

## Kamla Shivhare

April 06, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4.70	<b>CARE C; Stable</b> (Single C; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.36 (Enhanced from 3.00)	<b>CARE C; Stable / CARE A4</b> (Single C ; Outlook: Stable / A Four)	Reaffirmed
<b>Total Facilities</b>	<b>12.06</b> (Rs. Twelve Crore and Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kamla Shivhare (Kamla) (Partner in Shivhare Liquor (SHL) and Prabha Stars (PS)), engaged into the business of retailing of alcohol are primarily constrained on account of nil income during FY21 (Provisional, FY refers to April 2020 to March 2021) as no shops were allocated to Kamla. The ratings are constrained due to uncertainty in allocation/distribution of liquor shop license during auction process, high business risk due to regulated nature of liquor industry along with proprietorship nature of constitution.

However, the ratings derive strength from experienced proprietor along with moderate overall risk profile SHL and PS (where kamla is partner and bank facilities of kamla are utilised to bid tender). Further, the ratings take into consideration favourable demand outlook with steady increase in consumption of alcohol.

### Rating Sensitivities

#### Positive Factor

- Improvement in Total Operating Income (TOI) with TOI more than Rs.70 crore
- Sustained improvement in PBILDT margin above 4%
- Sustained improvement in capital structure with overall gearing less than 3 times.
- Efficient management of its fund based and non-fund based limits

#### Negative Factor

- Decrease in licenses received for retail shops and any changes in government regulation which adversely impacts the operations
- Deterioration of liquidity position
- Deterioration of solvency position with overall gearing more than 10 times

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **No shop allocation during FY21**

During FY21, Kamla has not generated any income from operations on account of non-allotment of licence to trade as per change in government policy. It reported TOI of Rs.56.17 during FY20.

Further during 9MFY22 (Provisional), Kamla registered TOI of Rs.7.40 crore.

##### **Uncertainty in allocation/distribution of liquor shop license during auction process**

As per liquor policy of Madhya Pradesh Government, every year shop licenses are issued through tender and successful bidders get license for trading for a period of one year for a specific location and have to go through similar process every year for renewal of licenses. For the licenses, bidders have to pay certain amount of advance fees in cash and certain percentage of bank guarantee (BG).

Every year as per policy, the liquor shop operators in every district are given option for auto-renewal of licenses with stipulated escalation subject to receipt of consent of minimum 70% of shop operators else all shops would go for normal auction process resulting in uncertainty on renewal of licenses.

##### **High business risk due to regulated nature of liquor industry**

The Indian liquor industry is highly regulated. The industry is witnessing high taxes and numerous regulations from government which impact the pricing flexibility of the industry. The State Governments levy various duties license fee, state level import and export duty, bottling fee, welfare levy, assessment fee, franchise fee, turnover tax, surcharge etc. The state governments are also given liberty to enact the bye-laws for liquor industry on their own; hence any significant policy changes adversely affect the whole industry.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.

## Key Rating Strengths

### **Moderate financial risk profile of SL and PS**

During FY21, Kamla's bank facilities were used for her partnership firms viz. SL and PS in order to make them eligible to bid tenders. PS has generated income of Rs.543.24 crore and SL has generated income of Rs.767.05 crore. During FY21, profitability remained thin being it a trading nature of business marked by PBILDT margin 0.86% (PS) and 1.32% (SL) along with PAT margin of 0.67% (PS) and 1.01 (SL).

The capital structure of both the firm remained comfortable marked by overall gearing of 0.87 times (PS) and 0.42 times (SL) as on March 31, 2021. Debt coverage indicators also remained comfortable marked by interest coverage of 4.56 times (PS) and 4.44 times (SL) during FY21 and TDGCA of 1.26 times (PS) and 1.57 times (SL) as on March 31, 2021.

