Jai Maa Bagheshwari and Co.

January 04, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3.60	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	7.40	CARE A4 (A Four)	Assigned
Total Bank Facilities	**11.00 (₹ Eleven Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Jai Maa Bagheshwari and Co (JMBC) are tempered by tender driven nature of business with low networth base along with moderate profitability margins. The ratings also remain tempered on account of presence of the firm in highly regulated and competitive liquor industry along with Partnership constitution of JMBC. The ratings, however, draws comfort from firm getting back-to-back liquor license and having option to renew the same and experienced promoters with over a decade into the business.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- ✓ Significant increase in scale of operation over Rs.150 crore on a sustained basis
- ✓ Increase in number of retail shops on a sustained basis
- ✓ Change in the constitution of the firm

Negative factors – Factors that could lead to negative rating action/downgrade:

- × Decline in PBILDT margin below 5% on a sustained basis.
- × Deterioration in TOI below Rs.75 crore.
- × Withdrawal of capital resulting in overall gearing going over 1x times on a sustained basis.

Detailed description of the key rating drivers

Key rating weaknesses

Presence in highly regulated liquor industry: Liquor is a state subject and hence, each state formulates its own policies and there are no uniform nation-wide laws governing the sector. There are restrictions on the inter-state movement of liquor and such movement invites a tax which has a significant bearing on the pricing of the final product and curtails profitability to a large extent. Further, the excise duty differs from state to state which makes it difficult to price products uniformly across all states. Moreover, few states like Gujarat, Bihar and Nagaland have enforced a total prohibition on sale and consumption of liquor. Thus, liquor industry is controlled by the respective State Government in terms of distribution and taxes etc.

Partnership constitution of the business: Given the partnership nature of business, the ability to raise capital and expand business gets restricted for firm. JMBC being a partnership firm is exposed to inherent risk of capital withdrawal by partners & also, the firm being dissolved upon the death/retirement/insolvency of the partners. Any substantial withdrawals from partner's capital account would impact the net worth and thereby the gearing levels.

Tender driven nature of business and Significant dependence on principal supplier: The MP Govt. excise department opens the bidding of alcohol distribution rights via online portal, where one can participate by issuing 5% DD (Demand Draft) of total fee which is needed for bidding purpose. Then the highest bidder gets the distribution rights. Here BG (Bank Guarantee) of 10% is used for achieving the distribution rights. Once the firm gets the tender then they have to pay the total amount in 12 equal amounts. JMBC operates in tender-based environment which is characterized by intense competition and fragmented nature of industry resulting in moderate operating profit margins for the firm. The growth of business depends entirely upon the firm's ability to successfully bid for liquor license and emerge as the highest bidder. Here principal supplier being the MP State government which opens bidding for the distribution rights. Thereby exposes to supplier concentration risk.

Geographical Concentration with operations confined to Dhar District of MP State: JMBC firm consists of 3 partners, operating 17 retail shops in Dhar District of Madhya Pradesh State, hence, the business is exposed to geographical concentration risk. All sales takes place in those 17 liquor retail shops in Dhar district. However, MSP being pre-determined by the MP State government, JMBC earns a stable profit due to difference between MSP and MRP being constant over the years. Also, JMBC has the option to choose the liquor they want to sell on their retail shops, making it favourable to them as such JMBC has the option to sell the high margin goods to customers and keeping only those which has the highest sales in the region.

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

Small scale of operations; Albeit significant growth in TOI in FY22: During FY22, TOI of the firm has significantly grown by 108.75% to Rs.99.13 Crore (vis-à-vis Rs.47.48 crore in FY21) owing to successfully bidding for high amount of liquor license. Further, the networth base of the firm continued to remain low at Rs.2.84 crore as on March 31, 2022. Despite established track record of more than a decade of running the business the scale of operations of the firm continues to remain small, coupled with low net-worth base, which further limits the financial flexibility of the firm during exigencies and industry downturn.

Key rating strengths
Experienced promoters: JMBC was established as a partnership firm in the year 2020. The operations are managed by Mr. Vijay bahadur Singh who has an experience of more than 20 years in liquor industry. He is supported by two other partners Mr. Mahendra Kumar Gadwal and Mr. Mahesh Malviya, having more than a decade of experience in liquor industry. The partners look after day-to-day affairs of the business with support from a shop managing personnel. Being in the industry for over a decade coupled with the experience of the promoters, JMBC has established itself as a reputed liquor seller with its 17 registered retail shops in Dhar district of MP state.
Stable Profitability margins, albeit improved in FY22: JMBC being trading nature of business gets the inventory (alcohol) from government (MP State excise department) with a fixed MSP and MRP. Accordingly, the firm is not allowed to buy below MSP or sell above the MRP, leading JMBC to earn from the difference, and it makes the profitability margins stable. The PBILDT margin in FY22 improved by 275 bps from 4.93% in FY21 to 7.68% in FY22, primarily led by better economies of scale.

Liquidity: Adequate
Liquidity is marked by adequate cash and bank balance of Rs.2.48 crore against no repayment obligation. With a nil gearing as of March 31, 2022, against 0.58x in March 31, 2021, the firm has sufficient gearing headroom, to raise additional debt for opening up of new retail shop to expand the trading operations. Also, JMBC reported a positive CFO of Rs.9.72 crore as on FY22 as against positive Rs.2.34 as on FY21.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

About the company
Jai Maa Bagheshwari and Co. (JMBC) is a Partnership firm formed on January 2020 situated in Dhar district of Madhya Pradesh (MP). The firm is engaged into the business of Purchase and sale of liquor and related products licensed by state Government of Madhya Pradesh. The firm bids/apply for Liquor license opened by the excise department of Madhya Pradesh state and after successfully achieving the tender the firm sells the alcohol from their 17 registered retail shops (Operated by the firm) in Dhar District across villages or cities.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (UA)
Total operating income	47.48	99.13	100.00
PBILDT	2.34	7.61	NA
PAT	2.27	7.44	NA
Overall gearing (times)	0.58	0.00	NA
Interest coverage (times)	19.28	46.02	NA

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Nil
Current Year Performance: JMBC has achieved a Total operating revenue of Rs.100 crore in 8MFY23.
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3
Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facility	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	3.60	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.40	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	3.60	CARE BB-; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	7.40	CARE A4				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facility	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Manohar S Annappanavar
Phone: 8655770150
E-mail: manohar.annappanavar@careedge.in

Relationship contact
Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

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