

December 31, 2024

DS Chewing Products LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	70.00	70.00	[ICRA]A(Stable); reaffirmed
Total	70.00	70.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers ICRA's expectations that DS Chewing Products LLP's (DCPL) revenue and profitability will revive in the current fiscal post a significant dip in FY2024 on account of revision in the Goods and Service Tax (GST) structure for the industry. DCPL has hiked prices in the second half of FY2024 and in the current fiscal, which is expected to result in an uptick in its top line and in FY2025. The rating continues to factor in DCPL's established brand, Tulsi, in the chewing tobacco industry and its access to a strong distribution and sourcing network under a service agreement with Dharampal Satyapal Limited (DSL).

The rating is, however, constrained by significant regulatory risk in the form of revisions in excise tax and GST structure, which adversely impacted DCPL's financial risk profile in the past. Further, the firm has extended loans to group companies and has invested in non-core businesses, which may constrain the cash flow, going forward. The investments are long-term in nature and are primarily towards non-readily tradeable assets. Therefore, they have not generated adequate returns at present. Further, the impact of capital withdrawals by the partners and investments on DCPL's debt coverage metrics and sustenance of the same remain a rating sensitivity. High contingent liabilities in the form of excise tax and GST payments remain a concern and any crystallisation of the same, going forward, would be a key rating monitorable. While the core business has low capital requirements, ICRA expects the partners to support the firm through infusion of capital in a timely manner, as and when needed, as witnessed in the past. DCPL's reliance on a single brand and a single product segment, along with competition from other players and exposure to regulatory changes are other factors constraining the rating.

The Stable outlook on the rating reflects ICRA's view that DCPL will continue to benefit for being a part of the DS Group, its strong brand name and pan-India distribution network.

Key rating drivers and their description

Credit strengths

Established brand in the chewing tobacco industry – Tulsi is among the leading brands in the domestic premium chewing tobacco industry. Thus, DCPL benefits from the strong brand recall, which augments its ability to charge a premium vis-à-vis other competing brands. Further, ban on tobacco advertising, imposed more than a decade ago, benefits the firm as it acts as an entry barrier. While there has been a change in the ownership of the Tulsi brand, it remains with the Dharampal Satyapal (DS) Group. Subsequently, the royalty structure has also been revised and therefore, the expense of DCPL towards royalty has slightly increased from the current fiscal.

Strong pan-India distribution and sourcing network – Owing to the ban on tobacco advertising, tobacco manufacturers rely on point-of-sale (PoS) advertisement and, hence, having a dedicated distribution network is important to maintain market share. DCPL benefits from its access to a pan-India distribution network of depots, central stockists, distributors, wholesalers and retailers, which is common with other products of the DS Group for brands like Rajnigandha, Pass Pass, Pulse, Catch, etc.

Revival in revenue and profitability in the current fiscal on the back of price hikes undertaken – The firm’s profitability declined in FY2023 owing to revision in the excise structure. Subsequently, in FY2024, revision in the GST structure adversely impacted revenue and profitability. However, in the current fiscal, the firm has been able to revive its profitability by hiking prices gradually while keeping the volumes intact. The price hikes have been gradual and in phases.

Credit challenges

Vulnerability of tobacco business to Government regulations; recent revised duty structure adversely impacted revenue and profits in FY2023 and FY2024 – The firm’s profitability declined in FY2023 owing to revision in the excise structure. Subsequently, in FY2024, on account of revision in GST structure, both the revenue and profitability declined sharply. The operating income in FY2024 fell to Rs. 281.5 crore from Rs. 401.4 crore in FY2023, resulting in a dip of ~30%. Similarly, the Operating Profit Margin (OPM) also declined from 21.2% in FY2023 to 0.2% in FY2024. DCPL’s operations remain vulnerable to adverse regulatory changes.

High concentration risk with reliance on a single product and a single brand, coupled with geographical risk – Despite the business interests of partners across multiple product segments and a wide portfolio of brands, DCPL is reliant on a single product segment, i.e., flavoured tobacco and a single brand, Tulsi. In this context, ICRA notes the firm’s venture into manufacturing and exporting *pan masala* under the Group’s established brand, Rajnigandha, which is expected to help diversify its product and brand portfolios as well as geographical presence to some extent.

Funds withdrawal because of partnership constitution of firm and uncertainty on sizeable investments in non-readily tradeable assets – DCPL’s retained cash flows have remained relatively modest in the past, though sufficient, as withdrawals by partners have remained high amid minimal funding requirements, compared to the level of profits. However, in the current fiscal, the partners have infused some additional capital and have also moved funds from the current account to the capital account, which will discourage any further sizeable withdrawal. In addition, the firm has made investments in non-readily tradeable assets in the past. Continued sizeable incremental investments, increasing the firm’s reliance on external debt and affecting its liquidity, may affect its credit profile. The partners and the promoter group have been infusing capital in the form of unsecured loans primarily to fund a sizeable investment book and ICRA expects the partners to support the firm in case of any need. Loans and advances to Group companies also increased from ~Rs. 35 crore as on March 31, 2024 to ~Rs. 49 crore as on November 30, 2024. Increasing loans and advances to group firms and towards non-core business will remain a key rating monitorable.