### **Vast experience of partners in liquor trading business**

The management of the company has vast experience in the liquor industry, being present in the industry since long period of time through the group - Shivhare. The group has other associate concerns namely Ram Swaroop Shivhare, Gopal Shivhare, Laxmi Narayan Shivhare, Kalpna Shivhare, Kamla Shivhare, Vinum Traders Pvt Ltd, Ranjeet Shivhare and Rahul Shivhare which are engaged in similar business activity. The overall affairs of the firm are managed by Mr Rahul Shivhare. Further, the proprietor is assisted by a team of experienced personnel.

### **Favourable demand outlook with steady increase in consumption of alcohol**

Indian Liquor industry is one of the growing industries despite being subjected to high taxes and innumerable regulations by government. Country Liquor (CL) shares more than 50% of total liquor consumption on account of low cost and easy availability. However, in last five years Indian Made Foreign Liquor (IMFL) segment has seen higher growth rate of around 10-12% than CL whose growth rate was around 5-8%. The factors such as rising income levels and changing mind-sets which are more open to the consumption of alcoholic beverages drives the growth of IMFL segment. In addition, changing consumer preference towards premium varieties have resulted in improvement in sales mix of industry. Hence, Indian liquor industry is envisaged to continue the trend of steady growth supported by increasing demand led volume growth.

### **Liquidity: Stretched**

Average utilization of fund based and non-fund based working capital limit remained full for the past 12 months ending February 2022. During FY21, Kamla's bank facilities has been a support for his other partnership firms namely Prabha Stars (PS) and Shivhare Liquors (SL) in order to cater the orders received by them.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

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

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

[Rating Methodology - Wholesale Trading](#)

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

[Criteria for Short Term Instruments](#)

### **About the firm**

Madhya Pradesh based Kamla Shivhare (Kamla) was formed in 1995 as a proprietorship concern by Mrs Kamla Shivhare. The shops are allotted in Madhya Pradesh by the state government through a competitive bidding process for a period of one year. The company's product profile comprises almost all the major brands of IMFL such as Seagram, Signature, Mc Dowells No.1, DIG whisky among others. The firm has license of 8 shops in FY19-20.

However, due to change in government policy during FY21, Kamla Shivhare was not allotted licence to trade liquor. Further business activity was executed through two other partnership firms "Prabha Star (PS) and Shivhare Liquors (SL)" for FY21.

Shivhare Liquor group has entities namely Ram Swaroop Shivhare, Gopal Shivhare, Laxminarayan Shivhare, Kalpana Shivhare, Kamla Shivhare, Gopal Shivhare, Vinum Traders Pvt Ltd, Ranjeet Shivhare, Shriram & Co, Shivhare Liquors, Prabha Star and Rahul Shivhare which are engaged in similar business activity.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	71.65	NA	7.40
PBILDT	1.61	NA	NA
PAT	0.51	NA	
Overall gearing (times)	8.31	NA	
Interest coverage (times)	1.47	NA	

\*A: Audited; Prov.: Provisional, NA: Not available

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

**Any other information:** None

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

**Annexure-1: Details of Instruments / 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		-	-	-	4.70	CARE C; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	7.36	CARE C; Stable / CARE A4

**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	4.70	CARE C; Stable	-	1)CARE C; Stable (26-Mar-21) 2)CARE C; Stable (28-Apr-20)	1)CARE D; ISSUER NOT COOPERATING* (31-Dec-19)	1)CARE D (17-Sep-18) 2)CARE D; ISSUER NOT COOPERATING* (31-Aug-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	7.36	CARE C; Stable / CARE A4	-	1)CARE C; Stable / CARE A4 (26-Mar-21) 2)CARE C; Stable / CARE A4 (28-Apr-20)	1)CARE D / CARE D; ISSUER NOT COOPERATING* (31-Dec-19)	1)CARE D / CARE D (17-Sep-18) 2)CARE D / CARE D; ISSUER NOT COOPERATING* (31-Aug-18)

\* Long Term / Short Term

**Annexure 3: Covenants of rated instrument/facility:** Not Applicable

**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
2	Non-fund-based - LT/ 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 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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