Dharampal Satyapal Limited

December 14, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	485.37	705.75	[ICRA]AA-(Stable); outstanding
Long-term unallocated	414.63	189.25	[ICRA]AA-(Stable); outstanding
Short-term non-fund-based	-	5.00	[ICRA]A1+; outstanding
Long-term/Short-term interchangeable	(50.00)	(50.00)	[ICRA]AA-(Stable)/ [ICRA]A1+; outstanding
Total bank facilities	**900.00**	**900.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to draw strength from DSL's strong operational and financial profile, which is supported by its established brands, pan-India presence through a distribution network of about one million retailers, and leadership position in the premium pan-masala segment. The company enjoys pricing power given the strong brand loyalty its customers exhibit and presence in a largely price-inelastic product segment (pan-masala). This is reflected by the fact that despite a steep increase of about 40% in the price of 'Rajnigandha' pan-masala during the three-year period ending FY2017, the company's sales volume had increased by about 20%. Thus, notwithstanding the decline in sales volumes in FY2018, following a steep price hike of ¬20% post GST, ICRA does not expect a prolonged impact on DSL's pan-masala sales volumes. Moreover, the company's profit margins are expected to remain strong as adequate price hike has been implemented to offset the impact of increased tax incidence. Overall, DSL's financial profile is expected to remain strong with healthy profitability, comfortable capital structure (expected TOL/TNW of ~0.4 times for March 2019), and strong debt-coverage indicators (expected Total Debt/OPBDITA of less than 0.6 times and interest cover of more than 15 times for FY2019).

The ratings, however, continue to be constrained by vulnerability of DSL's revenues and profits to regulatory risks. Although the company is gradually transferring the tobacco business to another group entity, it will remain exposed to regulatory risks associated with the pan-masala segment. Further, over the years, the DS Group has been diversifying into various business activities, the major being hospitality business. While ICRA expects DSL to continue to generate strong cash accruals, the quantum of financial support to group entities, as witnessed in the past, along with its funding pattern, as well as scale of any major debt-funded capex, will remain key monitorables. Besides, any change in regulatory framework related to sale, marketing, taxation rate or taxation mode of DSL's products and the impact thereof will continue to be a key rating sensitivity.

Outlook: Stable

ICRA believes that DSL will maintain its leadership position in the premium pan-masala industry and will continue to benefit from its access to strong distribution network and portfolio of established brands across pan-masala, tobacco, mouth-freshener, confectionary and dairy-product segments. Further, given the comfortable capital structure and healthy profitability, DSL's financial risk profile is expected to remain strong. The outlook may be revised to 'Positive' in case of significant decline in the company's dependence upon pan-masala and tobacco product segments, while maintaining strong profitability and capital structure. The outlook may be revised to 'Negative' if operating performance deteriorates sharply, leading to low cash accruals, or if working-capital cycle elongates and constrains the liquidity.

Key rating drivers

Credit strengths

Leading market position in the premium pan-masala segment - DSL is the flagship company of the DS Group, which has been in the tobacco and pan-masala business for more than 80 years. Over the past many years, DSL has remained one of the largest players in the Indian pan-masala industry. Its flagship brand is 'Rajnigandha', through which it is estimated to hold ~90% market share in the premium pan-masala segment in the country. The premium pan-masala segment is estimated to be ~10% of the total pan-masala industry in India. The company's leadership position in the premium pan-masala segment supports strong core profitability as reflected by core Return on Capital Employed (ROCE) of about 40%.

Strong pan-India distribution network – DSL's market position is supported by its pan-India distribution network comprising about one million retailers, which is used for all products of the group. The strength of this widespread distribution network is reflected by the Group's demonstrated ability to push sales of new products and variants. Aided by this network, DS Group has successfully forayed into new product segments like spices, beverages, mouth fresheners, confectionaries, and dairy products under brands such as 'Pulse', 'Catch', 'Pass Pass', 'Chingles', 'Ksheer', besides maintaining dominant position in pan-masala and tobacco segments under the 'Rajnigandha', 'Tulsi' and 'Tansen' brands.

