2019. A major portion of the same is invested in tax saver bonds.

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. Recently, Assam government has decided to notify an interim enhancement of wages of tea plantation workers by a minimum amount of Rs 30 per day with retrospective effect from March 1, 2018, till finalization of the revised minimum wages proposed earlier by the state government. This steep increase is expected to have an adverse impact on the operating cost 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 (~52% of the total tea produced in India) has witnessed erratic weather conditions in the past years (drought during October 2008, pest attack in 2010, heavy rainfall in 2012, and delay in monsoon during CY14). This apart, Assam experienced heavy rains during FY18 led to in the flooding and waterlogging. DTIL's overseas tea gardens are located in Africa, which suffered a crop loss in CY17 due to unfavorable weather conditions. However weather conditions in the first few months of the current financial year for both India and Africa have been favorable so far.

Analytical approach: Consolidated Approach as the subsidiaries have operational linkages and are operating under the common management. Following subsidiaries have been considered while taking consolidated approach:

1. Dhunseri Petrochem & Tea Pte Ltd. (DPTPL)
2. Makandi Tea & Coffee Estates Ltd. (MTCEL)
3. Kawalazi Estate Company Ltd. (KECL)
4. A.M. Henderson & Sons Ltd. (AMHSL)
5. Chiwale Estate Management Services Ltd. (CEMSL)
6. Dhunseri Mauritius Pte Ltd. (DMPL)

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

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. Currently, the company sells its packet tea in Rajasthan under the brands namely 'Bahipookri' and 'Dhunseri Gold'. 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)	FY18 (Audited)	FY19 (Audited)
Total Operating Income	296.66	325.88
PBILDT	53.75	64.66
PAT	29.00	28.10
Overall Gearing	0.14	0.13
Interest Coverage	5.97	8.89

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-Letter of credit	-	-	-	37.34	CARE A+; Stable
Term Loan-Long Term	-	-	Sep-22	8.12	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 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	67.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)	1)CARE A+ (17-Oct-16)
2.	Non-fund-based - LT-Letter of credit	LT	37.34	CARE A+; Stable	-	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)	1)CARE A+ (17-Oct-16)
3.	Term Loan-Long Term	LT	8.12	CARE A+; Stable		1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (06-Mar-18)	-

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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