

## Rating Advisory

July 26, 2019 | Mumbai

### Dukes Products India Limited

#### Advisory as on July 26, 2019

This rating advisory is provided in relation to the rating of Dukes Products India Limited

The key rating sensitivity factors for the rating include:

- Scale of operations and profitability margins
- Working capital management
- Capital expenditure (capex) plans and its funding pattern

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Dukes Products India Limited (DPIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If DPIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the Company

Set up in 1995, RFPL, the flagship company of the group, is engaged in manufacture and sale of biscuits and confectionary.

The Dukes group was set up in 1988 by Mr. Kedarnath Agarwal and his family members. The group manufactures biscuits, cream wafers, chocolates, and confectionery, which are sold under the brands, Dukes and Treff in India and abroad, respectively. It is headquartered in Hyderabad.

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## Rating Rationale

February 14, 2019 | Mumbai

### Dukes Products India Limited

*Rating removed from 'Watch developing'; Rating Reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.15 Crore
Long Term Rating	CRISIL A/Stable (Removed from 'Rating Watch with Developing Implications'; Rating reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has removed its rating on the bank facilities of Dukes Products India Limited (DPIL; part of the Dukes group) from 'Rating Watch with Developing Implications' and reaffirmed the rating at '**CRISIL A**' and assigned a '**Stable**' outlook to it.

The rating was placed on watch Nov 19, 2018, following I-T raids on of promoter directors of Ravi Foods Private Limited (RFPL; part of the Dukes group). The rating has been removed from watch following clarifications from the management that there was no impact on the operations because of raids and CRISIL's belief that the raids will not impact the business and financial risk profile of Dukes Group. The management has also informed that no withdrawals will be made from the group for meeting any unforeseen liability arising out of I-T raids.

The ratings continues to reflect an established market position in the biscuits and confectionary segment supported by a wide product portfolio, geographical reach, and reputed brand. The ratings also factor in efficient working capital management, and a strong financial risk profile marked by large net worth, low gearing, and robust debt protection metrics. These rating strengths are partially offset by exposure to intense industry competition, and susceptibility of profitability margins to volatility in raw material prices and in foreign exchange rates.

#### Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of RFPL, DPIL, Kamala International Exim Pvt Ltd, Dukes Consumer Care Limited, Disha Foods Pvt Ltd, Pahal Foods Pvt Ltd, Ankit Biscuits Pvt Ltd, Singhani Foods International, Badami Foods, Kamala Consumer Care Pvt Ltd, Paragon Consumer Care Pvt Ltd, Pahal Exim Foods Ltd, and Harsh Bakers. This is because these entities, collectively referred to as the Dukes group, have common promoters, are in the same line of business, and have significant operational linkages and fungible cash flows.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

## **Key Rating Drivers & Detailed Description**

### **Strengths**

#### **\* Established market position in biscuits and confectionary segment supported by its wide product portfolio, geographical reach, and reputed brand**

The group's established market position stems from its strong brand, superior product quality, and a wide distribution network. The group has a diversified portfolio of biscuits across categories.

#### **\* Strong financial risk profile**

The group's net worth is expected to be around at Rs.492 crores as on March 31, 2019; it has seen a significant improvement from Rs.383 crores as on March 31, 2017 on the back of healthy accretions to reserves. The TOL/TNW of the group is expected to remain low at 0.86 times as on March 31, 2019. The healthy profitability levels, along with low debt levels, have resulted in robust debt protection measures; the group's interest coverage and net cash accruals to total debt (NCATD) ratios were around 4.9 times and 25 per cent, respectively for fiscal 2019.

#### **\* Efficient working capital management**

The Dukes group manages its working capital efficiently as reflected in estimated gross current assets (GCA) of 139 days as on March 31, 2019. The moderate GCAs are on account of moderate inventory of around 45 days and receivables cycle of around 45 days.

### **Weakness**

#### **\* Exposure to intense competition in biscuits industry**

The Dukes group is a moderate sized player in the biscuits and confectionary industry, which is dominated by large national players such as Britannia Industries Ltd (Britannia; 'CRISIL AAA/Stable/CRISIL A1+'), Nestle India Limited ('CRISIL AAA/Stable/CRISIL A1+'), and Parle Products Pvt Ltd (Parle). Large players such as Britannia, Parle, and ITC Ltd benefit from economies of scale, large portfolio of fast-moving consumer goods products, and aggressive marketing strategy, leading to higher bargaining power with their distributors. The group's profitability margins will remain moderate over the medium term on account of its exposure to intense competition in the biscuits and confectionaries segment.

#### **\* Susceptibility of profitability margins to volatility in raw material prices and fluctuations in foreign exchange rates**

The biscuits segment is price-sensitive, with little product differentiation, especially in the low-end biscuits segment. Consequently, players have limited ability to pass on increases in raw material prices. Moreover, the Dukes group derives more than 35 per cent of its revenues from exports and hence its margins are susceptible to volatility in foreign exchange rates.

### **Liquidity**

Liquidity is adequate with group likely to generate cash accrual of over Rs 100 crore over the medium term against debt obligation of Rs 25-30 crore and moderate utilization of bank lines.

### **Outlook: Stable**

CRISIL believes that the Dukes group will continue to benefit over the medium term from its healthy brand recognition and established market position. The outlook may be revised to 'Positive' in case of significant growth in revenues coupled with diversification, while the operating margin and working capital requirements improve. The outlook may be revised to 'Negative' if a significant stretch in working capital requirement or debt-funded capex result in higher debt, or if revenue or profitability declines significantly, thereby weakening the business risk profile.

### **About the Company**

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## Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs.Cr	1274	1082
Profit After Tax (PAT)	Rs.Cr	58	47
PAT Margins	%	4.5	4.4
Adjusted Debt/Adjusted Networth	Times	0.65	0.69
Interest coverage	Times	5.1	4.8

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Working Capital Demand Loan	NA	NA	NA	15	CRISIL A/Stable

## Annexure - List of entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Ravi Foods Pvt Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Ankit Biscuits Pvt Ltd.	Full	Same line of business, and have a common management and fungible cash flows.
Badami Foods	Full	Same line of business, and have a common management and fungible cash flows.
Pahal Foods Pvt Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Disha Foods Pvt Ltd.	Full	Same line of business, and have a common management and fungible cash flows.
Dukes Consumer Care Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Dukes Products (India) Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Kamala International Exim Pvt Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Pahal Foods Exim Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Singhania Foods International	Full	Same line of business, and have a common management and fungible cash flows.
Harsh Bakers	Full	Same line of business, and have a common management and fungible cash flows.
Kamala Consumer Care Pvt Ltd	Full	Same line of business, and have a common management and fungible cash flows.
Paragon Consumer Care Pvt Ltd	Full	Same line of business, and have a common management and fungible cash flows.

## Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	15.00	CRISIL A/Stable			19-11-18	CRISIL A/Watch Developing			21-12-16	CRISIL A/Stable	CRISIL A-/Positive
						04-01-18	CRISIL A/Stable					

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Working Capital Demand Loan	15	CRISIL A/Stable	Cash Credit	15	CRISIL A/Watch Developing
Total	15	--	Total	15	--

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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