July 31, 2026

Desai Brothers Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial Sector Regulator#
Long-term – Fixed Deposit	350.00	350.00	[ICRA]A+(Stable); reaffirmed	MCA
Total	**350.00**	**350.00**		

**Instrument details are provided in Annexure I*

 # SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Rationale

The rating factors in Desai Brothers Limited's (DBL) strong position in the organised *beedi* industry, supported by its long operational track record, established brand, healthy market share in key markets, extensive distribution network, and experienced promoter group. DBL remains among the leading players in the organised *beedi* segment and has sustained its market position despite regulatory restrictions on tobacco products and intense competition from the unorganised sector. It also derives around 12% of its revenue from the snacks division, which has been growing at a faster pace (compound annual growth rate (CAGR) of 26% during FY2021-FY2026, compared with the overall revenue CAGR of 9%), albeit on a low base. The rating also draws comfort from the company's strong financial risk profile, characterised by healthy earnings and comfortable liquidity, supported by sizeable investments and steady cash flow generation.

In FY2026, DBL's revenues grew by around 9.3% to Rs. 1,859.8 crore (provisional) from Rs. 1,701.2 crore in FY2025, driven primarily by the recovery in the *beedi* division, along with continued growth in the snacks and hospitality segments. After being impacted by the inadequate availability of quality tendu leaves in FY2025, the *beedi* division recovered in FY2026, supported by improved availability and quality of tendu leaves, which aided production and volume growth. Increased volumes, along with higher realisations, led to revenue growth of around 10.0% in FY2026. Further, the snacks and hospitality divisions also registered healthy growth of around 6% and 21%, respectively, in FY2026. Going forward, DBL's revenues are expected to grow by around 5-7% in FY2027, supported by stable *beedi* volumes, the benefit of recent price increases in the *beedi* business, and the continued scale-up of the snacks division, which is expected to grow at a faster pace.

The company's operating margin recovered to around 17.5-18.0% (prov.) in FY2026 from 13.1% in FY2025, supported by moderation in tendu leaf procurement prices, improved tendu leaf quality, and lower tendu leaf consumption per 1,000 *beedi*s. However, margins are likely to moderate by 300-400 bps in FY2027, owing to cost pressures in the beedi division stemming from increases in labour costs and contractor commissions, newly implemented ESI-related provisioning, and higher tendu leaf and tobacco costs. While the company has increased beedi prices since April 2026, the same is unlikely to completely offset the increased input costs. Nevertheless, the company's financial profile is expected to remain comfortable, as indicated by Total Debt/OPBITDA of 1.0 times and interest coverage of 10.8 times in FY2026, supported by its low leverage, absence of bank borrowings, and sizeable investments.

The rating remains constrained by DBL's high dependence on the *beedi* segment, which continues to account for the bulk of its operating revenue despite gradual diversification through the snacks business. The *beedi* business remains exposed to regulatory risks associated with tobacco-related policies, packaging requirements, tendu leaf procurement norms, and labour-related issues, including uncertainty regarding the applicability of ESI to home-based workers. The company also remains vulnerable to fluctuations in the availability, quality, and prices of key raw materials, particularly tendu leaves and tobacco, as well as to competition from the unorganised sector, which benefits from lower compliance and tax costs. Although these risks are partly mitigated by DBL's strong market position, established brand loyalty, and ability to undertake calibrated price increases, they continue to remain important rating sensitivities.

The Stable outlook reflects ICRA's expectation that the company will register steady revenue growth, supported by its established market position, while maintaining a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established presence as one of the top players in the *beedi* manufacturing industry – DBL is one of the major players in the *beedi* manufacturing industry, with a production capacity of about six crore *beedi* sticks per day. Its products are sold under the trademark Desai Beedi. The company has a strong brand presence, alongside other established brands, in the fragmented *beedi* industry across Rajasthan, Haryana, and Madhya Pradesh. These states generate over 87% of DBL's revenues from the *beedi* division. Despite competition from the unorganised *beedi* segment and other tobacco products, along with restrictions on sales promotions for tobacco products, it has successfully maintained its market share, owing to its established distribution network and strong brand loyalty.

Strong distribution network – The company benefits from a robust distribution network spanning western and northern India, which ensures extensive product availability across its key markets. Its *beedi* products are distributed through a well-established network of around 323 agents, who facilitate the movement of goods from depots to wholesalers and retailers. Notably, around 40% of these agents are concentrated in Rajasthan, the company's largest market. Furthermore, the company has effectively leveraged this distribution infrastructure to expand the reach of its snacks segment, thereby enhancing overall market penetration.

