

Press Release

Duncans Tea Limited

October 07, 2019

Rating Reaffirmed



| | |
|------------------------------------|-------------------------------------|
| Total Bank Facilities Rated | Rs. 18.00 crore |
| Long Term Rating | ACUITE BBB-/ Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of DTL to arrive at the rating.

Key Rating Drivers:

Strengths

- **Experienced management**

The Directors of DTL, Mr. Shrivardhan Goenka, Mr. Maneyapanda Chinappa Appaiah, Mr. Sudipta Kumar Mitra and Mr. Shrish Tapuriah, have more than three decades of experience in the tea and 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 moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.28.93 crore in FY 2019 (Provisional) as compared to Rs. 25.12 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. The gearing of the company stood comfortable at 0.64 times as on March 31, 2019 when compared to 0.73 times as on March 31, 2018. The total debt of Rs.18.38 crore in FY 2019 (Provisional) consists of long term loan of Rs. 0.54 crore, short term debt of Rs.17.84 crore. Interest coverage ratio (ICR) is comfortable and stood at 2.83 times in FY 2019 (Provisional) as against 2.72 times in FY 2018. The debt service coverage ratio also stood comfortable at 2.06 times in FY 2019 (Provisional) as against 1.07 times in FY2018.

- **Established Brand**

It has established its own brand for its different variety of tea such as Runglee Rungliot, Double Diamond, Sargam, Shakti Tea, No 1, Double Diamond Green Tea, Sargam Elaichi, Gold Cup Tea & Coffee and Pickup Tea & Coffee. Double Diamond accounts for around 41 per cent of 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 operations of the company are working capital intensive, which is evident from high GCA days of 141 days in FY 2019 (Provisional.) as against 140 days in FY2018. This is mainly on account of high collection period, which stood at 73 days and 47 days for FY 2019 (Provisional) and in FY2018, respectively. The inventory days stood moderate at 42 in FY 2019 (Provisional) as compared to 75 days in FY2018.

- **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. 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.

Rating Sensitivity

- Scaling up of operations, while maintain healthy profit margin
- Working capital management

Material Covenants

None

Liquidity Position: Healthy

The company has healthy liquidity position marked by adequate cash accrual of Rs. 4.02 crore in FY2019 (Provisional) as against current portion of long-term debt of Rs. 0.53 crore in FY2019 (Provisional). The cash accruals of the company are estimated to remain in the range of around Rs. 5.17 crore to Rs.5.98 crore during 2020-22 against no major repayment obligations. The unencumbered cash and cash equivalents of Rs. 2.87 crore in FY2019 (Prov.) also support the liquidity of the company. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite 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 | FY19 (Prov.) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------|---------------|---------------|
| Operating Income | Rs. Cr. | 169.58 | 169.60 | 180.89 |
| EBITDA | Rs. Cr. | 7.70 | 7.93 | 8.58 |
| PAT | Rs. Cr. | 3.81 | 3.47 | 3.20 |
| EBITDA Margin | (%) | 4.54 | 4.67 | 4.74 |
| PAT Margin | (%) | 2.25 | 2.05 | 1.77 |
| ROCE | (%) | 19.51 | 20.75 | 40.76 |
| Total Debt/Tangible Net Worth | Times | 0.64 | 0.73 | 1.02 |
| PBDIT/Interest | Times | 2.83 | 2.72 | 2.37 |
| Total Debt/PBDIT | Times | 2.08 | 2.06 | 2.45 |
| Gross Current Assets (Days) | Days | 141 | 140 | 119 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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 |
|--------------|---------------------------------|-----------|------------------|--------------------------------|
| 25-July-2018 | Cash Credit | Long Term | 18.00 | ACUITE BBB-/Stable (Upgraded) |
| 12-May-2017 | Cash Credit | Long Term | 18.00 | ACUITE BB+/Stable (Reaffirmed) |
| 18-Feb-2016 | Cash Credit | Long Term | 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 | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 18.00 | ACUITE BBB-/Stable (Reaffirmed) |

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About Acuite Ratings & Research:

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