February 19, 2021

Duncan Engineering Limited: [ICRA]A+(CE) (Stable)/[ICRA]A1(CE) withdrawn and [ICRA]A-(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Working capital facility	9.00	10.00	[ICRA]A+(CE)(Stable) rating withdrawn; [ICRA]A- (Stable) assigned
Short term-Non-fund based	0.81	1.10	[ICRA]A1(CE) rating withdrawn; [ICRA]A2+ assigned
Total	**9.81**	**11.10**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the ratings based on the strength of the corporate guarantee provided by Oriental Carbon and Chemicals Limited (OCCL) (rated [ICRA]AA-(Stable), MAA (Stable)/[ICRA]A1+) and Cosmopolitan Investments Limited (CIL), the parents of Duncan Engineering Limited (DEL), as the corporate guarantee by the parents has been terminated and there are no dues outstanding against the earlier limits. DEL has surrendered the bank limits (backed by corporate guarantees from its parents) with its previous bankers and availed fresh limits, without the backing of a corporate guarantee, with a new banker for which the ratings have been assigned.

The assigned ratings factor in the strong parentage of OCCL, the extensive experience of DEL in the pneumatic products industry and its established relationships with various customers and suppliers. Further, the ratings also factor in the comfortable debt protection metrics supported by adequate liquidity. The ratings are, however, constrained by the small scale of operations, coupled with limited bargaining power and stiff competition from large players. The ratings are further constrained by the vulnerability of profitability to volatility in key raw material (steel and special alloys) prices.

The company's plant had to be shut down for 43 days due to the Covid-19 pandemic from March 23, 2020 to May 6, 2020. Subsequent to the easing of lockdowns the sales picked up.

The Stable outlook on the rating reflects ICRA's opinion that DEL will continue to benefit from its long track record and established relationships with the customers in the pneumatic products industry.

Key rating drivers and their description

Credit strengths

Established track record of the company in the pneumatics products industry - DEL, incorporated in 1962, was promoted as a joint venture (JV) between Schrader Bridgeport International (SB International, a wholly owned subsidiary of Tomkins Plc), and the Duncan Group (managed by the Goenka family, the promoter of OCCL). OCCL currently holds 50.01% stake in DEL. DEL manufactures pneumatic products such as air cylinders, valves, and accessories. Over the decades, the company has established relationships with its key clients, which positively reflect into repeat orders and, thus, revenue visibility for DEL.

Moderate customer concentration with clients drawn from diversified industries - DEL caters to a diversified clientele from diverse industries, such as power, cement, machine building, steel, automotive and material handling, among others. DEL stands exposed to a moderate level of customer concentration risk as its top five clients drove about 20-30% of its operating income during the past three years. Given the diversified background of its clients across sectors, DEL exhibits moderate sector-specific and client concentration risks.

Strong parentage of OCCL - DEL is a subsidiary of OCCL, and the latter holds 50.01% stake in the company. OCCL is in the business of producing insoluble sulphur and enjoys a dominant position in the domestic market as well as a favourable position as a second supplier to all major tyre manufacturers in global markets. OCCL has provided corporate guarantees for the bank lines of DEL earlier. Additionally, OCCL would be ready to support DEL in case of any need, as per the stated intent of the management of the former.

Comfortable debt protection metrics - The operating income of the company declined marginally from Rs. 44.5 crore in FY2019 to Rs. 43.4 crore in FY2020; however, operating profits improved to Rs. 5.8 crore in FY2020 from Rs. 4.8 crore in FY2019. Following the higher operating profit, the net profit of the company improved to Rs. 3.3 crore in FY2020 from Rs. 2.8 crore in FY2019. Total debt/OPBIDTA of the company improved to 0.1 time in FY2020 from 1.4 times, while the interest coverage improved to 14.3 times in FY2020 from 6.5 times in FY2019. As per unaudited and provisional results, during 9M FY2021, the company achieved an operating income of Rs. 28.1 crore and net profits of Rs. 2.0 crore over an operating income of Rs. 32.9 crore and net profits of Rs. 4.1 crore achieved in 9M FY2020.

Credit challenges

Small scale of operations with limited bargaining power - DEL deals only in pneumatic products, which are used to control air pressure used in various machines. The scale of operations is very limited and, hence, it does not enjoy much bargaining power with its suppliers and customers.

High competitive intensity with large established players in the industry - The company faces stiff competition from domestic as well as international players such as Festo, Genetics, FMC and Parker. However, competitive pricing and good product quality enable DEL to attract repeat orders from its customers.

Vulnerability of profitability to volatility in key raw material prices - The key raw materials for the company are aluminium tubes and steel rods, whose prices are volatile. The company has limited ability to pass on any adverse fluctuations in its raw material prices due to intense competition in the industry. However, there are several suppliers of these raw materials, which mitigates the supplier concentration risk.

Liquidity position: Adequate

DEL's liquidity is expected to remain adequate owing to healthy cash generation, cash and liquid investments as well as undrawn working capital facilities aggregating to approximately Rs. 10-12 crore as of December 31, 2020. The liquidity would be sufficient for covering the repayment liabilities. The company has limited capex plans for upkeep and maintenance of the plant over the medium term.

Rating sensitivities

Positive factors –

Significant increase in the scale and cash accruals while maintaining healthy capital structure and liquidity would be positive for the ratings.

Negative factors –

Any weakening of the credit risk profile of OCCL and/or weakening of linkages of DEL with the parent and/or any significant deterioration in DEL's standalone financial profile could be negative for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Oriental Carbon and Chemicals Limited
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of DEL.

About the company

Duncan Engineering Limited, incorporated as Schrader Duncan Limited in 1962, was promoted as a JV between Schrader Bridgeport International (a wholly owned subsidiary of Tomkins Plc) and the Duncan Group (managed by the JP Goenka family). DEL manufactures automotive tyre valves and pneumatic products, such as air cylinders, valves, and accessories. The company shut down its tyre valves division in May 2016, following continuous losses incurred over several years.

Key financial indicators (audited)

DEL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	44.5	43.4
PAT (Rs. crore)	2.8	3.3
OPBDIT/OI (%)	10.9%	13.5%
PAT/OI (%)	6.3%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	1.4	0.1
Interest Coverage (times)	6.5	14.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 12, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					19-Feb-2021	20-July-2020	25-July-2019	27-July-2018	05-July-2018	17-Aug-2017
1	Cash Credit	Long Term	10.0	--	[ICRA]A+(CE) (Stable) rating withdrawn; [ICRA]A- (Stable) assigned	[ICRA]A+ (CE) (Stable)	[ICRA]AA- (SO) (Stable)	[ICRA]A+(SO) (Positive)	[ICRA]A(SO) (Positive)	[ICRA]A(SO) (Positive)
2	Non Fund Based	Short Term	1.1	--	[ICRA]A1(CE) rating withdrawn; [ICRA]A2+ assigned	[ICRA]A1 (CE)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)

&= Under watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	-	NA	10.00	[ICRA]A- (Stable)
NA	Non Fund Based	NA	-	NA	1.0	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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