Comfortable financial profile with strong liquidity position – The company has witnessed steady revenue growth at a CAGR of 9% during FY2021-FY2026, driven by a steady CAGR of 7% in the *beedi* segment and a strong CAGR of 26% in the snacks segment over the same period. The financial risk profile remains robust, characterised by a conservative capital structure with a gearing of 0.2 times and TD/OPBDITA of 1.0 times in FY2026, supported by healthy internal accruals. The debt profile comprises only fixed deposits and redeemable cumulative preference shares from shareholders and directors. Furthermore, sustained accruals over the years have led to a sizeable net worth of more than Rs. 2,120 crore as on March 31, 2026. The company's liquidity position is comfortable, supported by healthy cash and bank balances of around Rs. 49.8 crore and investment balances of Rs. 2,099 crore (valued at cost) as on March 31, 2026. Going forward, the company's financial risk profile is expected to remain robust, with TD/OPBDITA projected to stay at around 1.0-1.4 times over the medium term, supported by the absence of external debt and healthy internal accruals. The liquidity position is also likely to remain comfortable, aided by limited capex requirements, thereby enabling the company to maintain a healthy cushion of cash and investment balances.

Credit challenges

Competition from unorganised sector in *beedi* segment – The company's *beedi* segment continues to face competitive pressures, particularly from the unorganised sector, which benefits from selling cheaper *beedis*. These small-scale producers typically operate outside the ambit of tax regulations and, in several instances, engage in unauthorised use of brand names from established companies. This enables them to offer products at prices that are materially lower than those of the organised sector, thereby impacting volume sales. In response, the company has undertaken brand protection initiatives, including the deployment of vigilance officers and the adoption of complex colour schemes in its packaging, aimed at curbing counterfeiting and safeguarding brand integrity.

High revenue concentration in *beedi* business; vulnerability to Government policies, regulations, and growing health awareness – DBL derives around 87% of its total revenue from the *beedi* division and around 12% from the snacks segment, exposing the company to regulatory risks associated with the tobacco industry. The *beedi* sector, like other tobacco products, is subject to stringent regulations due to health-related concerns, including restrictions on advertising and mandatory pictorial warnings on packaging, which continue to weigh on volume growth. Further, the industry remains exposed to changes in the indirect taxation framework. Effective February 2026, while the GST rate applicable to *beedi*s was reduced from 28% to 18%, the levy of an excise duty of 10% more than offset the GST reduction, resulting in a marginal increase in the overall tax incidence on the product. Therefore, any material increase in tobacco-related taxes in the future could affect affordability in price-sensitive markets and exert pressure on volume growth. Given the health hazards associated with *beedi* consumption, the company also remains exposed to potential legal risks, including the possibility of litigation from consumers or public interest groups that could result in reputational damage, financial liabilities, or increased regulatory scrutiny, even if the company operates within the legal framework. Additionally, the procurement of tendu leaves, the primary raw material for *beedi* manufacturing, is regulated by the Government, further adding to operational challenges. Nonetheless, the rising share of the snacks segment is likely to aid in gradually reducing the company's dependence on the *beedi* business over time; however, its contribution to overall revenue is expected to remain below 15% in the medium term.

Profitability remains vulnerable to raw material price volatility and labour cost inflation – The company's profitability remains exposed to fluctuations in raw material costs, including tendu leaves and tobacco, as intense competition limits the company's ability to pass on these cost increases to its customers. The availability of quality tendu leaves and tobacco is subject to favourable weather conditions; deficient or erratic rainfall could affect their availability and quality, resulting in increased input costs and lower yields, thereby affecting margins. The company's margins are expected to come under pressure in the current fiscal owing to higher tendu leaf prices during the peak procurement season from April to June due to a demand-supply mismatch. Deficient rainfall could also affect tobacco prices during the year. In addition, labour costs are expected to increase significantly in FY2027 on account of sizeable wage revisions in the key beedi-making states of Telangana and Maharashtra. Given the price-sensitive nature of the *beedi* market, the company may not be able to fully pass on the increase in input and labour costs, which could adversely impact profitability.

Liquidity position: Strong

DBL's liquidity remains strong, supported by healthy cash and bank balances of around Rs. 49.8 crore and investments in mutual funds, bonds, and equity shares amounting to Rs. 2,099 crore (valued at cost) as on March 31, 2026. In FY2027, the company's retained cash flows are estimated at around Rs. 160-165 crore, with minimal planned capex of Rs. 10-15 crore. The company has fixed deposits from shareholders with a tenor of three years, a portion of which will mature in FY2027. However, these are expected to be rolled over; hence, cash outflows towards the same are expected to be minimal. Overall, ICRA expects DBL to comfortably meet its near-term commitments through its internal accruals while maintaining a cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade DBL's rating if the company demonstrates sustained growth in revenues and profitability, supported by stable performance in the *beedi* business and a meaningful scale-up of the snacks division, resulting in better diversification of its revenue and earnings profile. The upgrade would also consider the sustenance of its strong liquidity position.

