



QUALITY OF TEA.

QUALITY OF BUSINESS.



Report Junction.com



DHUNSERI TEA & INDUSTRIES LIMITED

ANNUAL REPORT, 2014-15

Forward-looking statement

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions.

We have tried, wherever possible, to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion on future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.

Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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At Dhunseri Tea, there is just one management philosophy we believe in.

That the quality of our tea produce gets reflected in the quality of our business.

The year 2014-15 was one in which this conviction was tested. Indian tea realisations declined by an average ₹0.53 per kilogram, resulting in a decline in profits for most tea companies.

Dhunseri Tea was an exception. Its Indian tea operations reported a 31.86% increase in PAT in 2014-15.

The Company's
contrarian
response was
dictated by a
one-word strategy.
Quality.



Dhunseri Tea & Industries Limited.

Among the top ten tea producers in India with ten tea estates and one packaging factory. The Company also owns two tea estates in Africa. The Company produces around 1% of the total tea production of Assam, one of the prime tea-growing areas in the world.

Background

The Dhunseri Group has been engaged in the business of planting, manufacturing and selling tea in India for over six decades.

Following the demerger of the tea division in 2014-15, the two tea estates in Malawi, Africa i.e. Kawalazi Estate Company Limited and Makandi Tea & Coffee Estates Limited were vested with the Company. Subsequently, the Company has emerged as a pure-play entity in the tea sector with a keen emphasis on production and sale of tea from estates located in India and Malawi (Africa). The Company is also engaged in commercial production and sale of macadamia nuts from its Malawian tea estates.



Malawi tea estate

Our location

The Company owns ten tea estates in Assam (India) and two tea estates in Africa and a tea packaging and blending unit located in Jaipur, Rajasthan. The Company markets its tea produced in Assam within India and the tea and macadamia nuts produced in Africa is sold to more than nine countries.

Accreditations and awards

Dhunseri Tea is respected as a quality-focused tea producer. This has translated into enduring relationships with prestigious customers (traders and institutions).

The Company's emphasis on quality has been validated through certifications like ISO 22000:2005 (Food Safety), RFA, PPC (Plant Protection Code), Trustea certification, FAIRTRADE and HACCP, among others.



“At Dhunseri Tea, we are in a business where land being a finite resource, there is an unrelenting pressure to increase revenues and profits. There is only one way to make this happen: improve yield and quality of tea.”

Mr. C. K. Dhanuka, Chairman, analyses the 2014-15 performance of the Company and its prospects



At Dhunseri Tea, there is one growth strategy, one overarching de-risking approach and one management mantra.

Make a better quality of tea.

We have made this approach central to our existence for a number of reasons.

One, we believe that better quality generates better realisations and that a quality-driven approach increases margin and profitability.

Two, we believe that the production of quality tea is about building our brand to sustain future business operations.

Three, a focus on quality also generates customer loyalty, provides resilience to the operations of the Company.

Four, the manufacture of quality tea ensures a competitive advantage for the business.

Five, we are convinced that a quality emphasis represents the most effective de-risking strategy for a business with finite resources.

The transition

Earlier, the business was India-centric, growing tea in only one Indian state. Now, with two tea estates in Malawi (Africa), we have doubled our output and also de-risked the Company from an excessive dependence on one geographical area.

The offshore operations of our Company also include the production of macadamia nuts.

Strengthening our processes

Although climate plays an important role in the plantation operations of the Company, we attempted to counter the downsides within our control. We did so by providing better irrigation facilities at our tea estates, by effectively controlling costs, efficiently utilising our manpower to increase our yield per hectare. We are constantly revamping our marketing and distribution strategies with a view to strengthen and secure the business over the long-term.

Outlook

At Dhunseri Tea, we are optimistic of our prospects.

Tea continues to be a common man's drink and is the most affordable beverage in the country. The increase in disposable incomes has generated a growing preference for quality teas. The vast Indian rural market is opening up and will be the largest potential market in coming years, leading to an increased demand for quality tea.

