

Press Release

Dalmia Tea Plantation And Industries Limited



March 04, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	71.96	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	74.96	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A Three plus**) to Rs. 74.96 Cr bank facilities of Dalmia Tea Plantation and Industries Limited (DTPIL). The outlook is '**Stable**'.

The rating on MLD group reflects its increasing revenue trend supported by its established and diversified presence in the plastic woven sacks (PWS) segment and tea manufacturing. Further, it is also supported by the management's long track record in both the sectors, efficient collection mechanism, average financial position characterized by healthy networth base and adequate liquidity position of the group. These rating strengths are partially offset by its exposure to risks related to volatility in raw material prices, intense competition in the plastic woven sacks industry and high inventory holding.

About the Company

DTPI L, a part of the M L Dalmia Group, is one of India's leading tea cultivating, manufacturing and processing company based in West Bengal and owns the most well equipped tea manufacturing plants for making high quality tea. It has an annual capacity of ~ 10.5million kgs per annum in West Bengal. Around 10 per cent of the tea is produced from own grown green leaves and the balance 90 per cent of the tea is produced from green leaves purchased from small tea growers of adjoining areas.

About the Group

Group companies, Dalmia Laminators Limited (DLL) and Bateli Tea and Company Limited (BTCL), are involved in manufacturing of plastic woven sacks (PWS) and plantation and processing of tea in Assam respectively. DLL has two manufacturing units in Tamil Nadu and one at Andhra Pradesh respectively. BTCL is a premium tea producing and marketing company and has large tea plantations and manufacturing unit in the state of Assam with an annual capacity of producing ~ 3.5 million kgs per annum.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Dalmia Laminators Limited

(DLL) and its associates-Dalmia Tea Plantations & Industries Limited (DTPIL) and Bateli Tea Company Limited (BTCL) together referred to as the 'MLD Group'. The consolidation is in the view of common promoters and management, intercompany share holdings and strong financial linkages between the entities in the form of unsecured loan extended to each other. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established and diversified business profile**

The MLD group has been in the plastic woven sacks segment for around 50 years. The sacks are sold to diverse end-user industries such as cement, food grain, polymer and fertilizer. Its other two group companies, DTPIL and BTCL, are involved in production and processing of tea having their own estates in West Bengal and Assam, respectively. Its promoters have been in the tea manufacturing business for several decades. This has helped the group establish a strong position in the tea industry and maintain substantial growth in revenue.

Acuité believes that the group will continue to maintain its business risk profile over the medium term aided by its long-standing relationships with reputed customers and suppliers.

- **Steady growth in operating income of the group**

The revenues of the group increased to Rs. 460.50 Cr in FY2021 as compared to revenues of Rs.414.63 Cr in FY2020. Even though the revenue of DLL was maintained at almost similar levels, the operating income of the tea companies marked significant growth in FY21. However, DLL has been able to diversify its presence in plastic woven sacks segment, since the sacks are sold to diverse end-user industries such as cement, food grain, polymer and fertilizer. This will mitigate the customer concentration risk as any slow-down in any of the particular industry will not adversely affect the performance of the overall group thus giving them a competitive edge. The revenues of both DTPIL and BTCL improved in FY2021, due to sharp increase in tea realizations. In FY2021, tea production was adversely impacted during March-May due to the lockdown, followed by adverse weather conditions in Assam and North Bengal. The group has also been able to automate many of the hitherto manual processes by the use of monorail systems and conveyor belts. The group have invested in the longest belt with programmable temperature and humidity control to ferment tea leaves leading to consistent quality of teas. The group has already achieved gross revenues of Rs. 467.67 Cr. till December 2021.

The operating margin of the group rose to 14.53 per cent as on 31st March, 2021 from 14.26 per cent in FY2020. However, the PAT margin of the group declined to 3.57 per cent in FY2021 from 4.38 per cent in FY2020. Major raw materials include high-density polyethylene, low-density polyethylene, and polypropylene for manufacturing industrial plastics, which are crude-oil derivatives and thus the prices for the same are fluctuating in nature. Raw material costs account for ~71 per cent of total production cost and the company works on pass through model where the price of the sacks moves in tandem with the price of the raw material. The group is also a partially integrated tea manufacturer, sourcing around 85 per cent of required tea leaves from other estates. High proportion of bought leaves keeps the operating margin modest, also mitigating the risks associated with the fixed cost nature of production of tea plantation companies. The Return on Capital Employed (ROCE) of the group stood moderate at 8.44 per cent as on FY2021 as compared to 8.57 per cent as on FY2020.

