

December 27, 2023

Dharampal Satyapal Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	304.50	685.00	[ICRA]AA (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based – Term Loans	390.50	365.00	[ICRA]AA (Stable); reaffirmed
Short-term – Non-fund Based	5.00	-	[ICRA]A1+; withdrawn
Commercial Paper Programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	750.00	1100.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of Dharampal Satyapal Limited (DSL) along with its subsidiaries, collectively referred to as the Group.

The rating action factors in ICRA's opinion that the Group's core operations will remain healthy supported by DSL's leadership position in the premium *paan masala* segment and strong brand presence of 'Rajnigandha' across India through an established distribution network. Moreover, recent augmentation in the product mix, with DSL launching a new variant in the non-premium *paan masala* segment, is expected to aid volume and revenue growth, going forward. In addition, the hospitality segment is also expected to scale up, providing additional earnings for the Group. DSL's operational strengths and resulting efficiencies support its large scale of operations and healthy return metrics from core operations (core RoCE of ~28% in FY2023 as per consolidated financials). ICRA expects DSL to continue witnessing healthy earnings growth, which will enable it to sustain a conservative capital structure and also result in gradual moderation in the overall leverage. While ICRA expects the other business verticals to also start contributing to its earnings in the long-term, the *paan masala* business will continue to drive the Group's earnings in the near to medium term.

The rating, however, remains constrained by DSL's high revenue dependence on *paan masala* with a high brand concentration, which is expected to moderate only over a period of time as newly launched variants gain traction. Also, the Group's efforts to diversify into other businesses, including hospitality, agriculture and other food products, is expected to result in earnings diversity; albeit over the medium to long term. The ratings further factor in the vulnerability of DSL's revenues and profits to regulatory risks prevalent in this sector. Further, the Group's debt levels witnessed an increase to ~Rs. 1,800 crore as on March 31, 2023 from Rs. 1,531 crore as on March 31, 2022 owing to acquisition of a hotel in Bengaluru and continued investments towards various other businesses, including those in the form of inter-corporate deposits (ICDs) to external entities. Given the high gestation period across most of its business segments, except *paan masala*, DSL's return metrics remain impacted. Further, with part of the debt availed being short-term in nature, repayment or refinance obligations remain high. Any additional debt-funded loans or investments in external entities would remain key rating monitorables.

The Stable outlook on the [ICRA]AA rating reflects ICRA's expectation that DSL's operational profile will remain robust, supported by healthy profitability of the *paan masala* segment due to its established market position. This will in turn continue to support its healthy credit profile.

Key rating drivers and their description

Credit strengths

Leading market position in premium *paan masala* segment; further bolstered by new product launch in non-premium segment – DSL is the flagship company of the Dharampal Satyapal Group, which has been in the tobacco and *paan masala* business for more than 80 years. Over the years, DSL has remained one of the largest players in the Indian *paan masala* industry through its flagship brand, Rajnigandha. The company's leadership position in the premium *paan masala* segment supports its strong profitability, as reflected by its core ROCE of ~48% in FY2023, on a standalone basis. Following the consistent decline in the sales volume over FY2020 and FY2021 due to Covid-19 led restrictions, DSL's *paan masala* segment posted volume growth of ~21% and ~46% in FY2022 and FY2023, respectively. This has been supported by stable demand for the company's product in the premium *paan masala* segment. The volumes are further expected to be supported by a new product launch in the previous fiscal. The company launched a new variant named 'Mastaba' to cater to the non-premium *paan masala* segment and expand its product portfolio. This product contributed ~Rs. 250 crore in revenues in FY2023. While the new product supported the volumes, the realisations dipped owing to relatively lower pricing of 'Mastaba' than the premium product, 'Rajnigandha'.

Strong pan India distribution network – DSL's market position is supported by its established and strong, pan India distribution network (used for all products of the Group). The strength of this widespread network is reflected in the Group's demonstrated ability to push sales of new products and variants. Aided by its network, the DS Group has also successfully forayed into new product segments like spices, beverages, mouth fresheners, confectionaries and dairy products (under brands such as Pulse, Catch, Pass Pass, Chingles and Ksheer) over the years, besides maintaining a dominant position in *paan masala* and tobacco segments (under the Rajnigandha, Tulsi and Tansen brands). The company has hived off businesses catering to other products to other Group companies but continues to trade these products through its own distribution network, to a limited extent.