In view of these realities, we are optimistic of enhancing revenues, margin and shareholder value continuously in the coming years.

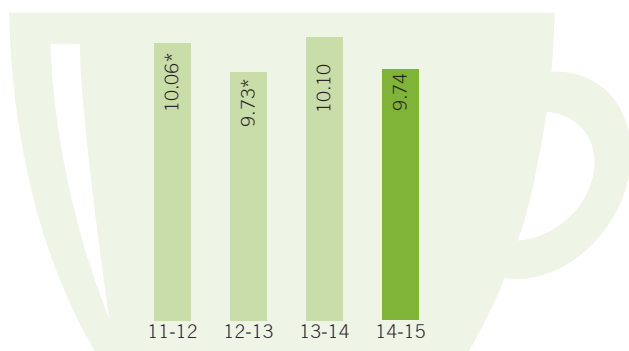
C. K. Dhanuka,
Chairman

How we performed over the years

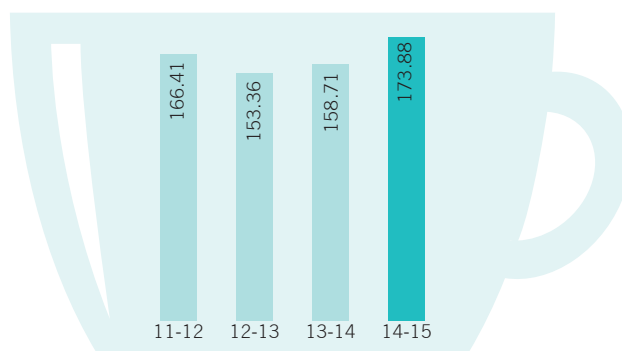


“Almost all quality improvement comes via simplification of design, manufacturing...layout, processes and procedures.”

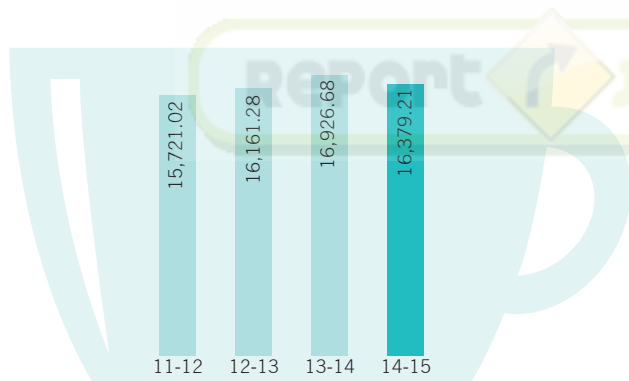
Tom Peters



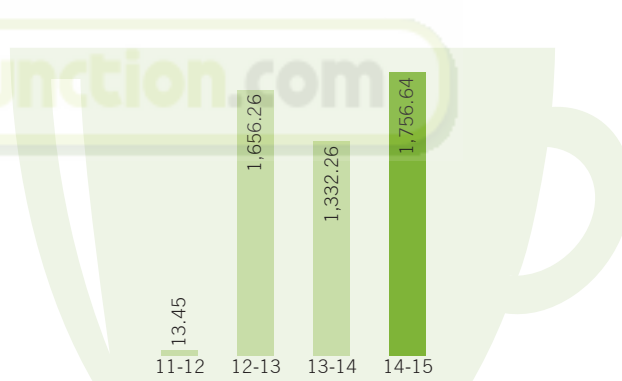
Tea production (million kilograms)



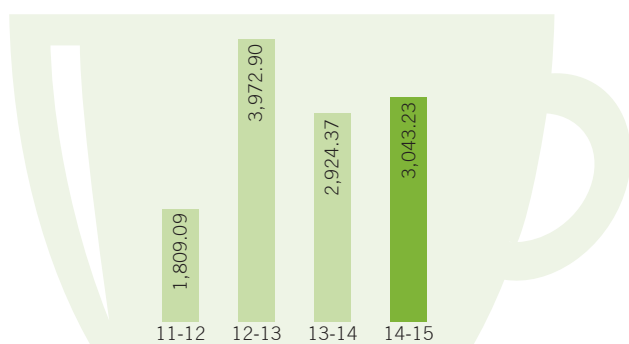
Average realisations (₹ per kilogram)