Negative factors – Pressure on DBL's rating could arise if there is a sustained weakening in revenues or profitability because of lower *beedi* volumes, increases in tendu leaf, tobacco, or labour costs, or adverse regulatory changes affecting the tobacco business. Any sizeable shareholder payout, large debt-funded capex or acquisition, or a material decline in the company's investment/liquidity cushion could also exert pressure on the rating. A specific credit metric that could trigger a downgrade is TD/OPBDITA remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology FMCG
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statement of the rated entity.

About the company

DBL, owned and managed by the Pune-based Desai family, manufactures and sells *beedis* under its trademark brand, Desai *Beedi*. The company is one of the largest *beedi* manufacturers in India with a production capacity of around six crore sticks per day. In May 2013, DBL started the snacks business by leveraging its strength in the sale and distribution of *beedis*. It markets its snack products under the Pitaara brand and chips under the Chipseez brand. It has also invested in the renewable energy (windmills) and hospitality sectors.

Key financial indicators (audited)

DBL – Standalone	FY2025	FY2026*
Operating income	1701.2	1859.8
PAT	205.0	285.8
OPBDIT/OI	13.1%	17.8%
PAT/OI	12.1%	15.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.5	1.0
Interest coverage (times)	7.1	10.8

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

	Current (FY2027)			Chronology of rating history for the past 3 years					
				FY2026		FY2025		FY2024	
Instrument	Type	Amount rated (Rs. crore)	July 31, 2026	Date	Rating	Date	Rating	Date	Rating
Fixed Deposits	Long term	350.00	**[ICRA]A+ (Stable)**	July 31, 2025	[ICRA]A+ (Stable)	June 28, 2024	[ICRA]A+ (Stable)	June 12, 2023	[ICRA]A+ (Stable)
			-	-	-	July 12, 2024	[ICRA]A+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term - Fixed Deposits	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 analysing 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 are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook	Financial Sector Regulator#
NA	**Long Term - Fixed Deposits**	NA	11%	NA	350.00	[ICRA]A+ (Stable)	MCA

Source: Company

 # SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Annexure II: 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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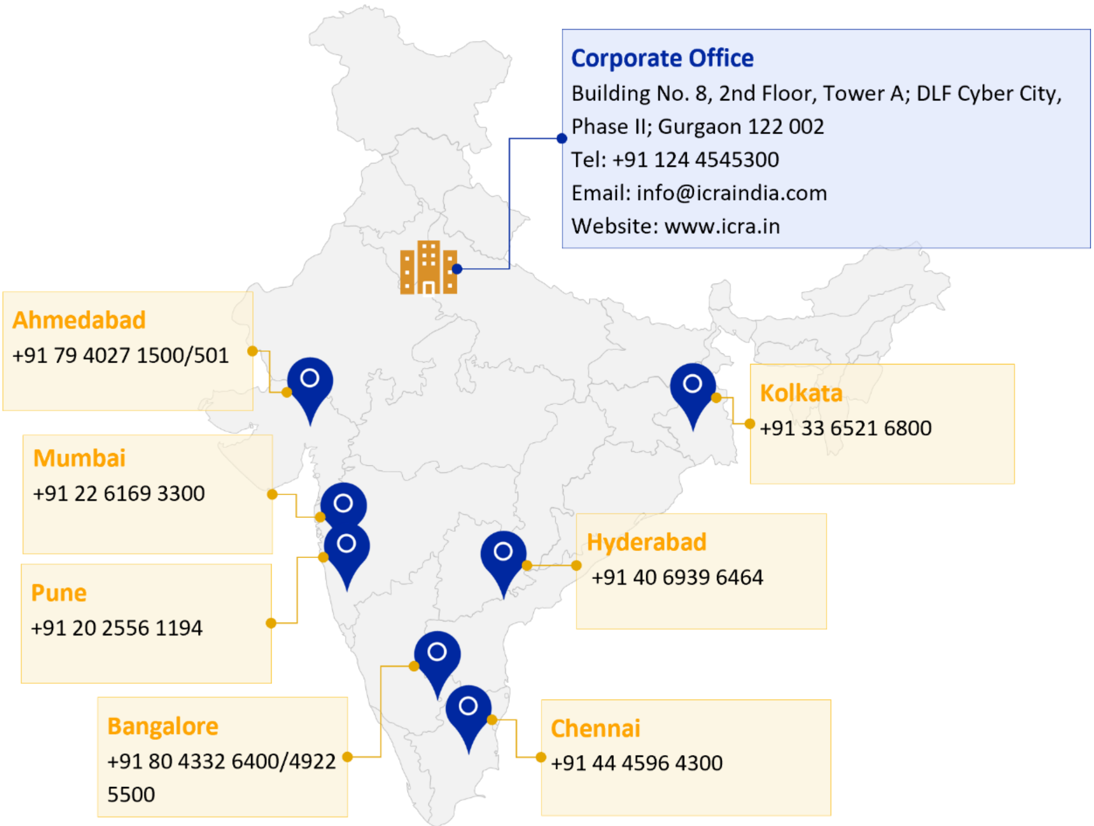

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