Duncan Engineering Limited

July 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working capital facility (SO)	15.00	9.00	[ICRA]A(SO)(Positive), reaffirmed
Short term – Non Fund based (SO)	5.50	0.81	[ICRA]A1(SO), reaffirmed
Fund based – Term loan (SO)	6.50	-	-
Short term – Fund based (SO)	3.00	-	-
Total	**30.00**	**9.81**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A(SO) [pronounced ICRA A (Structured Obligation)] to the Rs. 9.00-crore[1] (previously Rs. 24.50-crore) fund-based facilities of Duncan Engineering Limited (DEL or the Company[2]). ICRA has also reaffirmed the short-term rating at [ICRA]A1(SO) [pronounced ICRA A one (Structured Obligation)] to the Rs. 0.81-crore (previously Rs.5.50-crore) non-fund-based facilities of DEL. The outlook on the long-term rating is Positive.

The letters SO in parenthesis, suffixed to a rating symbol, stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. An SO rating does not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The rating reaffirmation is based on an irrevocable guarantee extended by Oriental Carbon & Chemicals Limited (OCCL) (rated [ICRA]A(Positive)/[ICRA]MA(Positive)/[ICRA]A1) and Cosmopolitan Investments Limited (CIL) for the Rs. 9.81-crore facilities of DEL and an undertaking from the guarantors to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

Outlook: Positive

ICRA believes DEL will continue to benefit from the extensive experience of its promoters in the pneumatic equipment industry. The outlook may be revised depending upon the change in outlook of its parent, OCCL.

Key rating drivers

Credit strengths

Unconditional and irrevocable corporate guarantee provided by OCCL and CIL – OCCL and CIL (with effect from April 12, 2018) have jointly extended an irrevocable corporate guarantee to the debt lines of DEL. While evaluating the rating for DEL, ICRA has taken rating comfort from the rating of [ICRA]A(Positive)/MA(Positive)/[ICRA]A1 assigned to OCCL.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Credit challenges

Sensitive to guarantor's rating – Due to the corporate guarantee extended, the ratings primarily reflect the credit strength of the guarantor (OCCL). Hence, any adverse movement in the rating of the guarantor might be reflected on DEL's credit profile. **Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Approach for rating debt instruments backed by third-party explicit support

About the company:

Duncan Engineering Limited, incorporated as Schrader Duncan Limited in 1962, was promoted as a joint venture between Schrader Bridgeport International (SB International, a wholly owned subsidiary of Tomkins Plc), and the Duncan group (managed by the J P Goenka family). DEL is into manufacture of 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 continual losses incurred by the division with focus currently on the pneumatic products division.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	34.2	41.1
PAT (Rs. crore)	-5.9	0.2
OPBDIT/OI (%)	-1.8%	8.5%
RoCE (%)	-10.4%	6.0%
Total Debt/TNW (times)	0.9	0.6
Total Debt/OPBDIT (times)	-24.2	2.7
Interest coverage (times)	-0.3	2.2
NWC/OI (%)	28%	15%

About the guarantors:

Incorporated in 1978 as Dharuhera Chemicals Limited (DCL), Oriental Carbon & Chemicals Limited (OCCL), a part of the Duncan J P Goenka Group, is currently engaged in the production of wide range of Insoluble Sulphur, Sulphuric Acid and Oleum which are being exported to leading tyre companies across the world. In 1983, DCL was merged with Oriental Carbon Limited (OCL), a group company engaged in the production of Carbon Black, to form OCCL. OCCL's production facility is located at Dharuhera Industrial Unit in Haryana. OCCL commenced the production of Insoluble Sulphur in 1994 and driven by the increasing demand of Insoluble Sulphur OCCL expanded its production capacity from 5,000 MTPA to 10,000 MTPA in 2005 by installation of an Export Oriented Unit. OCCL is one of the leading producer of Insoluble Sulphur, marketed as 'Diamond Sulf', which is used as a vulcanizing agent in the rubber industry.

Cosmopolitan Investments Limited (CIL) is the other guarantor which has extended irrevocable corporate guarantee to the debt lines of DEL.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Chronology of Rating History for the Past 3 Years Date & Rating in FY2018 August 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 January 2016
1	Cash Credit (SO)	Long Term	9.00		[ICRA]A(SO) (Positive)	[ICRA]A(SO) (Positive)	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Stable)
2	Non Fund Based (SO)	Short Term	0.81		[ICRA]A1(SO)	[ICRA]A1(SO)	[ICRA]A1(SO)	[ICRA]A1(SO)
3	Term Loan (SO)	Long Term	-	-	-	[ICRA]A(SO) (Positive)	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Stable)
4	Fund Based (SO)	Short Term	-	-	-	[ICRA]A1(SO)	[ICRA]A1(SO)	[ICRA]A1(SO)

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	9.00	[ICRA]A(SO) (Positive)
NA	Non Fund Based facility – Letter of Credit, Bank Guarantee, Derivative / Forward Contract/CEL	NA	-	NA	0.81	[ICRA]A1(SO)

Source: Duncan Engineering Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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