Dhunseri®
Dhunseri Tea & Industries Limited
CIN : L15500WB1997PLC085661
Registered Office : Dhunseri House, 4A, Woodburn Park, Kolkata 700020

December 28, 2023

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001 **Scrip Code: 538902**	National Stock Exchange of India Ltd., Exchange Plaza, C-1, Block G, 5th Floor Bandra Kurla Complex, Bandra (E), Mumbai -400 051 **Symbol: DTIL**

Sub: Credit Rating for Bank Facilities

Dear Sir,

This is to inform you that the Credit Analysis & Research Limited (CARE) has reviewed and reaffirmed the following ratings of the Company as detailed below:

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term bank facilities	155.31	CARE A+; Stable	Reaffirmed
TOTAL	**155.31**		

Latest credit rating report is enclosed.

Thanking You,

Yours faithfully,
For **Dhunseri Tea & Industries Limited**

Mahadevan

R. Mahadevan
Company Secretary

Encl: as above

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Press Release

Dhunseri Tea & Industries Limited

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	155.31 (Enhanced from 92.88)	CARE A+; Stable	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Dhunseri Tea & Industries Limited (DTIL) continues to draw strength from the vast experience of its promoters and established track record of the company in the tea industry with satisfactory operational parameters for both its domestic and overseas businesses. The rating continues to draw strength from DTIL's comfortable capital structure, despite increase in debt level for funding capex and increased working capital requirement. The rating derives significant comfort from the available liquidity at group level in the form of cash and liquid investments in mutual funds and listed securities.

The rating is, however, constrained by moderation in the financial performance of the company in FY23 (refers to the period April 1 to March 31) and H1FY24. The moderation in financial performance in FY23 was largely triggered by loss on account of newly acquired gardens in Q4FY23 amidst increase in wage rate and power cost during the year. Furthermore, due to adverse weather condition including hailstorm, the production for H1FY24 was impacted, leading to subdued performance in H1FY24 as well. Though the performance is expected to improve in the ensuing quarters, the overall financial performance for FY24 is expected to remain subdued, given increase in wage rate from October 2023, and Q4 being a seasonally weaker quarter for domestic tea business. The company has reduced its consumption of bought 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 in the medium term. The rating also takes note of utilisation of available liquidity towards purchase of new gardens thereby temporarily impacting its liquidity profile.

The rating further continues to remain constrained by DTIL's moderate scale of operation, labour intensive nature of the tea industry with increasing wage cost and susceptibility of tea business to agro-climatic risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in its scale of operations on a sustained basis.
- Improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin beyond 25% on a sustained basis.

Negative factors

- Significant deterioration in its total operating income (TOI) below ₹300 crore on a sustained basis and inability to improve the operating profit in coming quarters.
- Any un-envisaged incremental debt-funded capital expenditure leading to deterioration in its capital structure and/or significant dilution in its liquidity profile.
- Any significant dilution in the liquidity profile at group level.

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

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

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 the 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, the promoters have demonstrated a successful track record of 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 the available liquidity at group level aggregating around ₹1,000 crore and ₹1,100 crore as on March 31, 2023 and September 30, 2023, respectively, in the form of cash and liquid investments in mutual funds and listed securities.

DTIL currently has 11 tea estates and 12 tea factories, producing quality tea and a blending and packaging unit in Rajasthan. The company sells tea via auctions, private sales through intermediaries and packaged tea.

Stable operational parameters of the tea division

DTIL has been efficiently carrying out its operations across its tea gardens (11 in number) in Assam where the quality of black tea is superior as compared to the rest of India. The domestic average tea yield increased to around 2150 kg per hectare in FY23 as compared with 1857 kg per hectare in FY22. However, capacity utilisation of tea factories moderated to 75% in FY23 from 100% in FY22 with reduction in tea production in FY23 to 9.58 million kg vis-à-vis 11.34 million kg in FY22. The average recovery rate (ranging from 22.6% to 22.9% over FY18-FY23) for the company has been in line with the industry average of about 22%. The production of tea in volume terms is expected to increase during FY24 due to acquisition of new tea estates.

The production of tea in its overseas subsidiary witnessed a decline to 7.45 mn kg in CY22 (P.Y.: 8.89 mn kg) due to unfavourable weather conditions. The production of macadamia nuts, however, remained at 0.38 mn kg in CY22 (P.Y.: 0.38 mn kg).

Comfortable capital structure albeit moderation in debt protection metrics

The debt level has increased as on March 31, 2023 due to term loan of USD 2 million availed in Malawi for capex related to the plantation and increase in working capital borrowings in domestic operations due to the acquisition of new tea estates. DTIL has a healthy net worth base and relatively low debt levels. Overall gearing ratio, though moderated, stood comfortable at 0.27x as on March 31, 2023 (0.15x as on March 31, 2022).

Interest coverage ratio and total debt/PBILDT witnessed deterioration in FY23 and H1FY24 due to the loss on operating level.

