

July 31, 2025 <sup>(Revised)</sup>

## Desai Brothers Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fixed Deposit	350.00	350.00	[ICRA]A+(Stable); reaffirmed
<b>Total</b>	<b>350.00</b>	<b>350.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings consider Desai Brothers Limited's (DBL) position as a leading player in the *beedi* industry, supported by its long operational track record, experienced promoters, established brand loyalty, and an extensive distribution network. The company has maintained its market position despite regulatory restrictions on tobacco product promotions and competition from the unorganised sector. The ratings also factor in its comfortable financial risk profile, supported by steady revenue growth, healthy earnings, low leverage, and a strong liquidity position over the years.

In FY2025, DBL's revenue remained largely flat at Rs. 1,690.1 crore (Rs. 1,689.3 crore in FY2024) owing to 1% de-growth in the *beedi* division on account of limited availability of the key raw material, tendu leaves. However, other divisions, snacks and hospitality, recorded a healthy growth of 9% and 23%, respectively, in FY2025. The company's revenue growth is expected to improve to 7-8% in FY2026 on the back of strong growth in the snacks division and recovery in volumes in the *beedi* division given the improved availability of quality tendu leaves. Operating margins moderated to 13.1% in FY2025 from 18.1% in FY2024, primarily owing to increase in tendu leaf prices from supply constraints and poor quality leaves, which led to higher cost of production. However, improved quality of tendu leaves and moderation in procurement prices are expected to support improvement in margins in FY2026. DBL's capital structure remains robust, with a sustained net debt negative position and strong liquidity backed by healthy cash flows.

However, the rating remains constrained by DBL's high dependence on the *beedi* segment, which operates in a highly regulated environment and faces demand risks given the potential health-related concerns with tobacco usage. Although the contribution from the snacks division has increased to 12% of revenues in FY2025 (from 3% in FY2019), the *beedi* business continues to dominate the revenue mix. The company remains exposed to movements in the prices of the key raw material with quality also playing a factor in cost of production and margins. Further, DBL also remains exposed to regulatory risks related to tendu leaf procurement, packaging norms, and distribution controls, along with intense competition from the unorganised sector.

The Stable outlook reflects ICRA's expectation that the company will record a healthy growth in revenues and earnings supported by its established market position and improved raw material availability, while maintaining a healthy financial risk profile.

### Key rating drivers and their description

#### Credit strengths

**Established presence as one of the top players in the *beedi* manufacturing industry** – DBL is one of the major players in the *beedi* manufacturing industry with a production capacity of about six crore *beedi* sticks per day. Its products are sold under the trademark, Desai Beedi. The company has a strong brand presence, along with the larger established brands, in a fragmented *beedi* industry in Rajasthan, Haryana and Madhya Pradesh. These states generate over 87% of DBL's revenues

from the *beedi* division. Despite competition from the unorganised *beedi* segment and other tobacco products, along with restrictions on sales promotions for tobacco products, it has successfully maintained its market share owing to an established distribution network and strong brand loyalty.

**Strong distribution network** – The company benefits from a robust distribution network spanning western and northern India, which ensures extensive product availability across its key markets. Its *beedi* products are distributed through a well-established network of over 320 agents, who facilitate the movement of goods from depots to wholesalers and retailers. Notably, around 40% of these agents are concentrated in Rajasthan, the company's largest market. Furthermore, the company has effectively leveraged the distribution infrastructure to expand the reach of its snacks segment, thereby enhancing overall market penetration.

**Comfortable financial profile with strong liquidity position** – The company has witnessed steady revenue growth at a compound annual growth rate (CAGR) of 9% during FY2021-FY2025, driven by steady CAGR of 7% in *beedi* segment and a strong CAGR of 31% in the snacks segment for the same period. The financial risk profile remains robust, characterised by a conservative capital structure with a gearing of 0.2 times and TD/OPBDITA of 1.5 times in FY2025, supported by healthy internal accruals. The debt profile comprises only fixed deposits and redeemable cumulative preference shares from shareholders and directors. Furthermore, sustained accruals over the years have led to a sizeable net worth of around Rs. 1,611 crore as on March 31, 2025. The company's liquidity position is comfortable, supported by healthy cash and bank balances of around Rs. 132 crore and investment balances of Rs. 1,520 crore (valued at cost) as on March 31, 2025. Going forward, the company's financial risk profile is expected to remain robust, with gearing projected to stay around 0.2 times over the medium term, supported by the absence of external debt and healthy internal accruals. The liquidity position is also likely to remain comfortable, aided by limited capex requirements and modest buyback plans, thereby enabling the company to maintain a healthy cushion of cash and investments balances.

### Credit challenges

**Competition from unorganised sector in *beedi* segment** – The company's *beedi* segment continues to face competitive pressures, particularly from the unorganised sector, which benefits from selling cheaper *beedis*. These small-scale producers typically operate outside the ambit of tax regulations and, in several instances, engage in unauthorised use of brand names from established companies. This enables them to offer products at prices that are materially lower than those of the organised sector, thereby impacting volume sales. In response, the company has undertaken brand protection initiatives, including the deployment of vigilance officers and the adoption of complex colour schemes in its packaging, aimed at curbing counterfeiting and safeguarding brand integrity.

