

Dhunseri Tea & Industries Limited

October 05, 2018

Rating			
Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term Bank Facilities	124.16 (reduced from 125.47)	CARE A+;Stable (Single A Plus; Outlook:- Stable)	Reaffirmed
Total	124.16 (Rs. One hundred twenty four crore and sixteen lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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 followed by comfortable capital structure. The rating also takes into account the moderation in the financial performance of DTIL in FY18.

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 2,036 kg per hectare in FY18. Further, the average recovery rate (ranging at around 22.8-22.9% over FY16-FY18) for the company has been in line with the industry average of about 22%. Further, the operational performance of the overseas subsidiaries also remained satisfactory with total production of tea in CY17 being in line with CY16 followed by surge in the production of macadamia from 2.56 lakh kgs to 3.03 lakh kgs.

Comfortable capital structure

DTIL's overall gearing improved from 0.17x as on March 31, 2017 to 0.14x as on March 31, 2018 on account of gradual repayment of debt and accretion of profits to reserves. TD/GCA also remained comfortable and in line with the preceding financial year (2.45x in FY18 vis-à-vis 2.46x in FY17).

Key Rating Weaknesses

Moderation in the financial performance

DTIL's operating income (consolidated) witnessed a y-o-y deterioration of around 4% in FY18, attributed to decrease (21.35% y-o-y) in the sales volume of its higher margin Packet Tea sales (domestic operation) coupled with production loss (domestic operation) on account of pest attack in Q1FY18. Accordingly the PBILDT margin (consolidated level) deteriorated from 20.45% in FY17 to 18.14% in FY18. Nevertheless, GCA (consolidated) remained comfortable at Rs.40.75 crore vis-à-vis its long term debt repayment obligation in FY18.

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

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

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 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.

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. The company sells its packet tea in Rajasthan under the brands namely 'Lal Ghora', 'Kala Ghora', 'Bahipookri' and recently launched premium brand under '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)	FY17(Audited)	FY18(Audited)
Total Operating Income	308.15	296.75
PBILDT	63.03	53.84
PAT	27.13	29.00
Overall Gearing	0.17	0.14
Interest Coverage	7.79	5.98

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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.

Analyst Contact:

Name: Mr. Abhishek Khemka

Tel: 033-4018 1610

Mobile: 9831099290

Email: abhishek.khemka@careratings.com

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Term Loan-Long Term	-	-	Sept 2022	10.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	47.16	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	67.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)	1)CARE A+ (17-Oct-16)	1)CARE A+ (19-Feb-16) 2)CARE A+ (09-Oct-15)
2.	Non-fund-based - LT-Letter of credit	LT	47.16	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-18) 2)CARE A+; Stable (05-Oct-17)	1)CARE A+ (17-Oct-16)	1)CARE A+ (19-Feb-16)
3.	Term Loan-Long Term	LT	10.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-18)	-	-

CONTACT
Head Office Mumbai
Ms. Meenal Sikchi

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@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 85111-53511/99251-42264

Tel: +91-0172-490-4000 / 01

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

CIN - L67190MH1993PLC071691