

January 29, 2025

Dharampal Satyapal Limited: Ratings reaffirmed

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); reaffirmed
Long-term – Fund-based – Term Loans	365.00	365.00	[ICRA]AA (Stable); reaffirmed
Commercial Paper Programme	200.00	200.00	[ICRA]A1+; reaffirmed
Total	1,250.00	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.

ICRA favourably factors DSL's leadership position and strong brand presence of Rajnigandha in the premium paan masala segment, supported by its established distribution network. 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, Mastaba (launched in FY2023). ICRA expects DSL's revenues to improve in FY2025 on the back of stable core paan masala operations and sequential improvement in performance across other verticals such as dairy and hospitality. Further, DSL's profitability is expected to improve in FY2025 following declining sales of Mastaba, which was a loss-making product for the company. DSL's profitability is also expected to be supported by the sequential improvement in the hospitality and dairy businesses and low raw material prices for the paan masala business. 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's revenue rose 4% in FY2024, but its operating profit margin (OPM) declined to 15.8% in the said year from 18.6% in FY2023. Its margins moderated mainly on account of increase in raw material prices, higher overheads due to amalgamation of the recently acquired hotel operations and increased marketing expenses to support new product launch. ICRA notes the gradual moderation in the overall leverage of DSL with Total Debt/OPBIDTA of 2.6 times as on March 31, 2024 compared to 2.0 times as on March 31, 2023. The assigned ratings also consider DSL's adequate liquidity, amid 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, are expected to result in earnings diversity, albeit over the medium-to-long term, as these businesses have high gestation period and may take time to generate commensurate returns. 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. The gross debt of the company (excluding lease liabilities) stood at Rs. 1,943 crore as on November 30, 2024. Given the high gestation period across most of its business segments, except paan masala, DSL's return metrics are likely to be impacted, going forward. Repayments remain high as a part of the debt availed is short-term in nature,. Any additional debt-funded loans or investments in external entities would continue to remain a key rating monitorable.

ICRA also notes that DSL has recently purchased the 'Tulsi' brand from another promoter entity for a consideration of Rs. 1,600 crore. Out of the total consideration, the first tranche of Rs. 600 crore has been paid in the current fiscal, and was funded through available cash balances and internal accruals. The balance payout of Rs. 1,000 crore is to be made in the next three fiscals, the impact of which on the company's cash flows will be a key monitorable.

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

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 engaged in the tobacco and paan masala business for more than 80 years. DSL is 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. The company witnessed a 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 ~70% of revenues derived from the same at a consolidated level in FY2024. While DSL has 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 launched a new variant in the non-premium paan masala segment, but the company has now decided to reduce its focus on the same. The Group's foray into the hospitality sector and deployment of funds towards hydroponics/ agri-business is expected to contribute meaningfully to the profitability over the long term.

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 and loans to external entities; some non-core investments are being funded through debt, resulting in moderation in debt metrics – Given its 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 a sizeable investment portfolio including loans and advances (~Rs. ~2,747 crore for the consolidated entity as on March 31, 2024, which is equivalent to ~52% of its net worth). As some 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. However, the company’s debt has gradually increased over the last few years and any further drawdown of debt to fund non-core investments will remain a key rating monitorable. Further, a major portion of such long-term investments was funded through short-term debt, giving rise to asset liability mismatch and, thus, a weak current ratio. This also exposes the company to refinancing risks.

Further, ICRA notes the recent purchase of ‘Tulsi’ brand by DSL to have better control and formulate a cohesive strategy towards the combined sales of ‘Rajnigandha’ and ‘Tulsi’ and also add another source of revenue through royalties. However, the same will result in a cumulative cash outflow of Rs. 1,600 crore, out of which Rs. 600 crore has already been paid in FY2025. Funding pattern for the balance payout and impact of the same on the debt metrics and cash flows of the company will be monitored.

Liquidity position: Adequate

DSL’s liquidity position is adequate with free cash and liquid investments worth Rs. 421 crore (as on March 31, 2024). Its average working capital utilisation stood at ~79% of the drawing power between January and November 2024. As on November 30, 2024, the company had cushion of ~Rs. 227 crore in its working capital drawing power backed limits, further aided by cushion of ~Rs. 130 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 further supported by its demonstrated ability to generate healthy cash flow from its core operations (Rs. 700-800 crore annually) and available cash and working capital limit buffers. ICRA believes that these sources are adequate 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 results in 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 Total Debt/OPBDITA above 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology 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.

Apart from the paan masala business, the company continues to invest in other verticals including hospitality and agricultural sectors. DSL purchased a hotel property in Bangalore in FY2024 through National Company Law Tribunal (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