**High revenue concentration in *beedi* business; vulnerability to Government policies, regulations, and growing health awareness** – DBL derives around 86% of its total revenue from the *beedi* division and around 12% from the snacks segment, exposing the company to regulatory risks associated with the tobacco industry. The *beedi* sector, like other tobacco products, is subject to stringent regulations due to health-related concerns, including restrictions on advertising and mandatory pictorial warnings on packaging, which continue to weigh on volume growth. Given the health hazards associated with *beedi* consumption, the company also remains exposed to potential legal risks, including the possibility of litigation from consumers or public interest groups that could result in reputational damage, financial liabilities, or increased regulatory scrutiny, even if the company operates within the legal framework. Additionally, the procurement of tendu leaves, the primary raw material for *beedi* manufacturing, is regulated by the Government, further adding to operational challenges. Nonetheless, the rising share of the snacks segment is likely to aid in gradually reducing the company's dependence on the *beedi* business over time; however, its contribution to overall revenue is expected to remain below 15% in the medium term.

**Profitability remains vulnerable to raw material price volatility** – The company's profitability remains exposed to fluctuations in raw material costs, including tendu leaves and tobacco, as intense competition limits the company's ability to pass on the same to its customers. The company's margins came under pressure in FY2025 due to a considerable firming up of key input costs, particularly tendu leaves. The adverse impact of erratic rainfall during the procurement season affected leaf quality, resulting in lower production yields and elevated procurement costs. Given the price sensitive nature of the *beedi* market, the

company was unable to fully pass on the increased costs to its customers, thereby impacting margins. However, tendu leaf prices have eased in the current fiscal, and the company has implemented annual price hikes, which are likely to aid in margin improvement over the near term.

### Liquidity position: Strong

DBL's liquidity remains strong, supported by healthy cash and bank balances of around Rs. 132 crore and investments in mutual funds, bonds and equity shares amounting to Rs. 1,520 crore (valued at cost) as on March 31, 2025. In FY2025, DBL redeemed cumulative participating redeemable preference shares of Rs. 30.8 crore and bought back equity shares worth Rs. 290.5 crore, funded through retained cash flows and surplus liquidity available. In FY2026, the company's retained cash flows are expected to range around Rs. 230-240 crore with the minimal capex of Rs. 15-20 crore planned. Overall, ICRA expects DBL to be able to meet its near-term commitments comfortably through its internal accruals and have cash surplus.

### Rating sensitivities

**Positive factors** – ICRA could upgrade DBL's rating if there is any sustained improvement in its revenue and earnings, accompanied by diversification in its business profile, while maintaining strong liquidity position on a sustained basis.

**Negative factors** – Pressure on DBL's rating could arise if the company's revenue and profitability substantially weaken, or if any large shareholder payout impacts its liquidity position, on a sustained basis. A specific metric that could result in a downgrade includes TD/OPBDITA more than 1.5 times on a sustained basis.

### Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">FMCG</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statement of the rated entity.

### About the company

DBL, owned and managed by the Pune-based Desai family, manufactures and sells *beedis* under its trademark brand, Desai Beedi. The company is one of the largest *beedi* manufacturers in India with a production capacity of around six crore sticks per day. In May 2013, DBL started the snack business by leveraging its strength in the sale and distribution of *beedis*. It markets its snack products under the Pitaara brand and chips under the Chipseez brand. It has also invested in the renewable energy (windmills) and hospitality sectors.

### Key financial indicators (audited)

DBL – Standalone	FY2024	FY2025*
Operating income	1689.3	1690.1
PAT	230.8	185.4
OPBDIT/OI	18.1%	13.1%
PAT/OI	13.7%	11.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	1.1	1.5
Interest coverage (times)	10.7	7.4

Source: Company, ICRA Research; \* Provisional numbers; 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 (FY2026)			Chronology of rating history for the past 3 years						
			FY2025		FY2024		FY2023		
Instrument	Type	Amount rated (Rs. crore)	Jul 31, 2025	Date	Rating	Date	Rating	Date	Rating
Fixed Deposits	Long term	350.00	[ICRA]A+ (Stable)	Jun-28-24	[ICRA]A+ (Stable)	Jun-12-23	[ICRA]A+ (Stable)	Apr-27-22	MAA- (Stable)
		-	-	Jul-12-24	[ICRA]A+ (Stable)	-	-	Jun-08-22	[ICRA]A+ (Stable)
		-	-	-	-	-	-	Jul-20-22	[ICRA]A+ (Stable)
Letter of Credit and Bank Guarantee	Short term	-	-	-	-	-	-	Apr-27-22	[ICRA]A1+
		-	-	-	-	-	-	Jun-08-22	[ICRA]A1+
		-	-	-	-	-	-	Jul-20-22	[ICRA]A1+; Reaffirmed and withdrawn

### Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term - Fixed Deposits	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	Long Term - Fixed Deposits	NA	11%	NA	350.00	[ICRA]A+ (Stable)

Source: Company

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

#### Corrigendum

The press release dated July 31, 2025, has been corrected with revisions as below:

The complexity indicator for the instrument 'Long-term - Fixed Deposits' has been revised to 'Very Simple' from 'Simple'.

## ANALYST CONTACTS

**Jitin Makkar**

+91 124 4545368

[jitinm@icraindia.com](mailto:jitinm@icraindia.com)

**Srikumar Krishnamurthy**

+91 44 4596 4318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Nithya Debbadi**

+91 40 6939 6416

[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

**Roshan Dugar**

+91 20 6606 9924

[roshan.dugar@icraindia.com](mailto:roshan.dugar@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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](http://www.icra.in)

## ICRA Limited



### Registered Office

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

Tel: +91 11 23357940-45



### Branches



© Copyright, 2025 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.