September 30, 2024

Dharampal Satyapal Limited: Ratings reaffirmed and rated amount enhanced for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	685.00	685.00	[ICRA]AA (Stable); Outstanding
Long-term – Fund-based – Term Loans	365.00	365.00	[ICRA]AA (Stable); Outstanding
Commercial Paper Programme	50.00	200.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Total	**1,100.00**	**1,250.00**	

**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 ratings action factors in DSL's leadership position and strong brand presence of Rajnigandha in the premium paan masala segment, supported by its established distribution network. However, the company's volumes in the paan masala segment declined in FY2024 following DSL's conscious decision of not scaling up sales of its new variant (launched in FY2023) in the non-premium paan masala segment. In addition, the hospitality segment is expected to scale up, providing additional earnings for the Group. While ICRA expects the other business verticals to 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.

DSL witnessed a 4% revenue growth in FY2024 with revenues touching Rs. 5,267.4 crore while the operating profit margins (OPM) declined to 15.8% in FY2024 from 18.6% in FY2023. The moderation in margins was largely on account of increase in raw material prices and higher overheads due to amalgamation of the recently acquired hotel operations. ICRA notes the gradual moderation in the overall leverage of DSL with Net Debt/OPBIDTA of 1.9 times as on March 31, 2024 compared to 1.6 times as on March 31, 2023. The assigned ratings further took into account DSL's adequate liquidity, supported by ample cash balances and free liquid investments, further supported by cushion in the working capital limits.

The ratings, however, remain constrained by DSL's high revenue dependence on the paan masala segment with a high brand concentration. 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 the paan masala segment. Moreover, the profit margins of the company remain susceptible to the volatility in the prices of key raw materials. Further, the Group's debt levels increased to ~Rs. 2,199 crore as on March 31, 2024 from ~Rs. 1,856 crore as on March 31, 2023 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 are likely to remain impacted, going forward. As a part of the debt availed is short-term in nature, repayment or refinance obligations remain high. Any additional debt-funded loans or investments in external entities would continue to remain a key rating monitorable.

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

Key rating drivers and their description

Credit strengths

Leading market position of flagship product in the premium paan masala 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 ~25% in FY2024, on a standalone basis. Following the consistent decline in the sales volume in FY2020 and FY2021 due to Covid-19 led restrictions, DSL's paan masala segment posted a volume growth of ~21% and ~46% in FY2022 and FY2023, respectively. However, the company witnessed a marginal volume decline of ~4% in FY2024, mainly due to rolling down of Mastaba variant (launched in FY2023) in the non-premium paan masala segment. Going forward, the volumes are expected to grow albeit at a slow pace.

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 distribution 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 its Group companies but continues to trade these products through its own distribution network, to a limited extent.

Credit challenges

Product concentration on Rajnigandha paan masala – DSL's dependence on Rajnigandha paan masala sales continued to remain high, with about ~67% of revenues derived from the same at a consolidated level in FY2024. While DSL had expanded its product portfolio in the recent years to include mouth fresheners, confectionaries and dairy products, DSL's concentration on the paan masala segment continues to remain high. The company in FY2024 had also added another variant, which catered to the non-premium paan masala segment, but the company is not planning to scale up its sales. Its foray into the hospitality sector and deployment of funds towards hydroponics/ agri-business is expected to take time to generate meaningful revenues. This apart, the company purchased a new hotel in Bengaluru through National Company Law Tribunal (NCLT) in July 2023, which is also expected to contribute additional revenues in the current fiscal, as only 7-8 months of its performance was consolidated in FY2024.

