

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.

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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)	-	-

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