Khoday India Limited

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00	CARE B+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Khoday India Limited (KIL) factors in declining scale of its liquor manufacturing operations impacting its cash accrual generations vis-à-vis high upcoming debt repayments translating into stressed debt service coverage ratio. The rating also takes into account long operating cycle, company's presence in highly regulated environment and competitive nature of the industry. The rating, however, positively factor in well-established presence of the company, resourceful promoters and their century long experience in diverse business operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scale of operations of IMFL above Rs. 100 Cr along with segment earning PBDIT margins of more than 9% so that DSCR is above 1.05x.

Negative factors

- Lower than envisaged support from promoters.
- Any additional debt availed by the company leading to moderation in debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that KIL will continue to sustain its performance aided by its long presence in Southern India region and will continue to benefit from long-standing experience of its promoters.

Detailed description of the key rating drivers:

Key weaknesses

Moderate performance when compared to pre covid level

Though company witnessed increase in revenue in FY23 to Rs. 120 Cr (FY22: Rs. 81 Cr) owing to temperate demand for its products, however, due to high competition, liquor sales were impacted over the last 2 years. Sales of liquor division declined from ~Rs 500 Cr during pre-covid level to merely Rs. 130 Cr in FY24. Company has registered revenue of Rs. 22 Cr in H1FY24. Nevertheless, PBILDT margins of the company improved and stood at 12.38% as on March 31, 2023, as against 9.34% as on March 31, 2022, as the company earned realty income during the year. As such, liquor segment business continues to incur losses.

Competitive nature of the industry

The domestic Indian made foreign liquor (IMFL) industry is characterised by intense competition, presence of large players with well established brands and distribution network impacts the sales of the company. Further, the organized alcohol industry is dominated by very few large players. Further, high taxation and heavy regulation also make the industry dynamics complex. The regulations at state levels are prone to unanticipated changes which exposes the industry to such regulatory risk. Consequently, it is very difficult for a new entrant to operate in such a regulated environment which provides a competitive advantage to the existing players.

Expose to regulatory risk

The industry is vulnerable to the norms and regulations imposed by the government. Also, the prices are controlled by government regulations. The industry is tightly governed by state government which holds the power to control sales and distribution. Ban on all forms of direct and indirect advertising for liquor in the country makes difficult for a company to advertise their products in the market and thus affects sales of the company. Further Government levies various duties like excise duty, sales tax, license fee, Counter veiling Duty etc. which varies from state to state, fluctuation in the same impacts the profitability margins of the company.

Long working capital cycle

Given nature of business, company has to keep inventory for maturation which varies from 3 years to 8 years because of which the working capital cycle of the company remains elongated. In FY23, the operating cycle stood at 490 days (FY22: 664 days).

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

Average collection period increased from 84 days in FY22 to 96 days in FY23. The average working capital utilisation during the 12 months ended December 31 ,2023 stood at 90%.

Key strengths

Diverse presence in pan India

The company has an extensive operational track record and an established presence in the domestic IMFL market through its flagship brand, Khoday XXX rum. KIL's portfolio includes other established brands like Peter Scot Whiskey, Red Knight Whiskey, Khodays XXX Rum, Hercules XXX Rum, Hercules XXX White Rum, Hercules Beer, Constantino Brandy and Honeywell Brandy. The company has diverse distribution network and has a strong presence in the southern region. In FY23, southern region contributed 58% of the total sales.

Steady support in the form of unsecured loans from promoters

The promoters have infused Rs. 184.03 crore in the form of unsecured loans till March 31, 2023, to fund KIL's losses and repayment obligations. These loans have no interest or scheduled repayment obligations and are subordinated to the external debt. During H1FY24, promoters have infused around Rs. 18 Cr in the business. In addition to continuing to support company's liquidity and cash flow needs, the promoters also hold substantial land parcels either in personal capacity or through group entities which can be liquidated to support KILs' operations.

Established track record and experienced promoter

The Khoday group was founded by Khoday Eshwarsa in 1906 and was inherited by his sons Khoday Venkusa, Khoday Lakshmansa and Khoday Krishnasa. Venkusa and Lakshmansa expanded the Group's business activities by creating distillery and stationery divisions. Khoday Distilleries Ltd was incorporated as a private limited company in September 1965. With more than 100 years of existence Khoday group has extensive experience in diverse business activities. Through their vast experience in the distillery industry, company has established a strong presence in the southern region.

Liquidity: Stretched

Liquidity of the company is constrained marked by low envisaged cash accruals as against relatively high repayment obligations of ~Rs. 9 Cr in next 4 quarters. Average working capital utilization for last 12 months ended Dec 31, 2023, also stood high at 90%. However, given the nature of business, company has receivables of ~Rs 15 Cr as on December 31, 2023, which is likely to provide liquidity cushion. Further company consistently receives promoters support to fund losses and for meeting day-to-day business requirements. In CFY, promoters already infused around Rs. 18 Cr. The company has current ratio of 2.77x as on March 31, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Breweries & Distilleries

KIL, incorporated on September 28, 1965, as Khoday Distilleries Limited, primarily manufactures and markets IMFL such as malt whisky, gin, brandy and rum. KIL is promoted by House of Khodays, an Indian multi-service business group based in Bengaluru, Karnataka. The group was founded in 1906 by Khoday Eshwarsa. KIL manufacturing facility is located in Bengaluru with installed capacity of 63,000 KLPA. It manufactures whisky, brandy, rum, and beer Some of its alcohol brands include Peter Scot Whiskey, RedKnight Whiskey, Khodays XXX Rum, Hercules XXX Rum, Hercules XXX White Rum, Hercules Beer, Sovereign Brandy and Hercules XXX Deluxe Rum.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	81.49	120.48	22.44
PBILDT	7.61	14.91	-6.22
PAT	-3.93	8.86	-9.15
Overall gearing (times)	0.31	0.21	NA
Interest coverage (times)	0.85	2.73	-2.69

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: ICRA continue to maintain the rating of firm under Issuer Not Cooperating as per PR dated May 18, 2023, as the company did not cooperate in sharing the requisite information.

Any other information: Not Applicable

Rating history for last three years: 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	-	September 30, 2025	20.00	CARE B+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term Loan	LT*	20.00	CARE B+; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT*	15.00	CARE B+; Stable	-	-	-	-

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: None

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Note on the 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.

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About us:

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