Liquidity position: Adequate

DCPL’s liquidity profile remains adequate, supported by sufficient fund flow generation from operations, moderate cushion in working capital limits (undrawn fund-based bank facilities stood at ~Rs. 17 crore on an average in the 12-month period ending in November 2024), and free cash and bank balance of ~Rs. 44 crore as on November 30, 2024. However, cash outflows in the form of fund withdrawals by partners or non-current investments or loans to group companies, may adversely impact the firm’s liquidity profile and will remain a monitorable. Nevertheless, ICRA expects the partners to support the firm by bringing in unsecured loans in a timely manner, if needed.

Rating sensitivities

Positive factors – The rating could be upgraded, if the firm can diversify its product portfolio, along with a significant growth in its scale of operations and profit margins, resulting in a sustained improvement in cash accruals, while maintaining healthy debt coverage metrics.

Negative factors – The rating could be downgraded, in case of any sustained pressure on the firm’s revenues and profitability owing to weakening demand or any adverse changes in the Government’s taxation structure. Additionally, DCPL’s rating would be prone to a downgrade if there is any sustained moderation in its liquidity profile or if it undertakes sizeable debt-funded

investments, witnesses high withdrawals or faces crystallisation of contingent liability, increasing its leverage and moderating its coverage metrics materially on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in November 2014, DCPL is a limited liability partnership (LLP) firm owned by Mr. Rajiv Kumar and Mr. Ravinder Kumar, who are promoters of the established Dharampal Satyapal (DS) Group. The firm processes and markets flavoured tobacco (*zarda*) under the Tulsi brand. As the brand is owned by one of the group companies, DCPL pays royalty fee for the same. At present, the company has three manufacturing units in Noida (Uttar Pradesh), Guwahati (Assam) and Kandla (Gujarat).

Key financial indicators (audited)

Standalone	FY2023	FY2024	8MFY2025*
Operating income	401.4	281.5	257.5
PAT	48.9	32.4	44.5
OPBDIT/OI	21.2%	0.2%	22.6%
PAT/OI	12.2%	11.5%	17.3%
Total outside liabilities/Tangible net worth (times)	4.4	1.8	0.9
Total debt/OPBDIT (times)	2.52	350.6	1.52
Interest coverage (times)	5.7	0.0	8.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current year (FY2025)				Chronology of rating history for the past 3 years				
	Type	Amount Rated (Rs Crore)	Dec 31, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	70.00	[ICRA]A (Stable)	11-Sep-23	[ICRA]A (Stable)	-	-	18-Feb-22	[ICRA]A+ (Stable)
				16-May-23	[ICRA]A (Stable)	-	-		

				14- Apr-23	[ICRA]A (Stable)	-	-		
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Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	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	70.00	[ICRA]A(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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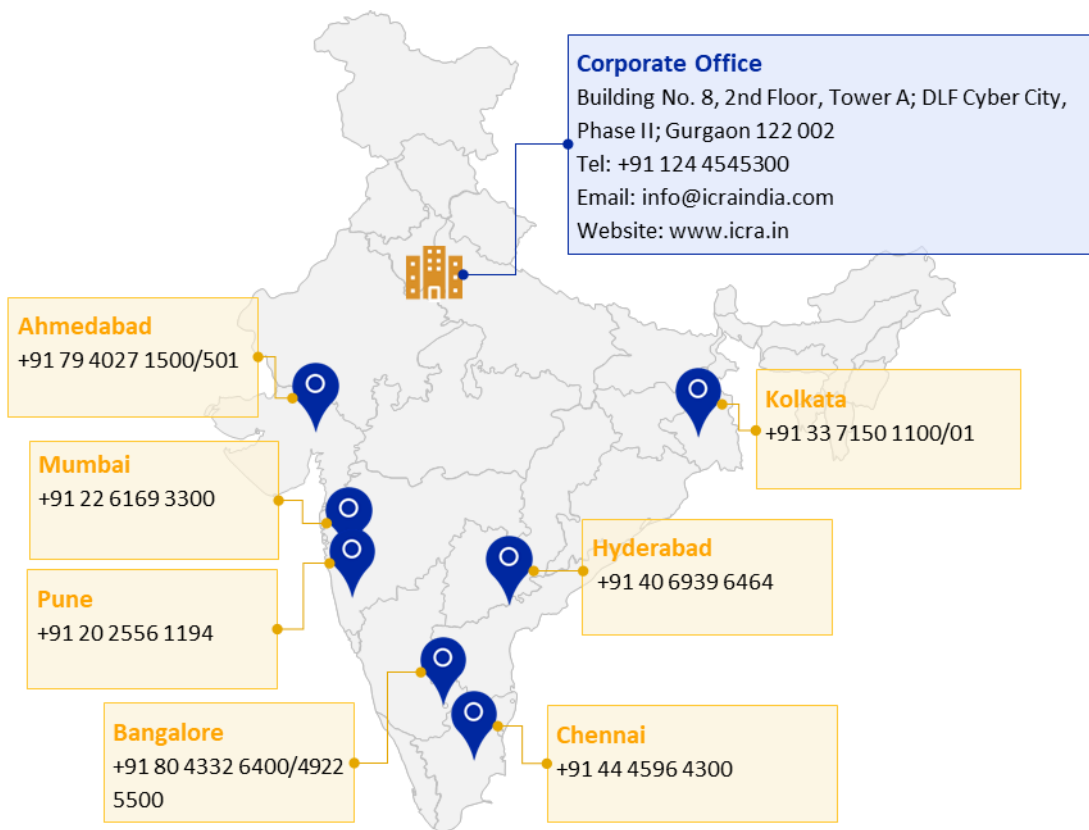
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