

## Chandigarh Distillers & Bottlers Ltd

April 19, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	53.20 (Reduced from 70.02 )	CARE BBB+ (Triple B Plus; Outlook: Stable)	Revised from CARE A- (Single A Minus)
<b>Total Facilities</b>	<b>53.20</b> <b>(Rupees Fifty Three crore and twenty lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale& Key Rating Drivers

The revision in the rating assigned to the bank facilities of Chandigarh Distillers & Bottlers Ltd (CDBL) factors in the higher than envisaged support to the group companies during FY16 (refers to the period April 1 and March 31) and 10MFY17 (refers to the period April 1 to January 31), caused by the deterioration in the financial risk profile of the group companies. Furthermore, the investments by CDBL are long term in nature and chances of near term recoupment remain low.

However, the rating continues to draw strength from the company's consistent track record of growth and profitability, broad product portfolio, comfortable solvency indicators and long established relationship with United Spirit Ltd (USL).

The above strengths continue to be constrained by risk of fluctuation of raw material prices, presence in a highly regulated industry with huge burden of duties and taxes and regional concentration of business.

Going forward, any adverse change in debt profile of CDBL given the propensity to support the promoter group companies along with the ability of the company to maintain its consistent growth in total operating income and profitability would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Track record of profitable operations with consistent growth**

CDBL, incorporated in 1986, enjoys an established track record of more than two decades in the liquor industry. CDBL has been consistently showing growth in scale of operations over the years driven by increase in volumes as well as improvement in realizations.

##### **Tie up with United Spirits Ltd (USL)**

CDBL entered into an agreement with USL (in 1992 and renewed in 2003) for manufacturing on priority basis various brands of Indian Made Foreign Liquor (IMFL) wherein USL used the facility of CDBL to produce and sell its brands in Northern India. The agreement has been modified into a bottling lease agreement effective April 1, 2012 which has been further renewed upto June 30, 2020.

##### **Broad product portfolio**

CDBL's product portfolio includes IMFL, country liquor, ENA/RS, Industrial Alcohol/Denatured spirits. For country liquor segment, Excise Commissioner State of Punjab allocates yearly quota to various distilleries for supplying to the prospective licensees. Besides, the company is also selling Country Liquor in the State of Himachal Pradesh, Haryana and Delhi. The company has its own brands Malwa No. 1, Jugni, Dollar and Jalwa in the country liquor category. The excess RS and ENA are sold to various leading manufacturers of potable alcohol through commission agents. Prices of ENA and RS are not regulated by excise authorities and hence are market driven.

##### **High entry barriers**

Liquor policies governing its production and sale are entirely controlled by respective State governments. With all the alcohol consuming States/Union Territories having their own regulations and entry-exit restrictions, it is very difficult for new entrants to get licenses thus providing a competitive advantage to existing players. However, the States have been reasonably flexible in granting expansion of existing capacity to meet demands. This acts in favor of incumbents as new players find it difficult to start.

##### **Moderate financial risk profile**

The financial risk profile of CDBL is marked by moderate profitability, comfortable overall gearing and debt service coverage indicators.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

During FY16, CDBL registered a moderation in total operating income by 4% to Rs.515.53 crore from 538.73 crore in FY15 due to focus of the company towards the higher margin yielding DDGS (increase in sales by 95% to Rs. 75.88 crore during FY16) despite the decline in price realization from ENA and Country Liquor (due to increasing factoring of DDGS in the pricing by the industry/Government). This along with improvement in efficiency of the production process for CDBL improved the PBILDT margin to 8.98% in FY16 (P.Y: 8.02%). Improvement in operating profitability has meant increase in PAT Margins from 1.82% in FY15 to 2.63% in FY16 although high interest cost outlay and depreciation costs mean PAT margin continue to remain at moderate levels.

