Dhunseri Tea & Industries Limited

January 09, 2025

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	153.20 (Reduced from 155.31)	CARE A; Stable	Downgraded from CARE A+; Negative

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities of Dhunseri Tea & Industries Limited (DTIL) takes into account the lower-than-expected recovery in H1FY25 profitability (consolidated) after witnessing subdued performance in FY23 (refers to the period April 01 to March 31) and FY24. The overall operating profit is expected to remain subdued in FY25 despite higher tea realisation, in view of production loss due to pest attack in the recently acquired tea gardens along-with Q4 being seasonally weaker quarter for domestic tea business. Furthermore, the performance of its overseas subsidiaries continues to be affected due to lower realisation of macadamia. The continued weak performance has led to increase in debt level and weakening in debt coverage indicators.

The rating assigned to the bank facilities of DTIL continues to benefit from the extensive experience of its promoters and the company's established track record in the tea industry. The rating also derives significant comfort from the group's liquidity, which includes cash and liquid investments in mutual funds and listed securities. Additionally, the promoter group has demonstrated support by infusing unsecured loans on need basis. Company has also generated cashflow through sale of its tea gardens/ factories to support its liquidity needs.

The rating is, however, constrained by DTIL's moderate scale of operations, labour intensive nature of the tea industry with increasing wage cost and susceptibility of tea business to agro-climatic risks. The rating also considers the volatility in Macadamia prices.

Additionally CARE Ratings Limited (CARE Ratings) also takes note of Share Purchase / Share Sale Agreement dated November 14, 2024, for the sale and transfer of equity shares constituting 45.77% of the total issued and paid-up share capital of DTIL held by Dhunseri Investments Limited (DIL) to Naga Dhunseri Group Limited (NDGL). On completion of the transaction, NDGL will hold 54.56% equity stake in DTIL and thus DTIL will become a subsidiary of NDGL. However, there is no change in promoter stance as all these investment companies are under the ultimate management of CK Dhanuka Group. NDGL holds 21.59% equity stake in DIL as on September 30, 2024.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial Improvement in the scale of operations with benefit from acquired tea gardens
- Improvement in the PBILDT margin beyond 12% on sustained basis

Negative factors

- Increase in debt leading to overall gearing above 1x on a sustained basis
- Delay in receipt of need based support from the promoter group.

Analytical approach: Consolidated along-with factoring strong financial flexibility by virtue of being part of Dhunseri group. The subsidiaries are in similar line of business with common management and financial support extended by DTIL in the form of Standby Letter of Credit to one of its subsidiaries. List of entities consolidated is shown as **Annexure-6**. The ratings also take into account substantial liquidity available at group level providing financial flexibility.

Outlook: Stable

The stable outlook reflects the strong financial flexibility available to the company by virtue of being part of Dhunseri group and demonstrated successful track record of managing their tea business, which is expected to continue going forward.

Detailed description of the key rating drivers:

Key strengths

Experience of promoters and established track record of the company in the tea industry

DTIL is a part of the Dhunseri group, which has been carrying on the tea business for over five decades. Despite the tea industry passing through several bad phases over the last few decades, promoters have demonstrated a successful track record of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

managing their tea business. C. K. Dhanuka, Chairman and MD of the company, is one of the reputed industrialists of Kolkata with long experience in the tea industry. The promoter group is ably supported by an experienced management team. The rating derives significant comfort from available liquidity at the group level aggregating ~₹1,200 crore as on March 31, 2024, in the form of cash and liquid investments in mutual funds and listed securities.
DTIL currently has 11 tea estates and 11 tea factories, producing quality tea. The company sells tea via auctions, private sales through intermediaries and packaged tea.

Moderation in yield albeit production growth due to new tea gardens
DTIL has been efficiently carrying out operations across its tea gardens (11) in Assam, where the quality of black tea is superior compared to the rest of India. Domestic average tea yield decreased to ~1831 kg per hectare in FY24 compared to 2150 kg per hectare in FY23, due to adverse weather conditions resulting in crop loss. The yield stood slightly improved to 1100 kg per hectare in H1FY25 against 1097 kg per hectare in H1FY24.
However, tea production increased from 9.58 million kg in FY23 to 13.10 million kg in FY24 on account of tea production from five new tea estates. While the same moderated to 7.87 million kg in H1FY25 from 9.12 million kg in H1FY24. This was due to pest issue in new tea estates, which resulted in lower production.
Average recovery rate (ranging from 22.55% to 23.36% over FY21-FY24 and H1FY25) for the company has been in line with the industry average of ~22%.
The production remained largely stable in its overseas subsidiary with tea production at 7.34 million kg in CY23 against 7.44 million kg in CY22 along with increase in production of macadamia nuts to 0.55 million kg in CY23 against 0.38 million kg in CY22. Further, the tea production remained healthy at 5.77 million kg and macadamia nuts at 0.31 million kg in H1CY24.

Comfortable capital structure despite moderation in debt protection metrics
Debt level increased as on March 31, 2024, due to increase working capital requirements amidst increased production levels and operational losses. The company availed term loans in Malawi for capex related to the plantation whereby due to currency devaluation in FY24 leading to exchange rate losses, debt level has gone up. However, DTIL continues to have a healthy net worth base and relatively low debt levels. Overall gearing ratio, though moderated, stood comfortable at 0.51x as on March 31, 2024 (0.27x as on March 31, 2023). Interest coverage ratio and total debt/PBILDT deteriorated in FY24 due to losses at operating level.
Debt coverage indicators though improved in H1FY25 with Interest coverage ratio of 3.75x, however, given the seasonality of the industry, Q2 is healthy quarter and coverage achieved in the end of H1FY25 are higher and skewed. With Q4 being a cost bearing quarter, these metrics are likely to moderate for FY25.