Strong financial profile characterised by sustained earnings growth and comfortable capital structure – Supported by its healthy profitability, DSL has consistently generated cash accruals greater than the requirement of its core business operations, resulting in low dependence on external borrowings until FY2020. However, the gross debt increased from Rs. 465 crore as on March 31, 2020 to Rs. 1,643 crore at the standalone level and Rs. 1,838 crore at the consolidated level as on March 31, 2023. The cash surpluses from its core operations and the additional debt have been utilised towards funding its diversification plans as well as other strategic investments in unrelated companies and start-ups. Nevertheless, on account of a strong capital base, DSL has maintained a strong capital structure with a gearing (Total Debt/Tangible Net Worth) at 0.4 time as on March 31, 2023, on a consolidated basis. However, its leverage (total debt/ OPBDITA¹) is slightly elevated at 2.0 times as on March 31, 2023, on a consolidated basis. The coverage indicators, despite having moderated, remain comfortable on account of healthy profitability levels as reflected by an interest cover of ~8.6 times and DSCR of ~3.7 times for FY2023 (consolidated) as against 14.9 times of interest coverage and DSCR of 4.7 times in FY2022 (consolidated). The financial risk profile is further supported by adequate liquidity position of the Group.

Credit challenges

Product concentration on Rajnigandha *paan masala* – DSL's dependence on Rajnigandha *paan masala* sales has remained high, with about ~70% of revenue share during the last three years, on a consolidated basis. While DSL had expanded its product portfolio in recent years, to include mouth fresheners, confectionaries and dairy products, shifting its confectionery business to a Group entity from mid-FY2020 has increased DSL's concentration on the *paan masala* segment from FY2021. The company in the current fiscal has also added another variant, which will be catering to the non-premium *paan masala* segment. Its foray into the hospitality sector and deployment of funds towards hydroponics/ agribusiness is expected to take time to generate meaningful revenues. This apart, the company purchased a new hotel in Bengaluru through NCLT, which is also expected to contribute additional revenues in the current fiscal, but the extent of the same is yet to be ascertained.

¹ OPBDITA: Operating profit before depreciation, interest, tax and amortisation

Regulatory risks from adverse health effects of *paan masala* – Due to its adverse health effects, *paan masala* remains susceptible to changes in Government policies for its sale. The Government disincentivises consumption of *paan masala* by levying high taxes and periodically increasing tax rates. Thus, the company’s ability to pass on the hikes in taxes remains critical for its sales growth and profits. The company also remains exposed to the risks of bans on *paan masala*, as witnessed during Covid-19 restrictions, when a temporary ban was imposed by the Government on manufacturing, sale and storage of *paan masala* and tobacco products across India, to contain the spread of Covid-19. Subsequently, the industry remains heavily taxed through GST and income tax provisions, which has also resulted in significant contingent liabilities on its books. Any impact of crystallisation of the contingent liability related to same, will also be a key rating monitorable.

Continuous deployment of cash accruals in diverse ventures with high gestation period; some non-core investments are being funded through debt – Being the DS Group’s flagship company with strong cash accruals and limited capital expenditure (capex) requirements towards its *paan masala* operations, DSL supports its diversification plans by way of investments in various ventures. In addition, the company has invested in various unrelated companies and start-ups. DSL has also substantially increased its investment in its hospitality and agriproducts businesses, which generally have a higher gestation period. Moreover, the company continues to invest towards equity and ICDs to other unrelated entities. As a result, the company has consolidated sizeable investment portfolio including loans and advances (~Rs. 2,537 crore for the consolidated entity as on March 31, 2023, which is equivalent to ~53% of its net worth). As most investments are yet to generate significant returns, it constrains DSL’s overall return metrics at present. Earlier, these investments were primarily funded by internal accruals, with minimal reliance on external borrowings. However, recently the company has utilised debt towards funding part of its investments and any further drawdown of debt to fund non-core investments will remain a key rating monitorable. Further, majority of such long-term investments have been funded through short-term debt, giving rise to asset liability mismatches and, thus, a weak current ratio. This also exposes the company to refinancing risks.

