October 05, 2021

Duncan Engineering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Working Capital Facility	10.00	10.00	[ICRA]A-(stable) reaffirmed
Short Term-Non fund Based Limits	1.10	1.10	[ICRA]A2+ reaffirmed
Total	**11.10**	**11.10**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in the strong parentage of Oriental Carbon & Chemicals Limited (OCCL, rated [ICRA]AA-(Stable)/[ICRA]A1+), 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.

OCCL holds 50.01% ownership in DEL and has provided support to the company in the past in the form of corporate guarantees backing the bank lines of the company although current bank limits are not backed by the corporate guarantee from the parent. DEL's cash generation has remained steady and ICRA does not expect any funding requirements to arise in the company in normal circumstances. However, in case of a distress situation ICRA does expect OCCL to extend support to DEL. With stable cash generation amid no major capex plans or debt repayments to be met, the credit profile of DEL is expected to remain healthy going forward as well. With low levels of debt, the financial leverage (Gross Debt/OPBDITA) was 0.1x by end of FY2021 and is expected to moderate further with repayment of vehicle loan. The interest coverage ratio was 22.9x in FY2021 and is expected to improve further to 35x-45x given expectation of stable operating profits and declining interest costs. The scale of operations however remains small with revenue base of Rs. 40-45 crore per annum, which limits the bargaining power of the company with suppliers as well as customers. This apart, the ratings are also constrained by the high competitive intensity with presence of large players in the industry and vulnerability of profits to adverse movement in raw materials.

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. The company 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 had provided corporate guarantees for the bank lines of DEL earlier although current bank limits are not backed by a corporate guarantee from the parent. 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- With stable cash generation amid no major capex plans or debt repayments to be met, the credit profile of DEL is expected to remain healthy going forward as well. With low levels of debt, the financial leverage (Gross Debt/OPBDITA) was 0.1x by end of FY2021 and is expected to moderate further with repayment of vehicle loan. The interest coverage ratio was 22.9x in FY2021 and is expected to improve further to 35x-45x given expectation of stable operating profits and declining interest costs

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 Rotork, Janatics, FMC, Parker etc. 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 position is expected to remain adequate going forward in light of stable cash generation, healthy un-encumbered cash balances (Rs. 6.9 crore at the end of FY2021) and unutilised bank limits. The company does not have any significant capex plans apart from Rs. 3.0 crore capex in FY2022 which is expected to be funded using internal accruals. The company does not have any major repayments as well given the repayments related to the vehicle loans are minimal vis-à-vis cash generation. Thus, the liquidity profile is expected to remain adequate going forward.

Rating sensitivities

Positive factors – Significant increase in the revenue and operating profits of the company for a sustained basis

Negative factors – Weakening of linkages of DEL with the parent, and/or Any significant deterioration in DEL's standalone financial profile and/or Weakening in the credit profile of OCCL may lead to a rating downgrade

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	ICRA factors in the parentage of Oriental Carbon & Chemicals Limited while assigning the ratings for DEL. There is a track record of support from OCCL in the form of corporate guarantees backing the bank lines of DEL in the past. ICRA expects OCCL to support DEL in a situation of distress albeit currently DEL's performance remains stable with no major funding requirements.
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 with its plant located in Ranjangaon, Pune, Maharashtra.

Key financial indicators (audited)

DEL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	43.38	41.48
PAT (Rs. crore)	3.27	7.99
OPBDIT/OI (%)	13.50%	10.89%
PAT/OI (%)	7.53%	19.26%
Total Outside Liabilities/Tangible Net Worth (times)	0.46	0.24
Total Debt/OPBDIT (times)	0.12	0.06
Interest Coverage (times)	14.28	22.86

Source: DEL's Annual Report for FY2021; ICRA estimates; 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 (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					October 5, 2021	February 19, 2021	July 20, 2020	July 25, 2019	July 27, 2018	July 5, 2018
1	Fund Based-Working Capital Facility	Long-term	10.0	-	[ICRA]A- (Stable)	[ICRA]A+(CE) (Stable) rating withdrawn; [ICRA]A- (Stable) assigned	[ICRA]A+ (CE) (Stable)	[ICRA]AA- (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A (SO) (Stable)
2	Short Term-Non fund Based Limits	Short Term	1.10	-	[ICRA]A2+	[ICRA]A1(CE) rating withdrawn; [ICRA]A2+ assigned	[ICRA]A1 (CE)	[ICRA]A1+ (SO)	[ICRA]A1 (SO)	[ICRA]A1 (SO)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based-Working Capital Facility	Simple
Short Term-Non fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Kotak Bank	Fund Based-Working Capital Facility	NA	NA	NA	10.00	[ICRA]A-(Stable)
Kotak Bank	Short Term-Non fund Based Limits	NA	NA	NA	1.10	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis-NA

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About ICRA Limited:

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