Acuité believes that the diversified product range of the group will help to maintain its business risk profile over the medium term.

- **Average financial risk profile**

The group's average financial risk profile is marked by healthy networth base, moderate gearing and moderate debt protection metrics. The tangible net worth of the group improved to Rs.263.73 crore as on March 31, 2021 from Rs.247.33 crore as on March 31, 2020 due to accretion of reserves. Gearing of the group stood moderate at 1.24 as on March 31, 2021 as compared to 1.08 as on March 31, 2020, mainly led by increasing reliance on external debt to support the working capital requirements largely through guaranteed emergency credit line (GECL) in FY2021. However, the promoters have extended significant financial support to the group, via unsecured loans to cover working capital and debt obligations. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.53 times as on March 31, 2021 as against 1.49 times as on March 31, 2020. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 2.37 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.26 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.11 times as on March 31, 2021.

Acuité believes that going forward, despite having continuous capex towards replantation to improve and maintain the age profile of the tea-bushes, the financial risk profile of the group will remain healthy backed by steady accruals.

Weaknesses

- Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 185 days as on March 31, 2021 as against 159 days as on March 31, 2020. The high GCA days are on account of high inventory period of the group which stood at 122 days as on March 31, 2021 as compared to 111 days as on 31st March 2020. The high inventory period of 151 days of DLL as on March 31, 2021, is mainly driven by high inventory requirements in line with its delivery service to the prominent clients in its portfolio on a timely basis, and hence the requirement to maintain the inventory. However, the debtor period stood comfortable at 52 days as on 31st March, 2021 as against 30 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from efficient collection mechanism and high level of inventory period over the medium term.

- Intense competition in the plastic woven sacks industry**

The industry for PP woven sacks is highly fragmented as there are several unorganized players with small capacities catering to regional demand, due to economies in transport costs and generally short period service requirements thus restricting opportunities for players like MLD group to increase the scale of operations. As a result, the revenues have remained stagnant for the past 2 years ended FY 2021.

- Exposure to volatility in tea prices and changing weather conditions**

Tea is a seasonal product and its yield depends on weather conditions. Production could be hampered significantly in case of any variation in rains, humidity and temperature. In case of poor weather conditions, deterioration in production levels and quality leads to volatility in realisations. Moreover, there is a need of continuous investment towards replantation. Acuité notes that the group has been taking specific steps to address the same by following a definite annual replantation policy. Also, the yields have been supported by increasing acreage under high-yielding clones and other focused efforts taken towards sustaining productivity.

Rating Sensitivities

- Sustainability in revenue growth and margins
- Elongation of working capital cycle
- Improvement in capital structure and debt protection metrics

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by adequate net cash accruals stood at Rs.36.39 Cr as on March 31, 2021 as against long term debt repayment of Rs.22.79 Cr over the same period. The current ratio stood moderate at 1.18 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.1.40 Cr as on March 31, 2021 as compared to Rs.1.01 Cr as on March 31, 2020. However, due to operations being working capital intensive there is significant dependence on external debt to fund its working capital requirements which is reflected in moderate average fund based limit utilization at 85 per cent over the eight months ended November, 2021. The group has also availed loan moratorium and applied for additional Covid loan. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals. Support from the promoters through unsecured loans further aids liquidity.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and sound business position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues coupled with sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or further elongation in its working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	460.50	414.63
PAT	Rs. Cr.	16.45	18.15
PAT Margin	(%)	3.57	4.38
Total Debt/Tangible Net Worth	Times	1.24	1.08
PBDIT/Interest	Times	2.37	2.45

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ Assigned
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB Stable Assigned
UCO Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	4.92	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.78	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.81	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.10	ACUITE BBB Stable Assigned
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.40	ACUITE BBB Stable Assigned
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	9.95	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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