Liquidity: Adequate
In view of losses in FY24, the company managed its capex and other liquidity needs from selling of liquid investments and loss-making tea assets apart from higher utilisation of working capital limits. In FY24, the company sold current investments to the tune of ₹54.26 crore, Hatibari tea factory and Shivani tea factory for ₹15 crore. Further in H1FY25, the company sold the Dilli Tea estate for ₹35 crore and sale of Jaipur Factory for ₹20 crore, full receipt of proceeds in the near term from these sales are likely to support overall cash flows. There has been fund infusion from promoter group to support the overall liquidity, with ₹10 crore outstanding as on September 30, 2024. These funds have been provided largely to support overall liquidity profile amidst operational losses. Financial flexibility due to DTIL being part of the CK Dhanuka group and need-based fund infusion from the group aids its liquidity.
The average fund based working capital limit utilisation remained moderate at 71% for 12 months ended September 2024, providing adequate liquidity buffer. The company does not have significant capital expenditure plans in the medium term.

Key weaknesses
Subdued performance in FY24 with lower-than-expected recovery in H1FY25
DTIL achieved an increase in its consolidated TOI by 17% y-o-y from ₹337.48 crore in FY23 to ₹395.42 crore in FY24 due to increase in production, considering the addition of new tea gardens. On a standalone level, while sales volume grew by ~52%, the realisation decreased by over 10% considering surplus supply and low export demand. Despite having higher scale of operations, a decrease in realisation, crop loss and higher wage rate led to operational losses. This coupled with substantial drop in macadamia realisation and currency devaluation further led to consolidated net loss of ₹141.10 crore in FY24.
While in H1FY25, the company has partially recovered its profitability with PBILDT reported at ₹57.32 crore against loss of ₹5.13 crore in H1FY24, backed by increase in bulk tea realisation amidst steady volumes and no major forex losses, sustaining such profit levels may remain a challenge given the seasonal nature of business. Overall financial performance for FY25 is expected to remain subdued mainly because Q4 being a seasonally weak quarter for domestic tea business. The company continues to incur losses in its subsidiaries, which further impact overall profitability at a consolidated level.

The company reduced its consumption of bought-out leaf to produce tea and increased its focus on production of better quality of tea in its existing and newly acquired gardens, which is expected to drive improvement in its operating profitability.

Labour intensive nature of tea industry

The inherent nature of the domestic tea industry makes it highly labour intensive, with wage cost entailing ~45-50% of total cost of sales. Therefore, steep upward revision in wages had an adverse impact on PBILDT margin of bulk tea players. However, labour cost in its African subsidiaries is relatively low, hence its overall impact on the PBILDT margins at a consolidated level get somewhat moderated.

Inherent agro-climatic risks

DTIL's profitability is highly susceptible to vagaries of nature as all its domestic tea gardens are concentrated in Assam. Although Assam is the largest tea-producing state in India, it has witnessed erratic weather conditions in the past years. In FY24, company suffered crop loss of ~2 million kg tea due to adverse weather, including hailstorms in Assam. Further in H1FY25, the company has pest infestation in new estates resulting in lower output. DTIL's international tea gardens, located in Africa, are also susceptible to the vagaries of nature.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food & other products	Tea & coffee

DTIL is engaged in growing and cultivating tea across 11 tea estates in Assam, having a cumulative production capacity of 12.80 million kg per annum. DTIL also has two tea estates named 'Makandi' and 'Kawalazi' in Malawi, South Africa (where DTIL had acquired [100% stake] in FY13 through its Singapore-based wholly owned subsidiary, 'Dhunseri Petrochem and Tea Pte Limited). The cumulative production capacity of these two estates is 10 million kg per annum. Apart from tea, the Malawi estates also produce macadamia (installed capacity of 0.60 million kg per annum).

In FY23, DTIL sold the Khagorijan Tea Estate, and it acquired five tea estates in Assam. In FY24, the company sold Shivani tea factory and Hatibari tea factory while in H1FY25, company has sold Dilli Tea estate and Jaipur Factory.

Brief Financials - Consolidated (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	337.48	395.42	265.49
PBILDT	3.47	-86.39	57.32
PAT	-23.79	-141.10	23.04
Overall gearing (times)	0.27	0.51	0.53
Interest coverage (times)	0.16	NM	3.75

A: Audited; UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not available

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

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	125.00	CARE A; Stable
Non-fund-based - LT-Standby Letter of Credit		-	-	-	20.00	CARE A; Stable
Term Loan-Long Term		-	-	December 2030	8.20	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	125.00	CARE A; Stable	1)CARE A+; Negative (05-Jun-24)	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
2	Non-fund-based - LT-Standby Letter of Credit	LT	20.00	CARE A; Stable	1)CARE A+; Negative (05-Jun-24)	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
3	Term Loan-Long Term	LT	8.20	CARE A; Stable	1)CARE A+; Negative (05-Jun-24)	1)CARE A+; Stable (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)Withdrawn (27-Dec-23)	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Standby Letter of Credit	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

S. No.	Name of the Companies	Extent of consolidation*	Rationale for consolidation
1	Dhunseri Petrochem & Tea Pte Ltd.	Full	Subsidiary
2	Makandi Tea & Coffee Estates Ltd.	Full	Step-down subsidiary
3	Kawalazi Estate Company Ltd.	Full	Step-down subsidiary
4	Dhunseri Mauritius Pte Ltd.	Full	Step-down subsidiary
5	A.M. Henderson & Sons Ltd.	Full	Step-down subsidiary
6	Chiwale Estate Management Services Ltd.	Full	Step-down subsidiary
7	Ntimabi Estate Limited	Full	Step-down subsidiary

*As on March 31, 2024

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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