Demonstrated pricing power - DSL continues to enjoy pricing power given the strong brand loyalty its customers exhibit and presence in a largely price-inelastic product segment (premium pan-masala). Thus, while it implemented a steep price hike of about 20% in FY2018 to offset the impact of increased tax incidence under the GST regime, its demonstrated ability to successfully implement price hikes without having a prolonged impact on the pan-masala sales volumes provides comfort. During the three-year period ending FY2017, sales volume of 'Rajnigandha' pan-masala increased by about 20%, despite a steep hike of about 40% in its price.

Strong financial profile characterised by comfortable capital structure and strong debt-coverage indicators – Supported by the healthy and stable profitability, DSL has consistently generated cash accruals greater than the requirement of its core business operations. Thus, despite large outflows towards investments in various ventures to support the diversification plans of the DS Group, its dependence on debt and hence leverage has remained comfortable. The comfortable capital structure coupled with healthy profitability has kept the debt-coverage indicators strong, as reflected in TD/OPBDITA of 0.45 times and Interest cover of 18.3 times in FY2018.

Credit weaknesses

Product concentration towards 'Rajnigandha' pan-masala – While DSL has expanded its product portfolio to include mouth fresheners, confectionaries, and dairy products, its dependence upon 'Rajnigandha' pan-masala sales remains high with about 80% share in revenues. Further, with the gradual decline in tobacco sales due to ongoing transfer of tobacco business to a group entity, the dependence upon pan-masala may increase further.

Regulatory risks due to adverse health effects of pan-masala and tobacco products - Pan-masala and tobacco products, due to adverse health effects, remain susceptible to changes in government policies related to sale. The government disincentivises consumption by levying high taxes and periodically increasing tax rates on sale of these products. Thus, the ability of the company to pass on these hikes in taxes remains critical for sales growth and profits. Apart from taxation, there have been instances of temporary ban on sales of these products in some states. Although the company is gradually transferring the tobacco business to another Group entity, it will remain exposed to regulatory risks associated with pan-masala segment.

Continuous deployment of cash accruals in diverse ventures which do not contribute much to profits - Given its strong cash accruals, DSL, as the flagship company of the DS Group, has been supporting the diversification plans of the Group by way of investments in various ventures. While DSL had demerged many of its investments in food & beverage, packaging, hotels, real estate and agriculture in FY2014, it has continued to invest in these ventures. As a result, the company has a large investment portfolio (~Rs. 1,337 crore as on March 2018, equivalent to ¬48% of its net worth), with exposure in hospitality, rubber thread manufacturing, flexible packaging, apparel retail etc, which is not generating any significant returns for DSL at present. Nevertheless, ICRA draws comfort from the fact that some of these investments are discretionary in nature and are subject to availability of cash flows.

Liquidity Position

DSL's liquidity profile remains healthy, as reflected by its ability to generate free cash flows from core operations and low utilisation of its fund-based working capital limits, which averaged at ~20% during the six-month period ending November 2018. ICRA, however, notes that due to variation in production and sales levels, there is seasonality in working capital requirements, leading to relatively higher utilisation of working capital limits during certain months.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the FMCG Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	While ICRA reviews the standalone as well as consolidated financials for the company, the rating is primarily based on the standalone business and financial risk analysis as it is the principal driver for the group's credit risk. While doing so, ICRA does factor in the financial support being extended and expected to be extended by the company to various group entities, in its analysis.

About the company

Incorporated in 1989, DSL is the flagship company of the DS Group, which has been in the tobacco and pan-masala business for more than 80 years. DSL manufactures and markets pan-masala, mouth fresheners, confectionaries, dairy products, and chewing tobacco, under the brands 'Rajnigandha', 'Tansen', 'Pass Pass', 'Chingles', 'Pulse', 'Ksheer', 'Tulsi' etc. The company, under its flagship brand 'Rajnigandha', is the leading player in the premium pan-masala industry in India on the back of its strong brand appeal and a widespread distribution network. Pan-masala sales account for ~80% of the company's standalone revenues at present.

From December 2014, DSL began the process of shifting tobacco sales out of DSL and into a newly-formed entity within the Group. With gradual transfers, its product portfolio is expected to become tobacco-free in medium term. During FY2014, DSL also demerged its food, beverage and packaging divisions into separate companies, while also transferring some of its investments in hospitality, real estate and agriculture to new holding companies.

