

Sagar Wines Marketeers Limited

October 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	50.00 (Enhanced from 27.00)	CARE BB+; Stable	Rating removed from ISSUER NOT COOPERATING category and Upgraded from CARE B-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Sagar Wines Marketeers Limited (SWML) derives comfort from established experience of the promoters in alcohol beverage distribution industry and its long-term association with reputed alcohol manufacturers for wholesale distribution of alcoholic beverages in Mumbai region. The rating also factors, SWML's growing scale of operations and its diversified customer profile. The above rating strengths are, however, constrained by low profitability margins owing to trading nature of operations, presence of its operations in highly regulated industry, moderate financial risk profile and competitive liquor industry in India and high geographical concentration of its operations.

Further CARE has removed Rating from ISSUER NOT COOPERATING category on account of receipt of full information required.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in ROCE above 15% on a sustained basis.
- Improvement in interest coverage ratio to above 2.5 times
- Improvement in TOL/TNW to 2 times and TD/GCA to 8 times.

Negative factors

- Deterioration in TOL/TNW to above 3.5 times
- Deterioration in interest coverage to 1.25 times
- Changes in policies/ regulations for liquor supply in state government adversely impacting company's operations.

Analytical approach: Consolidated

Consolidated approach is taken as Sagar Wines Marketeers Limited is holding 34% stake in its Associate company Askus Logistics Private Limited and 49.9% stake in KP Shaw Bottling Pvt Ltd. Consolidation is done by equity method. The associate companies are into similar line of business. Further the company has given corporate guarantee to the lenders of K.P. Shaw Bottling Pvt. Ltd. for cash credit limit of 18 crores.

Outlook: Stable

CARE expects the outlook to be stable backed by long term association with the principles.

Detailed description of the key rating drivers:

Key strengths

Experience of the promoter in alcoholic beverage industry and long track record

Mr Rakesh Arora, chairman and M.D of the company, has over three decades of experience in the marketing of alcoholic beverages and has worked in the companies like the UB group, Jagatjit Industries and BDA Distilleries Ltd. Mr K. Ilango, director, has over two decades of experience in banking and finance. Moreover, to support increasing working capital requirements, the promoters have been regularly infusing funds in the form of unsecured loans.

Strong distribution network in designated area with a diversified portfolio

SWML was operating as the distributor of IMFL for United Spirits Limited (USL), a Diageo group company, and Beer for United Breweries Limited (UBL) since more than two decades. Since year 2021 the company discontinued with USL and got the distribution network of Pernod Ricard (previously Seagram) products. The company functions in central Mumbai region and covers area from Bandra to Andheri for Seagram products, Mankhurd to Mulund for Sula wines, and Colaba to Mulund for Beer as well

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

as Domestic wines segment. Also, company has got an additional area from Borivali to Malad for Kingfisher Beer. The company has network of about 1,000 permit rooms and 360 wine shops in Mumbai. The company's product portfolio includes brands like Royal Stag, Blenders Reserve, Chivas Regal, Ballantine, Absolute Vodka, Glenlivet, Heineken beer and Kingfisher beer.

Diversified customer profile

SWML has large a customer portfolio divided among multiple retail shops and permit rooms specific regions of Mumbai including Andheri to Bandra, Mulund to Colaba, Borivali to Malad. Revenue from top 5 customers represents only 12% of its total revenue for FY24 (PY: 13%), indicating well diversified customer profile.

Key weaknesses

Fixed low margin business and non-existence of pricing power

The company operates on a fixed margin basis wherein prices and margins on products handled are fixed by the principals (Brand Owners). Owing to the nature of operations with a significant upper hand of the principal over distributors, increasing focus of brand owners on cost rationalization, and low pricing flexibility, the company's PBILDT margin remains low. During FY24, SWML PBILDT margin was steady at 1.93% as compared to 1.12% in FY23.

Moderate financial risk profile

The company's debt profile comprises mainly of working capital borrowings and unsecured loans from the promoters. While the company makes upfront payment to the suppliers, it has to provide credit period of around 20-35 days to retailers. This, coupled with moderate cash accruals due to low profit margins, results in dependence on working capital borrowings to fund its increasing working capital requirements. SWML's overall gearing stood high at 1.42x (PY:1.76x) as on March 31st, 2024. The overall gearing including guaranteed debt was 2.44x (PY 3.07x) as on March 31st, 2024. Interest coverage ratio improved to 1.72 times as on March 31, 2024, from 1.02 times as on March 31, 2023, TDGCA also improved to 12.98 times as on March 31, 2024, from 78.41 times as on March 31, 2023.

Vulnerability to regulatory changes

The liquor industry is highly regulated, and any change could affect players across the value chain. The duty and tax structure are complex and varies across states. Any change in the duty structure can hit the demand-supply dynamics in a region. SWML's Operation remained concentrated to few specific regions of Mumbai, which exposes its operations to the risk of changes in government policies/ political upheavals in the state.

Liquidity: Stretched

The liquidity profile of the company is stretched on account of tightly matched repayment obligation against envisaged gross cash accruals (GCA). The company generated GCA of Rs 3.88 crores in FY24 (consolidated) and is expected to generate of GCA of Rs 4.88 crores in FY25. The company has unencumbered cash and bank balance of Rs 0.15 crores as on March 31, 2024. The average utilization of fund-based limits for the past 12 months ending June 2024 is high at 98% providing limited liquidity cushion. Current ratio is comfortable at 1.34 times in FY24. Net Cash Flow from Operations was 3.20 in FY24.

SWMP's operating cycle remain moderate at 40 days, wherein inventory holding period is around 24-29 days and receivable period is around 27-30 days.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

SWMPL initially started by Mr Rakesh Arora as a partnership firm in 1996, was subsequently converted into a private limited company in December 1998. The company is in the business of distribution of IMFL, beer, and imported & domestic wines in the designated territories of Mumbai. The territories are assigned by the concerned producer (principals) to the distributors to ensure there is no overlapping of the same by another distributor. The company distributes Pernod Ricard (Previously Seagram) all IMFL products from Bandra to Andheri, UBL (only Kingfisher Beer) from Mulund to Colaba, and Sula Wines from Mulund to Mankhurd.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	385.11	442.63	105.50
PBILDT	4.32	8.52	1.84
PAT	1.52	7.97	NA
Overall gearing (times)	1.76	1.42	NA
Interest coverage (times)	1.02	1.72	1.94

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Detailed explanation of Covenants of rated instrument / facility: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BB+; 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BB+; Stable	1)CARE B-; Stable; ISSUER NOT COOPERATING * (16-Jul-24)	1)CARE B; Stable; ISSUER NOT COOPERATING * (24-May-23)	1)CARE B; Stable; ISSUER NOT COOPERATING * (25-May-22)	-

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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.

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