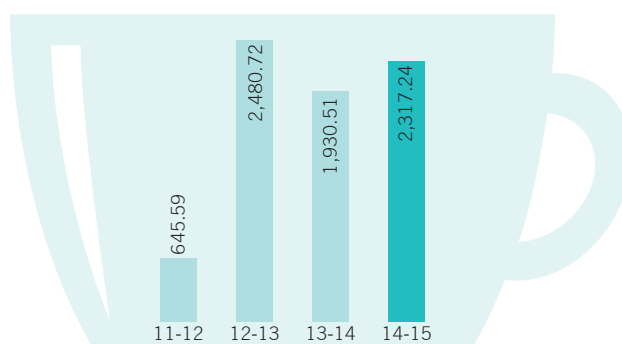
Gross revenues (₹ in lac)



PAT (₹ in lac)



EBITDA (₹ in lac)



Cash profit (₹ in lac)

* Excludes Bought leaf factories / tea estate disinvested

Our strengths



“Quality is the result of a carefully constructed cultural environment. It has to be the fabric of the organisation, not part of the fabric.” *Philip Crosby*

Corporate

Status: Dhunseri Tea is among the top ten tea producers in India and has been in this business for over six decades.

Knowledge: The Company directly

employs about 5,153 people in India, more than 50% of whom are women, engaged in tea plucking in its estates in Assam, a significant competitive

strength at a time when availability of male workers are on a decline.

The employee strength in Malawi estates is about 9,703.

Product

Product mix: The Company produces both CTC and orthodox tea varieties with an objective to meet the customer needs and optimise realisations depending on demand and supply.

Marketing: The Company's strategy is to increase progressively the sale of tea marketed directly through strategic and private contracts in domestic and international markets, with a view to generating higher realisations.

Brand: The Company invested in three brands marketed through a select state, representing value addition and forward integration. These brands generated higher per kilo realisations than average non-packaged realisations.

Relationship: All our customers have been associated with the Company for the past few decades; the Company's quality teas generated realisations at least 15% higher than the Assam average.

Standards and Accreditation: The Company produces premium quality teas in full compliance with international MRL and food safety standards. The certifications bestowed upon the Company comprise FAIRTRADE, Rainforest Alliance, Hazard Analysis Critical Control Point (HACCP), Trustea and ISO 22000:2005 (Food Safety) certifications extending across a number of tea estates.

Plantation

Location: The tea estates of the Company are located in Assam, a prime geographical location for tea production. The tropical climatic condition lends Assam tea a unique malty taste, a feature for which Assam tea is well-known. The other tea estates of the Company are located in Malawi (Africa). The region is conducive because of minimal pest infestation and favourable weather for tea cultivation.

Economies-of-scale: The Company has grown its business from a presence in one country a few years ago to a presence in two; from 3,026 hectares of gardens in 2004-05 to 5,701 hectares in 2014-15

and from an output of about 10 million kilograms in 2004-05 to about 18.24 million kilograms in 2014-15.

Factories: The Company's 12 tea estates located in Assam and Malawi are reinforced with tea processing units, making it possible to process fresh tea, retaining its aroma, colour and flavour.

Other assets: The Company possesses a tea estate land bank of about 4,528 hectares (India and Malawi combined), of which 1,439 hectares are presently used for macadamia plantation and generated ₹28 crore in revenues (2014-15).

Irrigation: The management has increased the proportion of irrigated areas in the Company's tea gardens from about 40% to 80% during the last two years, strengthening climatic de-risking.

Replanting: The Company uproots about 2.5% to 3% of its total area under tea annually.

Geographical diversification: The Company has widened its presence from one country to two, reinforcing geographic de-risking.

Prioritising quality

over quantity

