

## Dhunseri Tea & Industries Ltd

March 06, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	125.47 (enhanced from 115.47)	<b>CARE A+;Stable</b> (Single A Plus; Outlook:-Stable)	<b>Reaffirmed</b>
<b>Total</b>	<b>125.47</b> <b>(Rs. One hundred and twenty five crore and forty seven lakhs only)</b>		

*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. 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

##### Declining profitability during FY17 & Q1FY18, albeit improvement from Q2FY18 onwards

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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

pest attack and lower sales price realization for packet tea. However in Q2FY18 and Q3FY18 onwards, sales realization for packet tea has improved, leading to improvement in sales and profit levels. During 9MFY18, DTIL has reported PAT of Rs.17.75 crore on a total operating income of Rs.138.29 crore.

**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.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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
Fund-based - LT-Cash Credit	-	-	-	67.00	CARE A+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	48.47	CARE A+; Stable
Term Loan-Long Term	-	-	Sept 2022	10.00	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 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+; Stable (05-Oct-17)	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+; Stable (05-Oct-17)	1)CARE A+ (17-Oct-16)	1)CARE A+ (19-Feb-16)	-

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