Press Release

Duncans Tea Limited

January 22, 2021

Rating Reaffirmed

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

* *Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs.18.00 crore of 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 the directors Mr. Shrivardhan Goenka, Mr. Shrish Tapuriah, Mr. Maneyapanda Chinnappa Appaiah and Mr. Sudipta Kumar Mitra.

Analytical Approach:

Acuité has considered standalone business and financial risk profile of DTL while arriving 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 steady revenue growth.

Healthy financial risk profile

The financial risk profile of the company is marked by modest net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs.32.69 crore in FY 2020 (Prov.) as compared to Rs 28.85 crore in FY2019. This improvement in networth is mainly due to retention of current year profit. The gearing of the company stood comfortable at 0.78 times as on March 31, 2020 (Prov.) when compared to 0.62 times as on March 31, 2019. However, the gearing has slightly increased on account of increase in the short term debt during 31st March 2020. Interest coverage ratio (ICR) is healthy and stood at 3.01 times in FY2020 (Prov.) as against 2.82 times in FY 2019. The debt service coverage ratio (DSCR) of the company is also stood comfortable at 2.49 times in FY2020 (Prov.) as compared to 2.04 times in the previous year. The net cash accruals to total debt (NCA/TD) stood moderate at 0.16 times in FY2020 (Prov.) as compared to 0.22 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable backed by no major debt funded capex plan over the medium term and steady net cash accruals.

Healthy scale of operation coupled with improving profitability margin

The revenue of the company stood heathy at Rs.155.96 crore in FY2020 (Prov.) as compared to Rs. 169.28 crore in the previous year. The company has booked Rs.125.96 crore till 31st December in FY2020 (Provisional). The operating profitability margin of the company stood at 4.86 per cent in FY2020 (Prov.) as compared to 4.34 per cent in the previous year. The marginal improvement in profitability is on account of decrease in raw material price during the period. The net profitability margin of the company stood comfortable at 2.47 per cent in FY2020 (Prov.) as compared to 2.20 per cent in the previous year.

Weaknesses

Working capital intensive nature of operation
The operations of the company are working capital intensive as marked by high gross current asset (GCA) days of 191 days in FY20 (Prov.) as against 142 days in FY2019. The high GCA days are on account of high other current assets of Rs.30.02 crore in FY2020 (Prov.) majorly includes loans and advances given to body corporate, advance tax paid and GST receivables during the period. The inventory days stood moderate at 73 days in FY2020 (Prov.) as compared to 41days in FY2019. The debtor days also stood moderate at 74 days in FY2020 (Prov.) as compared to 73 days in FY2019. Moreover, the working capital limit has been utilized 86 per cent in the last six months ended December, 2020. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Volatile tea prices and agro climatic risk
The prices of tea are linked to the auctioned prices and further to prices of tea in the international market. Significant price movements in the international market may affect the company's profitability margins. Further, tea prices fluctuate widely with demand-supply imbalances in the domestic and international market. Tea is a perishable product and demand for it is relatively price inelastic as it caters to all segments of 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.

Rating Sensitivity
- Scaling up of operations, while maintaining the profitability margin
- Working capital management

Material Covenant
None

Liquidity Position: Healthy
The company has healthy liquidity marked by adequate net cash accruals of Rs.3.99 crore as nil long term debt obligations in FY2020 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 4.76 crore to Rs. 6.97 crore during 2021-23 nil long term debt obligations. The working capital management of the company is marked by Gross Current Asset (GCA) days of 191 days in FY2020 (Prov.). The bank limit of the company has been ~86 percent utilized during the last six months ended in December 2020. The company maintained unencumbered cash of Rs.0.42 crore as on March 31, 2020. Moreover, the company has neither availed the loan moratorium not been sanctioned with any covid emergency fund. The current ratio of the company stood comfortable at 1.34 times in FY2020 (Prov.). Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against nil long debt repayments over the medium term.

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	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	155.96	169.28
PAT	Rs. Cr.	3.85	3.73
PAT Margin	(%)	2.47	2.20
Total Debt/Tangible Net Worth	Times	0.78	0.62
PBDIT/Interest	Times	3.01	2.82

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-52.htm
- Manufacturing Entities –https://www.acuite.in/view-rating-criteria-59.htm
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
07-Oct-2019	Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Reaffirmed)
25-Jul-2018	Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Upgraded)
18-May-2017	Cash Credit	Long Term	18.00	ACUITE BB+/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Name of the Bank	Ratings/Outlook
Cash Credit	Note Applicable	Note Applicable	Note Applicable	18.00	UCO Bank	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:
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