The debt service coverage parameters of the company continues to remain comfortable with long term debt equity ratio and overall gearing at 0.41 times and 0.42 times respectively as on March 31, 2016. The interest coverage for FY16 stood at 4.31 times (P.Y: 5.07 times). The Total Debt-to-Gross Cash Accruals (TD/GCA) remains comfortable at 2.73 times as on March 31, 2016 (2.79 times as on March 31, 2015).

### Key Rating Weaknesses

#### ***Increased investment in group companies***

CDBL has been investing in various group companies engaged in hydro power projects and distillation business. CDBL has investment of Rs.184.27 crore (Rs.149.47 crore as on March 31, 2015) in its group companies, on a total net-worth base of Rs.180.25 crore as on March 31, 2016. Further during 10MFY17, CDBL's exposure in group companies has increased by Rs.24.05 crore to Rs.208.32 crore as on January 31, 2017 which has been funded from either internal accruals or unsecured loans (Rs.1.98 crore) raised from the promoters. Furthermore, CDBL has availed long term credit from suppliers (Rs.40 crore due outstanding as on March 31, 2016) who have extended credit of upto 3 years to the company which has been used for investment in group companies.

Given the majority of the investments in the group companies by CDBL are long term in nature and in companies having weak financial risk profile, the near term recoupment of the investments are expected to be low. Also, the decision of the Bihar Govt to not renew licences of distilleries operating in Bihar w.e.f. April 1, 2017, although being contested in the Patna High Court by Bihar Distilleries and Bottlers Pvt Ltd (BDBPL), a group company, could, further impact the debt servicing ability of BDBPL and strain the cash flows of CDBL.

#### ***Highly regulated industry***

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. As a result, there are difficulties in transfer of production from one state to another along with huge burden of duties and taxes. The state controls the licenses for production, distributorship and retailing also.

#### ***Cyclicity in raw material prices mitigated by capability to use multiple raw materials***

The margins are highly susceptible to the volatility in the price of grains and Molasses. The prices of grains and molasses are governed by various factors including the supply of molasses which is in turn dependent upon sugar cane production, government regulations, demand from other sectors like biodiesel etc. CDBL has flexibility to shift its production between grains and molasses when prices of one move in adverse direction.

**Analytical approach:** Standalone

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

Chandigarh Distillers & Bottlers Ltd. (CDBL) was promoted by Mr Suresh Kumar Modi and his son Mr Amit Kumar Modi in April 1986 as a private limited company. The company was converted into a public limited company in 1992.

CDBL is engaged in manufacture of Rectified Spirit (RS), Extra Neutral Alcohol (ENA), Industrial Alcohol (IA) and Denatured spirits (DS) with an installed capacity of 1,08,900 KL of RS per annum, as on March 31, 2016. The company is also engaged in sale of own brands of Country Liquor. In 1992, CDBL entered into a licensing arrangement with United Spirits Ltd. (USL) to manufacture various McDowell brands of IMFL which was renewed in May 2014. The agreement with USL has been amended into a bottling lease agreement effective April 1, 2012. The bottling agreement is valid upto June 30, 2020.

During FY16 (refers to the period April 1 to March 31), CDBL reported the total income of Rs.515.53 crore (P.Y: Rs.538.73 crore) with PAT of Rs.13.57 crore (P.Y: Rs.11.35 crore). During 9MFY17 (provisional- refers to the period April 1 to December 31), CDBL has registered a total income of Rs.401.89 crore with PAT of Rs.10.31 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	Aug-2025	33.20	CARE BBB+; Stable
Fund-based-Long Term	-	-	-	20.00	CARE BBB+; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	33.20	CARE BBB+; Stable	-	1)CARE A- (10-May-16)	1)CARE A (28-Apr-15)	1)CARE A (15-Apr-14)
2.	Fund-based-Long Term	LT	20.00	CARE BBB+; Stable	-	1)CARE A- (10-May-16)	1)CARE A (28-Apr-15)	1)CARE A (15-Apr-14)

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