

Press Release

Duncans Tea Limited

May 12, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB+**' (read as SMERA BB plus) on the Rs. 18.00 crore bank facilities of Duncans Tea Limited. The outlook is '**Stable**'.

Duncans Tea Limited (DTL), part of the Duncans Group, was incorporated in 1979. A Kolkata-based company, DTL is engaged in the blending, packaging and marketing of tea through its distribution network spread across India. The company is one of the oldest players in the packaged tea market. The overall operations are managed by Mr. Shrivardhan Goenka, Director.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The management has more than three decades of experience in the tea industry. The long track record of operations has helped build long term relations with customers.

- Above average financial risk profile**

The above average financial risk profile is marked by comfortable net worth of Rs.17.70 cr, healthy interest coverage of 2.35 times and moderate debt protection measures. The gearing decreased and stood at a moderate 1.22 times in FY2016 compared to 3.61 times in FY2015. This is mainly due to decrease in the inter-corporate borrowings and increase in the net worth as a result of accretion of reserves. The debt service coverage ratio stood low at 0.32 times in FY2016. The net cash accruals to total debt stood comfortable at 0.25 times as on 31 March, 2016.

- Pan India presence and established brand**

DTL operates pan India with more than 1500 distributors and a field force spread across 21 states. The company generates around 85 per cent revenue from northern and western India. The company sells tea under the brand names - Runglee Rungliot, Double Diamond, Sargam, Shakti Tea, No 1 and Double Diamond Green Tea. The Double Diamond brand earns around 30 percent revenue. The company has added two more brands - Sargam Elaichi and Gold cup Tea.

Weaknesses

- Working capital intensive operations**

DTL's working capital intensive operations are marked by high gross current asset days of 135 in FY2016 as compared to 168 days in FY2015. The GCA days remain at high levels despite a marginal improvement in FY2016 as compared to the preceding year. The inventory and debtors stood at 66 and 44 days respectively in FY2016 as compared to 106 and 44 days in FY2015.

- Volatility in tea prices**

The profit margins are susceptible to volatility in the prices of tea, an agro commodity.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of DTL.

Outlook: Stable

SMERA believes that the outlook on DTL will remain stable over the medium term backed by the above average financial risk profile, experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue while improving capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and stretched working capital cycle.

About the Rated Entity - Key Financials

For FY2015-16, DTL reported profit after tax (PAT) of Rs 4.86 cr on total operating income of Rs.179.59 cr, as compared with PAT of Rs.3.99 cr on total operating income of Rs.199.52 cr in FY2014-15.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Feb-2016	Cash Credit	Long Term	INR 18	SMERA BB+ / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BB+ / Stable

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ABOUT SMERA

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