Khoday India Limited

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.69 (Reduced from 35.00)	CARE B+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of rating assigned to 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 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 factors in continuous promoter's support in form of timely fund infusion, well-established presence of the company, and their century long experience in diverse business operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scale of operations of distillery division 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 key rating drivers:

Key weaknesses

Moderate scale of operations and profitability

The company witnessed decrease in revenue in FY24 to Rs. 70.96 Cr owing to temperate demand for its products. Due to high competition, liquor sales were impacted over the last 2 years. Company has registered sales of Rs. 107.07 Cr in FY24 against Rs. 130 crore in FY23. Previously company used to sell non premium liquors which was high volume but low margin business but since last 2-years company has started selling premium liquors which generates higher margins however due to increase in excise duty on liquor sale by 15-20% last year, net sale value of the company was impacted. Company incurred operating loss in FY24 owing to high cost of raw materials and overhead cost and absence of realty income. Company is now planning to focus on sales of spirit where better margins are expected. Till 8MFY25, company reported gross sales of Rs. 82 crore. As such, liquor segment business continues to incur losses however company ability to sustain revenue above Rs. 100 crore would be a key monitorable.

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

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

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. Working capital cycle of the company elongated to 585 days in FY24 from 490 days in FY23 majorly due to increase in inventory days from 440 days in FY23 to 521 days in FY24 reason being company started producing premium liquors which requires higher maturation period of 90-120 days as against 15-20 days for non-premium liquors. Further collection period has also increased from 96 days to 113 days in FY24. The average working capital utilisation during the 12 months ended November 30, 2024, is around 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 FY24, southern region contributed ~ 60% of the total sales.

Steady support in the form of unsecured loans from promoters

The promoters have infused Rs. 209.86 crore in the form of unsecured loans till March 31, 2024, 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 FY24, promoters have infused around Rs. 25 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 GCA as against relatively high repayment obligations however company has already repaid 3/4th of its current year's repayment obligations with cash generated from operations and if required promoters are expected to infuse funds in the business, as witnessed in past. Average working capital utilization for last 12 months ended November 30, 2024, also stood at 90%. Company consistently receives promoters support to fund losses and for meeting day-to-day business requirements. In FY24 promoters infused around Rs. 25 crore.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macroeconomic 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.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	120.48	70.96	13.39
PBILDT	14.91	-7.11	-2.36
PAT	8.86	-12.49	-3.25
Overall gearing (times)	0.21	0.15	NA
Interest coverage (times)	2.73	NM	NM

A: Audited UA: Unaudited NA: Not Available NM: Not Meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA: ICRA continues to maintain the rating of firm under Issuer Not Cooperating as per PR dated August 07, 2024, as the company did not cooperate in sharing the requisite information and payment of the surveillance fee.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	-	September 30, 2025	6.69	CARE B+; Stable

Annexure-2: Rating history for 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-Term Loan	LT	6.69	CARE B+; Stable	-	1)CARE B+; Stable (07-Feb-24)	-	-
2	Fund-based - LT-Cash Credit	LT	15.00	CARE B+; Stable	-	1)CARE B+; Stable (07-Feb-24)	-	-

LT: Long term.

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

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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