Key Financial Indicators (Audited)

	FY2016		FY2017		FY2018	
	Standalone	Consolidated	Standalone	Consolidated	Standalone	Consolidated
Operating Income (Rs. crore)	4,413	4,497	4,551	4,656	3,751	NA
PAT (Rs. crore)	500	628	335	307	262	NA
OPBDIT/ OI (%)	18.4%	18.0%	21.2%	20.6%	20.9%	NA
RoCE (%)	21.6%	28.2%	23.8%	24.8%	17.7%	NA
						NA
Total Debt/ TNW (times)	0.4	0.5	0.3	0.4	0.1	NA
Total Debt/ OPBDIT (times)	1.1	1.3	0.8	0.9	0.4	NA
Interest coverage (times)	6.6	5.7	8.6	7.4	18.3	NA
NWC/ OI (%)	14%	15%	18%	20%	19%	NA

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital
Source: DSL's Annual Reports

Status of non-cooperation with previous CRA: Not applicable

Any other information: Consolidated financials of the company for FY2018 are not yet available and have accordingly been reviewed up to FY2017.

Rating history for last three years

	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016		
					Dec 2018	Apr 2018	Jun 2017	Apr 2017	Apr 2016	Jan 2016	Aug 2015	Apr 2015
1	Cash Credit	Long Term	600.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Term Loans	Long Term	105.75	105*	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Unallocated	Long Term	189.25	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Long-term/ Short-term Interchangeable	Long Term/ Short Term	(50.00)	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-
4	Long-term non-fund based	Long Term	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
5	Short-term fund-based	Short Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6	Short-term non-fund-based	Short Term	5.00	-	[ICRA]A1+	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
7	Commercial Paper	Short Term	-	-	-	Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
8	NCD	Long Term	-	-	-	Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)

**as on March 31, 2018*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	600.00	[ICRA]AA- (Stable)
NA	Long-term/Short-term Interchangeable	-	-	-	(50.00)	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Term Loan 1	Jun 2015	-	May 2019	2.15	[ICRA]AA- (Stable)
NA	Term Loan 2	Mar 2017	-	Mar 2022	97.00	[ICRA]AA- (Stable)
NA	Term Loan 3	Aug 2016	-	May 2019	6.60	[ICRA]AA- (Stable)
NA	LER	-	-	-	5.00	[ICRA]A1+
NA	Unallocated	-	-	-	189.25	[ICRA]AA- (Stable)

Source: DSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kamakhya Oil Company[1]	50%	Limited Consolidation: To factor-in the impact of the credit profile of these entities on DSL, ICRA has considered the ongoing and expected future funding interchange among them.
DS Spiceco Pvt Ltd[2]	Group Company	
Dharampal Satyapal Sons Private Ltd[3]	Group Company	
DS Chewing Products LLP[4]	Group Company	
DS Jaipur Hospitality Private Ltd[5]	Group Company	
Kolkatta Hotels Limited	99%	
DS (Assam) Hospitality Limited[6]	97%	

Note: DSL's consolidated financials for FY2018 are not available. In FY2017, the company had 37 subsidiaries, associates, and JVs, including the three mentioned in table above.

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[1] The firm is engaged in extraction and sale of sandalwood oil, which is primarily supplied to DSL. ICRA has [ICRA]AA-(SO) (Stable) and [ICRA]A1+ (SO) ratings outstanding for bank lines of the firm.

[2] DS Spiceco Pvt Ltd was one of the six previous business undertakings of DSL that were de-merged in FY2014. ICRA has [ICRA]A+ (SO) (Stable) rating outstanding for bank lines of the company.

[3] Dharampal Satyapal Sons Private Limited owns various brands of DS Group including Catch, Tulsi, and Pass Pass and receives royalty from group companies for using the brands.

[4] DS Chewing Products LLP is involved in processing and marketing of flavoured tobacco (zarda) under the brand Tulsi. DS Group's tobacco business is being gradually shifted from DSL to DS Chewing Products LLP. ICRA has [ICRA]A+ (Stable) rating outstanding for bank lines of the firm.

[5] The company has set up a five-star hotel in Jaipur under the brand 'Crowne Plaza'. ICRA has [ICRA]A (S) (Stable) rating outstanding for bank lines of the company.

[6] The company has set up a five-star hotel in Guwahati under the brand 'Radisson Blu'.

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About ICRA Limited:

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