

Press Release

Duncans Tea Limited (DTL)

July 25, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BBB-/Stable

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from long-term rating of '**ACUITE BB+**' (read as **ACUITE double B 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 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.

The rating upgrade reflects significant improvement in the company's business and financial risk profile. The profitability margins of the company have improved both at the operating and net level. The operating profitability (EBITDA) margins improved to 6.27 percent as on 31st March, 2018 (provisional) from 4.74 percent in the previous year. The profitability improved on account of decrease in tea prices. The financial risk profile has witnessed substantial improvement in networth, gearing and debt protection measures.

Key Rating Drivers

Strengths

Experienced management and long track record of operation:

The directors of DTL, Mr. Shrivardhan Goenka, Mr. Maneyapanda Chinappa Appaiah, Mr. Mahesh Gurbaxani, Mrs. Savita Laxmipathy Acharya and Mr. Shrish Tapuriah have more than three decades of experience in tea & beverage industry. Long standing presence of more than three decades has helped the company earn a good reputation in the industry and long standing relation with its customers which in turn has helped the company to maintain revenues at a steady level.

Comfortable financial risk profile:

The comfortable financial risk profile of the company is marked by healthy Networth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.25.88 crore in FY2018 (Prov.) as compared to Rs.20.91 crore in FY2017, mainly on account of retention of current year profit. The gearing of the company stood comfortable at 0.80 times in FY2018 (Prov.) as compared to 1.02 times in FY2017. The total debt of Rs.20.79 crore consists of short-term debt of Rs.17.79 and short term unsecured loan from promoters of Rs.3.00 crore. The interest coverage ratio (ICR) of the company stood comfortable at 3.21 times in FY2018 (Prov.) as compared to 2.37 times in FY2017. The debt service coverage ratio (DSCR) of the company stood comfortable at 1.32 times in FY2018 (Prov.) as compared to 0.93 times in FY2017. The net cash accruals against the total debt (NCA/TD) stand comfortable at 0.26 times in FY2018 (Prov.) compared to 0.17 times in FY2017.

Established brand:

It has established its own brand for its different variety of tea like, Runglee Rungliot, Double Diamond, Sargam, Shakti Tea, No 1, Double Diamond Green Tea, Sargam Elaichi, Gold Cup Tea & Coffee and Pick-Up Tea & Coffee. Double Diamond accounts for around 41 per cent of the revenues of the company and Sargam accounts for around 22 per cent of the total revenue of the company.

Weaknesses

Working capital intensive nature of operation:

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 159 days in FY2018 (Prov.) as compared to 119 days in FY2017. The inventory days are high at 87 days in FY2018 (Prov.) as compared to 55 days in FY2017. The debtor days stand moderate at 53 days in FY2018 (Prov.) and 46 days in FY2017 respectively. The high inventory days are mainly on account of inherent nature of tea industry.

Volatility in tea prices

The prices of tea are linked to the auctioned prices, which in turn, are linked to prices of tea in the international market. Hence, significant price movement in the international tea market may affect DTLs profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances arising out of both domestic and international scenarios. Tea is perishable product and demand is relatively price inelastic, as it caters to all segments of the society. While demand has a strong growth rate, supply can vary depending on climatic conditions in the major tea growing countries. Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agro-climatic conditions.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

Acuité believes that the outlook on DTL will remain stable over the medium term backed by the long track record of operations and comfortable financial risk profile. 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

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	169.19	180.89	179.59
EBITDA	Rs. Cr.	10.61	8.58	12.53
PAT	Rs. Cr.	4.97	3.20	4.86
EBITDA Margin (%)	(%)	6.27	4.74	6.98
PAT Margin (%)	(%)	2.94	1.77	2.71
ROCE (%)	(%)	23.95	21.12	26.14
Total Debt/Tangible Net Worth	Times	0.80	1.02	1.22
PBDIT/Interest	Times	3.21	2.37	2.35
Total Debt/PBDIT	Times	1.92	2.45	1.66
Gross Current Assets (Days)	Days	159	119	135

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-May-2017	Cash Credit	Long Term	INR 18.00	ACUITE BB+/ Stable (Reaffirmed)
18-Feb-2016	Cash Credit	Long Term	INR 18.00	ACUITE BB+/ Stable (Assigned)

*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	ACUITE BBB-/Stable (Upgrade)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in
Abhishek Dey Analyst - Rating Operations Tel: 033-66201208 abhishek.dey@acuteratings.in	

About ACUITE

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.