Instrument	Type	Amount Rated (Rs Crore)	Current rating (FY2025)			Chronology of rating history for the past 3 years					
			Jan 29, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	685.00	[ICRA]AA (Stable)	30-Sep-24	[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)	30-Sep-24	[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+	30-Sep-24	[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)
INE818L14124	Commercial Paper	07-Nov-24	NA	03-Feb-25	100.0	[ICRA]A1+
INE818L14132	Commercial Paper	21-Jan-25	NA	17-Apr-25	100.0	[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
Avichal Buildcon Private Limited	100.00%	Full Consolidation
Bharat Broadcasting Company Limited	100.00%	Full Consolidation
Best Broadcasting Company Limited	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 Limited	100.00%	Full Consolidation
Dee Pee Kagaz Udyog Private Limited	100.00%	Full Consolidation
Snow White Dairy Products Limited	100.00%	Full Consolidation
DSL Global Pte. Limited	100.00%	Full Consolidation
DS Zambia Agronomy Limited (Became WOS of of DS Global PTE Limited (WOS))	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
DS Businesses AG	100.00%	Full Consolidation
Hotel Hirschen AG (WOS of of DS Businesses AG (WOS))	100.00%	Full Consolidation
Abiba Buildtech and Consulting Pvt Ltd	100.00%	Full Consolidation
Ultimate Farming Private Limited	100.00%	Full Consolidation
Rishika Agrodevelopers Pvt Ltd	100.00%	Full Consolidation
Ds Farms And Estates Limited	100.00%	Full Consolidation
Monoculture Agri Private Limited	100.00%	Full Consolidation
Chahak Farms Private Limited	100.00%	Full Consolidation
Farmlocal Farming Private Limited	100.00%	Full Consolidation
Floriculture Farms Private Limited	100.00%	Full Consolidation
Rudimentary Sedentary Private Limited	100.00%	Full Consolidation
Seasoning Cultivation Private Limited	100.00%	Full Consolidation
Alpharoots Farms Private Limited	100.00%	Full Consolidation
Aridzone Farming Private Limited	100.00%	Full Consolidation
Viticulture Farming Private Limited	100.00%	Full Consolidation
Talish Agroestates Private Limited	100.00%	Full Consolidation
Warmagro Private Limited	100.00%	Full Consolidation
Vivify Farming Private Limited	100.00%	Full Consolidation
DS Agrodevelopers 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 AND R Limited (formerly known as Arbobandary Farming Limited)	100.00%	Full Consolidation
Stubaker Agri Limited	100.00%	Full Consolidation
DS Agri Estates Private Limited (WOS of DS Agri Tech Products Pvt. Ltd)	100.00%	Full Consolidation
Abhaas Construction Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Aradhaya Agrodevelopers Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Dhradh Developers Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Manas Buildcon Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Spiritual Buildcon Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Spiritual Estates Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Unnatish Agrodevelopers Private Limited (WOS of DS	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Green Agrotech Private Limited)		
Vachan Developers Private Limited (WOS of DS Green Agrotech Private Limited)	100.00%	Full Consolidation
Waves Realtors Private Limited (WOS of DS Green Agrotech Private 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
Hotel Walzenhausen AG (Subsidiary of DS Businesses AG (WOS))	77.62%	Full Consolidation
Seven R Hotels Pvt. Ltd.	65.00%	Full Consolidation
Grand Venice Developers Pvt. Ltd.	89.35%	Full Consolidation
DS Luxury Retail Limited	51.00%	Full Consolidation
Prive Luxury Limited	51.00%	Full Consolidation
Kamakhya Oil Company (Partnership Firm)	70.00%	Full Consolidation
Legend Fly Private Limited	50.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Nishant Misra
+91 124 4545 862
nishant.misra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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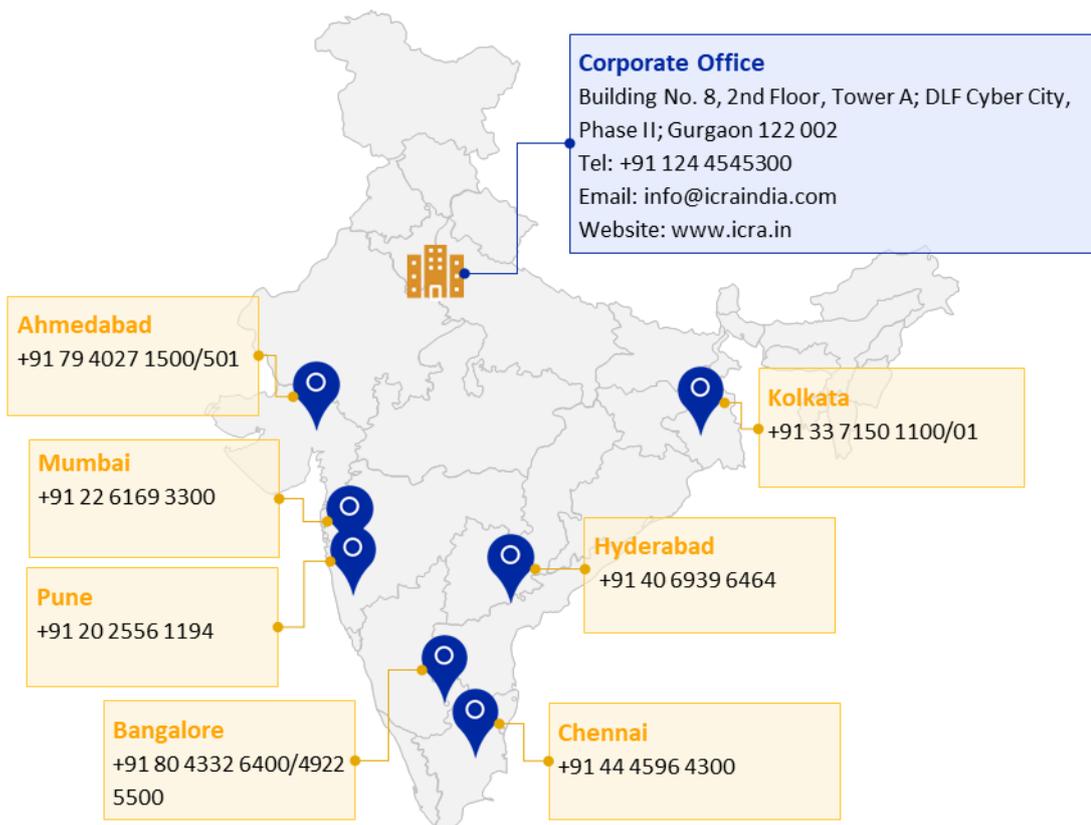
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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