Liquidity position: Adequate

DSL’s liquidity position is adequate, led by cushion in working capital limits (unutilised working capital limits of Rs. 157 crore as on November 30th, 2023), further supported by undrawn sanctioned short-term loans (Rs. 435 crore as on November 30th, 2023). The company has free cash and liquid investments to the tune of Rs. 195 crore (as on March 31, 2023). DSL has a repayment burden of Rs. 181 crore repayments in FY2024 and Rs. 183 crore in FY2025. DSL’s liquidity profile is supported by its demonstrated ability to generate healthy cash flow from its core operations (Rs. 750-800 crore annually) and available cash and limit buffers.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company achieves a healthy growth in its scale of operations along with increased diversification across products and brands, and improvement in its return and coverage indicators on a sustained basis, while maintaining strong capital structure. Efficient working capital and cash flow management, which strengthens the liquidity position, could also be a positive rating trigger.

Negative factors – The ratings could be downgraded in case of any adverse regulatory developments for *paan masala*, resulting in a sustained pressure on the company’s revenues and profitability as well as a decline in its return indicators. Additionally, DSL’s rating could be downgraded if it undertakes higher than anticipated debt-funded investments/ acquisitions or experiences any significant stretch in its working capital cycle that weakens its liquidity profile and/or results in an increase in its leverage on a sustained basis. The Net Debt/OPBIDTA (gross debt less free cash and liquid investments) of greater than 1.5 times, on a sustained basis, may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology on FMCG Policy on Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DSL. The list of companies consolidated are shared in Annexure-II .

About the company

Incorporated in 1989, DSL is the flagship company of the DS Group, which has been in the tobacco and *paan masala* business for more than 80 years. DSL manufactures and markets *paan masala* and dairy products under the brands, Rajnigandha, Tansen and Ksheer, etc. With its flagship brand, Rajnigandha, the company is the leading player in the premium *paan masala* segment in India on the back of its strong brand appeal and widespread distribution network. *Paan masala* sales accounted for ~70% of the company's consolidated revenues in FY2023. The company has also launched a new variant to cater to the non-premium *paan masala* segment, which is expected to scale up in the current fiscal.

Previously, the company had a presence in other business segments as well. In FY2014, DSL demerged its food and beverages (F&B) and packaging divisions into separate companies, while transferring some of its investments in the hospitality, real estate and agri-businesses to new holding companies. From December 2014, DSL began shifting tobacco manufacturing into a newly formed Group entity, DS Chewing Products LLP; and in October 2019, the company also shifted its confectionery business to a Group entity, DS Confectionery Products Ltd.

Apart from the *paan masala* business, the company continues to invest towards other verticals as well including hospitality and agri-sectors. DSL also purchased a hotel property in Bangalore in the current fiscal, which is expected to shore up DSL's revenues from the hospitality sector. DSL has an estimated investment book (including loans and advances) of ~Rs 2,537 crore (as on March 31, 2023), at a consolidated level. Majority of the investment is towards equity investments, loans to companies in the form of ICDs and other companies primarily engaged in the agri-sector.

Key financial indicators (audited)

DSL Consolidated	FY2021	FY2022	FY2023
Operating income	3,233.2	3,839.0	5,125.2
PAT	516.6	637.3	573.9
OPBDIT/OI	21.8%	20.9%	18.3%
PAT/OI	16.0%	16.6%	11.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.6
Total debt/OPBDIT (times)	1.4	1.9	2.0
Interest coverage (times)	20.6	14.9	8.6