Regulatory risks from adverse health effects of paan masala – Owing to its adverse health effects, paan masala sales remain susceptible to changes in Government policies. 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 also resulted in significant contingent liabilities on its books. Any impact of crystallisation of the contingent liabilities related to the 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, resulting in moderation in debt metrics – As it is the DS Group's flagship company with strong cash accruals and limited capital expenditure (capex) requirements towards its paan masala operations, DSL endeavours to diversify its operations through investments in various ventures. In addition, the company has invested in various unrelated companies and start-ups. DSL has also increased its investment substantially in its hospitality and agri-products businesses, which have a higher gestation period. Moreover, the company continues to invest in equity and ICDs of other unrelated entities. As a result, the company has consolidated sizeable investment portfolio including loans and advances (~Rs. ~1,727 crore for the consolidated entity as on March 31, 2024, which is equivalent to ~33% of its net worth). As most of these investments are yet to generate significant returns, the same constrains DSL's overall return metrics. Earlier, these investments were primarily funded through internal accruals, with minimal reliance on external borrowings. In the past, the company had utilised debt towards funding a part of its investments and any further drawdown of debt to fund non-core investments will remain a key rating monitorable. Further, the major portion 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 with free cash and liquid investments worth Rs. 421[1] crore (as on March 31, 2024). Its average working capital utilisation stood at ~82% of the drawing power between June 30, 2023 and June 30, 2024. As on June 30, 2024, the company had cushion of Rs. 215 crore in its working capital drawing power backed limits, further aided by cushion of Rs. 395 crore in its non-drawing power backed limits. DSL has repayment obligations of ~Rs. 240 crore in FY2025 and Rs. 253 crore in FY2026. DSL's liquidity profile is supported by its demonstrated ability to generate healthy cash flow from its core operations (Rs. 700-800 crore annually) and available cash and limit buffers. ICRA believes that these sources are enough to meet DSL's repayment obligations.

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 improvement in its debt protection metrics and liquidity on a sustained basis.

Negative factors – Pressure on the ratings could arise if any adverse regulatory development leads to a material contraction in revenues and margins or any debt-funded acquisitions/investments lead to a material deterioration in DSL's liquidity position or debt protection metrics on a sustained basis. Specific credit metric that could lead to ratings downgrade includes Net Debt/OPBDITA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology on FMCG
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 is involved 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. The company is the leading player in the premium paan masala segment in India on the back of the strong appeal of its Rajnigandha brand and a widespread distribution network. Paan masala sales accounted for ~67% of the company's consolidated revenues in FY2024.

[1] After accounting for ICRA's haircut policy

Apart from the paan masala business, the company continues to invest in other verticals including hospitality and agri-sectors. DSL purchased a hotel property in Bangalore in FY2024 through NCLT and is currently operating the same. In FY2024, approximately 7-8 months of operations was consolidated in DSL's balance sheet.

Key financial indicators (audited)

DSL Consolidated	FY2023	FY2024
Operating income	5,062.9	5,267.4
PAT	573.9	928.1
OPBDIT/OI	18.6%	15.8%
PAT/OI	11.3%	17.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	2.0	2.6
Interest coverage (times)	8.2	4.5

Source: Company, ICRA Research; 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 rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crores)	Sep 30, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	685.00	[ICRA]AA (Stable)	27-Dec-23	[ICRA]AA (Stable)	16-Aug-22	[ICRA]AA (Stable)	28-Jun-21	[ICRA]AA (Stable)
				31-Aug-23	[ICRA]AA (Stable)	31-May-22	[ICRA]AA (Stable)	-	-
Term Loans	Long Term	365.00	[ICRA]AA (Stable)	27-Dec-23	[ICRA]AA (Stable)	16-Aug-22	[ICRA]AA (Stable)	28-Jun-21	[ICRA]AA (Stable)
				31-Aug-23	[ICRA]AA (Stable)	31-May-22	[ICRA]AA (Stable)		-
Commercial Paper	Short Term	200.00	[ICRA]A1+	27-Dec-23	[ICRA]A1+	16-Aug-22	[ICRA]A1+	28-Jun-21	[ICRA]A1+
				31-Aug-23	[ICRA]A1+	31-May-22	[ICRA]A1+	-	-
Non-fund Based	Short Term	-	-	27-Dec-23	[ICRA]A1+; Withdrawn	16-Aug-22	[ICRA]A1+	28-Jun-21	[ICRA]A1+
				31-Aug-23	[ICRA]A1+	31-May-22	[ICRA]A1+	-	-
Unallocated	Long Term	-	-	-	-	16-Aug-22	-	28-Jun-21	[ICRA]AA (Stable)
		-	-	-	-	31-May-22	[ICRA]AA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	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*	Commercial Paper	NA	NA	12-Jan-24	200.0	[ICRA]A1+

*Source: Company; *Yet to be placed*

[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

Company Name	Ownership	Consolidation Approach
Snow White Dairy Products Limited	100.00%	Full Consolidation
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

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About ICRA Limited:

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