Liquidity: Adequate

In view of losses in FY23 and H1FY24, the company has managed its capex and other liquidity needs in the form of investments in equity shares available with the company and sale of loss-making tea assets. In H1FY24, the company has sold investments in quoted equity to the tune of ₹48 crore, Hatibari tea factory for ₹6.70 crore and has also agreed to sell Deohall tea gardens for ₹23.5 crore to be received by January 2024. This apart, the sanctioned working capital limit has also been enhanced to ₹125 crore from ₹67 crore in April 2023 for managing enhanced liquidity requirement for the new tea gardens. The average working capital limit utilisation remained moderate at 50% for the last 12 months ended October 2023, providing liquidity buffer. Furthermore, the company has availed term loan of ₹9.35 crore as reimbursement of capex cost incurred. The company does not have significant capital expenditure plans in the medium term.

Key weaknesses

Moderation in the TOI and operating profitability during FY23 and H1FY24

DTIL reported a decline in its TOI by 3.30% y-o-y due to moderation in the capacity utilisation. The company reported a y-o-y decline in the sales volume by around 22%, while the realisation increased by more than 32%, as the company is

focusing more on the quality tea production, which has a realisation of ₹35-45 more than the ordinary tea. The reduction in capacity utilisation was on account of the company focusing more on the quality tea, which requires minimum of 5-7 days of plucking, however, it increases the realisation. The tea realisation in the Q1FY24 has also been higher at about ₹251 per kg. The decline in capacity utilisation, increase in fixed costs due to purchase of five new tea estates in Q4FY23 and increase in wage rates for tea estate workers led to operating loss in FY23. It also led to the company reporting substantial net loss of ₹23.79 crore during FY23.
Furthermore, due to adverse weather conditions, including hailstorm, the production for H1FY24 was impacted, leading to net losses of ₹13.31 crore in H1FY24. Though the performance is expected to improve in the ensuing quarters, the overall financial performance for FY24 is expected to remain subdued, given increase in wage rate from October 2023 and Q4 being a seasonally weak quarter for domestic tea business. The company has reduced its consumption of bought 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 in the medium term.

Labour intensive nature of tea industry

The inherent nature of the domestic tea industry makes it highly labour intensive, with wage cost entailing around 45-50% of total cost of sales. Therefore, steep upward revision in the wages has an adverse impact on the 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 the consolidated level get somewhat moderated.

Inherent agro-climatic risks

DTIL's profitability is highly susceptible to the 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. DTIL's international tea gardens, located in Africa, are also susceptible to the vagaries of nature.

Industry Outlook

Tea auction prices witnessed an improvement in April and June 2023 as against the same during the previous year backed by healthy demand in the domestic as well as the overseas market. The wage rate revisions are expected to continue to create pressure on the margins of tea players, but the same is expected to be compensated by expected increase in the average realisation during the year.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic 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 cultivation of tea across 11 tea estates in Assam having a cumulative production capacity of 12 million kg p.a. This apart, the company has a 4 million kg p.a. blending and packing unit at Jaipur, Rajasthan. DTIL also has two tea estates named 'Makandi' and 'Kawalazi' in Malawi, South Africa [whereby DTIL had acquired (100% stake) in FY13 through its Singapore-based wholly-owned subsidiary, 'Dhunseri Petrochem and Tea Pte Ltd]. 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.).

During FY23, DTIL sold the Khagorijan Tea Estate, while it acquired five tea estates in Assam. In FY24 (till December 20, 2023), DTIL sold Deohall tea estate (acquired in January 2023) and Hatibari tea factory.

Brief Financials - Consolidated (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	349.01	337.48	234.45
PBILDT	25.78	-9.68	-6.59
PAT	-94.24	-23.79	-13.31
Overall gearing (times)	0.15	0.27	0.32
Interest coverage (times)	3.57	NM	NM

A: Audited; UA: Unaudited; NM: Not meaningful; Note: 'the above results are latest financial results available'

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 facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	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-Bank guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Standby letter of credit		-	-	March 2027	20.96	CARE A+; Stable
Term loan-Long term		-	-	December 2030	9.35	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 (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	125.00	CARE A+; Stable	-	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)

2	Non-fund-based - LT-Standby letter of credit	LT	20.96	CARE A+; Stable	-	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)
3	Term loan-Long term	LT	9.35	CARE A+; Stable	-	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)
4	Non-fund-based - LT-Bank guarantee	LT	-	-	-	1)CARE A+; Stable (30-Sep-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Stable (08-Oct-20)

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

Annexure 4: Complexity level of various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT-Bank guarantee	Simple
3	Non-fund-based - LT-Standby letter of credit	Simple
4	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 subsidiaries

Following subsidiaries have been considered in the consolidation of DTIL:

Type	Name of the Companies	% holding*
Subsidiary	Dhunseri Petrochem & Tea Pte Ltd.	100
Step-down Subsidiary	Makandi Tea & Coffee Estates Ltd.	100
	Kawalazi Estate Company Ltd.	100
	Dhunseri Mauritius Pte Ltd.	100
	A.M. Henderson & Sons Ltd.	100
	Chiwale Estate Management Services Ltd.	100
	Ntimbi Estate Limited	100

*as on March 31, 2023

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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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