Source: Company, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
				Dec 27, 2023	Aug 31, 2023	Aug 16, 2022	May 31, 2022	Jun 28, 2021	Mar 22, 2021	Oct 27, 2020
1 Cash Credit	Long Term	685.00	685.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2 Term Loans	Long Term	365.00	365.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3 Non-fund Based	Short Term	5.0	0.0	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Commercial Paper	Short Term	50.0	50.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
5 Unallocated	Long Term	0.0	0.0	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non-fund Based	Very Simple
Commercial Paper	Very 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
NA	Cash Credit	NA	NA	NA	685.00	[ICRA]AA (Stable)
NA	Term Loans	FY2018	NA	FY2030	365.00	[ICRA]AA (Stable)
NA	Non-fund Based	NA	NA	NA	5.00	[ICRA]A1+; Withdrawn
INE818L14058	Commercial Paper	20-Oct-23	NA	12-Jan-24	50.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dharampal Satyapal Limited*	100.00%	Full Consolidation
Divyansh Powergen Private Limited	100.00%	Full Consolidation
Divyansh Hotels & Resorts Pvt Ltd (Earlier known as Mining Developers Private Limited)	100.00%	Full Consolidation
Nilanchaal Cement Private Limited	100.00%	Full Consolidation
Divyansh Cement and Infrastructure Private Limited	100.00%	Full Consolidation
Hillside Mines and Minerals Private Limited	100.00%	Full Consolidation
Mount Mines and Minerals Private Limited	100.00%	Full Consolidation
DS Confectioner Limited	100.00%	Full Consolidation
Abhisar Buildwell Private Limited	100.00%	Full Consolidation
Avichal Buildcon Private Limited	100.00%	Full Consolidation
DS Luxury Retail Limited	100.00%	Full Consolidation
Bharat Broadcasting Company Limited	100.00%	Full Consolidation
Best Broadcasting Company Limited	100.00%	Full Consolidation
DS Businesses AG, Switzerland	100.00%	Full Consolidation
DSL Global Pte. Limited, Singapore	100.00%	Full Consolidation
DS Dairy And Agri Projects Limited	100.00%	Full Consolidation
DS Dairy Farming Limited	100.00%	Full Consolidation
DS Cattle Farms Limited	100.00%	Full Consolidation
DS Agronomy Limited	100.00%	Full Consolidation
DS Agri and Cattle Farms Limited	100.00%	Full Consolidation
DS Agrarian Estates Limited	100.00%	Full Consolidation
DS India Agri and Dairy Limited	100.00%	Full Consolidation
DS Gross Dairy Products Private Limited	100.00%	Full Consolidation
Dee Pee Kagaz Udyog Private Limited	100.00%	Full Consolidation
Prive Luxury Limited	100.00%	Full Consolidation
Snow White Dairy Products Limited	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Abiba Buildtech and Consulting Pvt Ltd.	100.00%	Full Consolidation
Ultimate Farming Private Limited	100.00%	Full Consolidation
DS Farms and Estate Limited (Formerly DS Tsukioka Luxury Food Limited)	100.00%	Full Consolidation
Rishika Agrodevelopers Private Limited	100.00%	Full Consolidation
Ds Agrodevelopers Private Limited	100.00%	Full Consolidation
Talish Agroestates Private Limited	100.00%	Full Consolidation
Seasoning Cultivation Private Limited	100.00%	Full Consolidation
Floriculture Farms Private Limited	100.00%	Full Consolidation
Monoculture Agri Private Limited	100.00%	Full Consolidation
Viticulture Farming Private Limited	100.00%	Full Consolidation
Aridzone Farming Private Limited	100.00%	Full Consolidation
Rudimentary Sedentary Private Limited	100.00%	Full Consolidation
Warmagro Private Limited	100.00%	Full Consolidation
Alpharoots Farms Private Limited	100.00%	Full Consolidation
Farmlocal Farming Private Limited	100.00%	Full Consolidation
Chahak Farms Private Limited	100.00%	Full Consolidation
Vivify Farming Private Limited (Formaly Known As Vivify Skin Clinic Private Limited)	100.00%	Full Consolidation
DS Agri Tech Products Private Limited	100.00%	Full Consolidation
Cropmology Farming Limited	100.00%	Full Consolidation
Sapliculture Farming Limited	100.00%	Full Consolidation
Sumrada Agri Products Limited	100.00%	Full Consolidation
Forestillage Agri Products Limited	100.00%	Full Consolidation
DS T & R Limited	100.00%	Full Consolidation
Arbobandry Farming Limited	100.00%	Full Consolidation
Stubaker Agri Limited	100.00%	Full Consolidation
Kolkatta Hotels Limited	99.99%	Full Consolidation
DS (Assam) Hospitality Limited	97.62%	Full Consolidation
Blazing Brits Private Limited	99.99%	Full Consolidation
Seven R Hotels Pvt. Ltd.	62.76%	Full Consolidation
Grand Venice Developers Pvt. Ltd.	62.20%	Full Consolidation

Source: Company, *parent company

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