

Deccan Tobacco Company

| Instrument | Amount In Rs Crore | Rating Action |
|----------------|-----------------------|---------------------|
| Packing credit | 100.00 | [ICRA]A2 reaffirmed |

ICRA has reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A Two) assigned to Rs.100.00 crore¹ fund based limits of Deccan Tobacco Company (DTC)[†].

The reaffirmation of the rating favorably factors in the longstanding experience of more than three decades of the promoter in the tobacco processing and export business; and strong growth in turnover of the firm at a CAGR of 46% over the past three years; and improved operating margins in the past 2 years due to higher volume of exports wherein the margins are better than domestic sales. The ratings are further supported by the strong capital structure of the firm with low debt levels and improved networth levels owing to healthy accruals during the past two years and robust coverage metrics with interest coverage ratio of 52 times for FY2016. ICRA also notes that the industry is characterized by end products which are relatively more price inelastic.

The rating, however, continues to be constrained by high dependence of the firm's revenues on group entities with ~40% of the sales made to group entities in FY2016; and susceptibility of margins to volatility in raw tobacco prices due to limited pricing flexibility on the back of price sensitive nature of international tobacco industry and competitive pressure from countries like Brazil and Zimbabwe. The rating is further constrained by the expected decline in turnover in FY2017 due to substantial decline in the stipulated tobacco cultivation area thus impacting the volume of sales though corresponding increase in price realizations is expected to arrest the slide in turnover to a certain extent; susceptibility of tobacco availability to climatic risks and the risks associated with the partnership nature of the firm. ICRA also notes the vulnerability of the industry's growth prospects to increasing pressure on governments across the world to reduce tobacco consumption and sustained efforts in creating awareness about the ill-effects of tobacco products.

The ability of the firm to maintain its profitability and its working capital intensity at comfortable levels would be the key rating sensitivities going forward.

Firm Profile

Deccan Tobacco Company (DTC) was established in April 2010 as a partnership firm by Mr. Azizul Khan and Mr. Shafeeq Khan. The unit is registered with the Tobacco Board as a tobacco dealer. It participates in the auctions conducted by tobacco board in Andhra Pradesh and Karnataka platforms and engages in export of raw and processed tobacco, primarily Virginia Flue Cured (FCV) and Burley varieties. The firm's operations are situated in Guntur district in Andhra Pradesh.

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¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



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