

## Age Old Spirits

April 05, 2022

### Rating

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	11.00	CARE BB-; Stable (Double B Minus; Outlook: Stable )	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
<b>Total Bank Facilities</b>	<b>11.00 (Rs. Eleven Core Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings to the bank facilities of Age Old Spirits (AOS) continue to be constrained by thin profitability, highly leveraged capital structure which mainly comprises of Unsecured loans from relatives, working capital-intensive nature of operations, partnership nature of constitution and vulnerability to government regulations. The ratings, however, derives comfort from the vast experience of the promoters and established relationship with its supplier namely Pernod Ricard India Private Limited (Seagram). The ratings also take note of the impact of COVID-19 on the operational and financial performance of the company.

### Positive Sensitivity: Factors that could lead to positive rating action/upgrade:

- ✓ Increase in scale of operations beyond Rs.300 crore along with maintaining of the operating margins at the current level.
- ✓ Sustained improvement in capital structure on account of reduced working capital borrowing either through unsecured loans or bank limits, particularly overall gearing in the range of 3.0x-4.0x

### Negative Sensitivities: Factors that could lead to negative rating action/downgrade

- ✗ Decline in PBILDT margin to below 1.50%
- ✗ Substantial deterioration in the size of operations i.e. the total operating income falling by more than 30%
- ✗ Any additional debt in the company which will lead to a more leveraged capital structure resulting in significant deterioration in its overall gearing.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Financial risk profile is marked by weak capital structure and weak debt coverage metrics

The debt profile of the firm consisted of working capital borrowings of Rs.10.65 crore and unsecured loan of Rs. 29.51 crore against the thin net worth of Rs.1.79 crore as on March 31, 2021. The unsecured loans are from relatives and are interest bearing in nature. Overall gearing continues to remain high at 22.43x as on March 31 2021 as against 22.48x as on March 31, 2020. Further, the total debt to GCA of the firm improved to 12.15x in FY21 as against 41.25 in FY20, however the same continued to remain high.

#### Growth in scale of operations, marginal improvement in profitability margins

During FY21 AOS's total operating income (TOI) stood at Rs.257.42 crore registering a y-o-y growth of ~2.68%. The revenue is driven by volume sales growth across different brands of IMFL particularly `Imperial Blue whiskey` and `Royal Stag` which are the highest selling products of AOS. The PBILDT margin continues to remain low and stood at 2.63% in FY21 as against 2.58% in FY20 owing to limited value addition nature of business. Further, PAT margin improved to 1.22% in FY21 from 0.38% in FY20.

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### **Significant dependence on principal supplier**

The firm is in the business of distribution of IMFL in the designated territory of Nagpur, Maharashtra. The firm has informal agreements with the PRIL Company Limited for the distribution of its products which is renewed annually. Thus it makes the firm vulnerable to the risk of change in policy by the principal with regards to distributorship. AOS is associated with PRIPL since last 5 year. Till FY18 the entity was holding distributorship of SabMillers India Private limited which has been discontinued from FY19.

### **Partnership constitution of the business**

Given the partnership nature of business, the ability to raise capital and expand business gets restricted for firm. AOS being a partnership firm is exposed to the inherent risk of capital withdrawal by partners and 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. During FY21, the partners of AOS withdrew Rs.0.34 crore of capital leading to weakening of the capital structure. The partner's capital as on March 31, 2021 remained at Rs.1.79 crore as against Rs.2.13 crore as on March 31, 2020. The capital withdrawn by the partners during FY20 was on account of meeting the expenses which was raised as a result of the construction of a godown which will currently be used by the partner for his personal purpose. Also a part of the capital withdrawn was used for meeting personal expenditures.

### **Presence in the 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.

### **Working capital intensive nature of operations**

The working capital requirements are met through the cash credit and unsecured loans. AOS gives around 40 days of credit to its customers. Though the inventory fluctuates depending upon the demand and supply scenario, the company usually keeps stock of around 20-30 days. Against this, the company receives 10-15 days of credit from PRIL. On account of limited credit from suppliers, the company is dependent on working capital limits. The operating cycle of the company remained largely stable at 52 days for FY21 as against 55 days for FY20. The utilisation for the last 12 months until February 2022 remained at 45%.

### **Key Rating Strengths.**

#### **Established presence of experienced partners and distributorship for reputed brand**

AOS has a track record of more than two decades in the liquor trading business and has established presence due to exclusive distributorship and long presence in the business. AOS is a partnership firm with pre-dominant control of the Dewani family. Mr. Girish Dewani is a lawyer and first generation entrepreneur and manages day-to-day affairs of the firm. He has an experience of 24 years in the liquor industry. Mr. Suryadev Dewani and Mr. Arjun Dewani (second generation Dewani Family) are partners in the firm. Experience of the partners has resulted in obtaining wholesaler distributorship for well-known brand of Pernod Ricard (Seagram's) and Sabmillers (AB- inBev).

#### **Distributorship for reputed brands along with diversified customer portfolio**

The firm has distribution rights for Whisky (Imperial Blue, Royal Stag), Vodka and Rum of Pernod Ricard. The majority of revenue generated was from the sales of Imperial Blue, Royal Stag, Blenders Pride and Absolute Vodka during FY21 and 9MFY22. The firm supplies these products directly to more than 500 retailers through the various permit rooms.

#### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

[Rating Methodology - Wholesale Trading](#)

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### About the Company

Age Old Spirits (AOS) is a partnership firm, established in 1994, Nagpur (Maharashtra), engaged in trading of Indian Made Foreign Liquor (IMFL). The trading license is renewed every year on March 31, by the State Excise Department. The entity is promoted by members of the Dewani family, who have extensive experience in liquor trading and have established presence in the field through group companies including Premier Liquor India Limited (PLIL; rated CARE BB+; Stable (INC) Revised and moved to INC on March 11, 2022). The group is also engaged in liquor bottling, real estate, coal mining and retail distribution for electronic goods among others. The firm primarily is an exclusive distributor for established IMFL brands such as `Imperial Blue`, `Royal Stag`, `Blenders Pride`, `Absolute Vodaka` etc. from the sole supplier Pernod Ricard India Private Limited (Seagram). The agreement is renewed on a yearly basis. Till FY18 the entity was holding distributorship of Sab Millers India private limited (AB- inBev) which the entity has discontinued from FY19. The firm caters to entire Nagpur region to more than 650 retail outlets.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	250.68	257.42	185.00
PBILDT	6.34	6.80	NA
PAT	0.96	3.14	NA
Overall gearing (times)	22.48	22.43	NA
Interest coverage (times)	1.22	1.89	NA

A: Audited, NA: Not Available

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

**Any other information:** Not Applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE:** Not Applicable

**Disclosure of Interest of Managing Director & CEO:** Not Applicable

**Rating History:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.00	CARE BB-; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	11.00	CARE BB-; Stable	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (17-Mar-22)	1)CARE BB-; Stable (11-Feb-21)	1)CARE BB-; Stable (21-Jan-20)	1)CARE BB-; Stable (28-Jan-19) 2)CARE BB-; Stable (07-Jan-19)

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

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**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	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 instrument:** CARE Ratings Ltd. 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.

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**About CARE Ratings Limited:**

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