

Gopal Shivhare

April 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.00	CARE C; Stable (Single C; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	12.00 (Enhanced from 3.00)	CARE C; Stable / CARE A4 (Single C; Outlook: Stable / A Four)	Reaffirmed
Total Facilities	17.00 (Rs. Seventeen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gopal Shivhare (GOPAL) (Partner in Shivhare Liquor (SL) and Shriram and Co (SAC)), engaged into the business of retailing of alcohol are primarily constrained on account of 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. Further, the ratings remained constrained due to negligible income with no shop allocation during FY21 along with moderate networth as on March 31, 2021 (Provisional; refers to the period April 1 to March 31).

However, the ratings derive strength from experienced proprietor along with moderate overall risk profile SL and SAC. 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.50 crore
- Sustained improvement in PBILDT margin above 4%
- Sustained improvement in capital structure with overall gearing less than 5 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

Modest income with no shop allocation

During FY21, GOPAL has not generated any income from operations on account of non-allotment of licence to trade as per change in government policy as against Rs.71.65 crore in FY20. However, it registered income from other sources at Rs.0.95 crore (interest income from FD, profits from partnership firm etc). Further, tangible networth remained at Rs.2.20 crore as on March 31, 2021 and reported net profit of Rs.0.14 crore for FY21.

Further during 9MFY22 (Provisional), GOPAL registered TOI of Rs.5.26 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.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Key Rating Strengths

Moderate financial risk profile of SAC and SL

During FY21, GOPAL's bank facilities were used for his other partnership firms viz. SAC and SL in order to make them eligible to bid tenders. SAC has generated TOI of Rs.358.07 crore and SL has generated TOI of Rs.767.05 crore. During FY21, Profitability remained thin being it a trading nature of business marked by PBILDT margin 1.55% (SAC) and 1.32% (SL) along with PAT margin of 0.79% (SAC) and 1.01 (SL).

The capital structure of both the firm remained comfortable marked by overall gearing of 0.37 times (SAC) and 0.42 times (SL) as on March 31, 2021. Debt coverage indicators also remained comfortable marked by interest coverage of 5.12 times (SAC) and 4.44 times (SL) during FY21 and TDGCA of 1.30 times (SAC) 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, GOPAL's bank facilities has been a support for his other partnership firms namely Shriram and Company (SAC) 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 Gopal Shivhare (GS) was formed in 2006 as a proprietorship concern by Mr Gopal Shivhare. He is engaged in Liquor Trading business and the shops are allotted in Madhya Pradesh by the state government through a competitive bidding process for a period of one year. The firm's product profile comprises almost all the major brands of Indian Made Foreign Liquor (IMFL) such as Seagram, Signature, Mc Dowells No.1, DIG whisky among others.

However, due to change in government policy during FY21, Gopal Shivhare was not allotted licence to trade liquor. Further business activity was executed through two other partnership firms "Shriram & Co and Shivhare Liquors" for FY21 where GOPAL is a partner.

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	5.26
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		-	-	-	5.00	CARE C; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	12.00	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	5.00	CARE C; Stable	-	1)CARE C; Stable (26-Mar-21) 2)CARE C; Stable (27-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*	12.00	CARE C; Stable / CARE A4	-	1)CARE C; Stable / CARE A4 (26-Mar-21) 2)CARE C; Stable / CARE A4 (27-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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