July 20, 2020

Duncan Engineering Limited: Long term rating downgraded to [ICRA]A+(CE); short term rating downgraded to [ICRA]A1(CE)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Working capital facility	9.00	9.00	[ICRA]A+(CE)(Stable); downgraded from [ICRA]AA-(CE)(Stable)
Short term-Non-fund based	0.81	0.81	[ICRA]A1(CE); downgraded from [ICRA]A1+(CE)
Total	**9.81**	**9.81**	
**Instrument details are provided in Annexure-1*			
Rating Without Explicit Credit Enhancement			**[ICRA]A-/A2+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by Oriental Carbon and Chemicals Limited (OCCL) (rated [ICRA]AA-(Stable)/[ICRA]A1+) and Cosmopolitan Investments Limited (CIL), the parent of Duncan Engineering Limited, for the rated bank line. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, OCCL.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by OCCL and CIL in the favour of said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and it does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by OCCL Limited is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A+(CE)** against the rating of [ICRA]A- without explicit credit enhancement. In case the rating of the guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

» *The guarantors would be the principal debtors jointly with the borrower and accordingly, the guarantors shall not be entitled to and also hereby waive all the rights conferred on the guarantors under Sections 133, 134, 135, 139, and 141 of the Indian Contract Act, 1872*

» *The guarantee is a continuing one for all the amounts advanced to the borrower under the said facilities as also for all interest, costs, charges, expenses and/ or other monies which may from time to time become due and remain unpaid to the bank*

» *The guarantors shall forthwith on demand by the bank deposit such sum or security as the bank may specify for the due fulfilment of their obligations*

Key rating drivers and their description

Credit strengths

Long and established track record of the company in the pneumatics manufacturing industry

DEL incorporated in 1962, was promoted as a joint venture between Schrader Bridgeport International (SB Intl, a wholly owned subsidiary of Tomkins Plc), and the Duncan group (managed by the Goenka family, which is promoter group of OCCL). OCCL currently holds 50.01% stake in DEL making it a subsidiary of OCCL. DEL is into manufacturing of pneumatic products such as air cylinders, valves, and accessories etc.

Moderate customer concentration with clients drawn from diversified industries

DEL caters to a diversified clientele belonging to different industries such as power, cement, machine building, steel, automotive, material handling, etc. The company has over the decades developed well established relations with its key clients which positively reflect into repeat orders and thus revenue visibility. DEL stands exposed to moderate level of customer concentration risk as the top 5 customers contributes to about 20-30% of the operating income for the past 3 years. Given the diversified background of clients spanning across sectors, DEL shows lower risk of sector-specific client concentration risk.

Financial flexibility owing to parentage of Oriental Carbon & Chemicals Limited (OCCL)

DEL is a subsidiary of OCCL, and the latter holds 50.01% stake in the company. OCCL currently has three production units: two at Dharuhera Industrial Unit in Haryana and one at Mundra SEZ in Gujarat and is engaged in the production of Insoluble Sulphur, Sulphuric Acid and Oleum. The production capacity of OCCL stands at 34,000 metric tonnes per annum (MTPA) for Insoluble Sulphur (IS), 46,200 MTPA for Sulphuric Acid & Oleum. OCCL has provided corporate guarantee to the bank limits of DEL; wherein the effective guarantee amount outstanding is around Rs 0.5 crore as on March 31, 2020 as against Rs. 6.69 crore as of end-FY2019. The presence of a strong parent (OCCL) enhances the financial flexibility of DEL.

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 hence it does not enjoy much bargaining power with the suppliers and customers.

High competitive intensity with the presence of large established players in the industry

The company faces stiff competition from domestic as well as international players such as Festo, Genetics, FMC, Parker etc. However, competitive pricing and fine product quality enable to get the company repeat orders from its customers.

Vulnerability of profitability to volatility in key raw material (steel and special alloys) prices

The key raw material for the company are aluminum tubes and steel rods, the prices of which are volatile. In case of any adverse fluctuation in the raw material prices the company is unable to pass on the same to the customers due to intense competition in the industry. However, there are about 100-125 suppliers of these raw materials which mitigates supplier concentration risk.

Liquidity position: Strong

The overall liquidity position of DEL is driven by the liquidity position of its guarantor, OCCL. On standalone basis, liquidity position of DEL is expected to remain strong supported by healthy cash accruals from operations, no major capex plans in the near to medium term, nil debt repayments and large undrawn bank limits.

Rating sensitivities

Positive Triggers:

- **i)** Improvement in the credit profile of the parent OCCL
- **ii)** Significant increase in the scale and cash accruals while maintaining healthy capital structure and liquidity

Negative triggers:

- **i)** Any weakening of the credit risk profile of OCCL,
- **ii)** Weakening of linkages of DEL with the parent, and
- **iii)** Any significant deterioration in DEL's standalone financial profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Oriental Carbon and Chemical Limited The ratings are based on a corporate guarantee furnished by the parent OCCL backing the bank lines of the company DEL.
Consolidation/Standalone	The rating is based on standalone financial statements of the DEL.

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 continuous losses incurred over several years.

About the guarantor:

Oriental Carbon & Chemicals (OCCL) was incorporated in 1978 as Dharuhera Chemicals Limited (DCL) and in 1983 DCL was merged with Oriental Carbon Limited (OCL), a group company engaged in the production of Carbon Black, to form OCCL. In 1994, OCCL had set-up a manufacturing facility for the production of Insoluble Sulphur, which is now the flagship product of the company as the company sold carbon black unit to Continental Carbon Company in 2000. OCCL currently has three production units: two at Dharuhera Industrial Unit in Haryana and one at Mundra SEZ in Gujarat. The company is currently engaged in the production of Insoluble Sulphur, Sulphuric Acid and Oleum. The production capacity of OCCL stands at 34,000 metric tonnes per annum (MTPA) for Insoluble Sulphur (IS), 46,200 MTPA for Sulphuric Acid & Oleum. The company is currently undertaking capex to increase the IS capacity to 45,000 MTPA and sulphuric acid capacity to 88,200 MTPA.

Cosmopolitan Investments Limited (CIL) is the other guarantor which has extended irrevocable corporate guarantee to the debt lines of DEL. CIL is a promoter entity for OCCL and has nearly 19.09% stake in OCCL at the end of June 2019.

Key financial indicators (audited)

	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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					20-July-2020	25-July-2019	27-July-2018	05-July-2018	17-Aug-2017
1	Cash Credit	Long Term	9.0	9.0	[ICRA]A+(CE) (Stable)	[ICRA]AA- (Stable)(SO)	[ICRA]A+(SO)(Positive)	[ICRA]A(SO) (Positive)	[ICRA]A(SO) (Positive)
2	Non Fund Based	Short Term	0.81	0.81	[ICRA]A1(CE) (Stable)	[ICRA]A1+ (SO)	[ICRA]A1+(SO)	[ICRA]A1(SO)	[ICRA]A1(SO)

Amount in Rs. Crore

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	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+ (CE) (Stable)
NA	Non Fund Based	NA	-	NA	0.81	[ICRA]A1(CE)

Source: DEL Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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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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