

## Empee Distilleries Limited

April 11, 2017

### Ratings

Instruments/Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Non-convertible Debenture (NCD) issue	<b>47.50</b> <b>(Rupees Forty Seven Crore and Fifty Lakh Only)</b>	<b>CARE B; Negative</b> <b>(Single B;</b> <b>Outlook: Negative)</b>	Reaffirmed
Long-term Bank Facilities	73.28	<b>CARE D</b> <b>[Single D]</b>	Reaffirmed
Short-term Bank Facilities	32.45	<b>CARE D</b> <b>[Single D]</b>	Reaffirmed
<b>Total Bank Facilities</b>	<b>105.73</b> <b>(Rupees One hundred Five crore and Seventy Three lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the NCD issue of Empee Distilleries Limited (EDL), continues to be constrained by highly regulated and competitive nature of Indian Made Foreign Liquor (IMFL) market in Tamil Nadu, significant exposure of EDL to group entities which have weak financial standing. The ratings also take note of long track record of operations of EDL and improvement in financial performance during FY16 (refers to the period April 1 to March 31).

The ratings assigned to the bank facilities of Empee Distilleries Limited (EDL) factors in the instances of delays in debt servicing.

EDL's ability to improve its market share & profitability in light of challenging business environment would be the key rating sensitivities.

### Outlook: Negative

The outlook on the NCD rating factors in the moderation of total operating income and cash losses during 9MFY17.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Highly regulated nature of the TN liquor industry**

The IMFL industry in TN is highly regulated and is subject to a convoluted tax structure. From manufacturing through distribution, pricing and advertising, restrictions prevail. The sector under the Constitution is a State subject and accordingly each State/Union Territory has its own policies and taxation regime. State governments are therefore, free to issue their own guidelines to regulate the movement, possession and use of alcohol in their states through licensing mechanism. Tamil Nadu liquor market is highly regulated with *production, distribution, retailing and pricing of IMFL products controlled by Tamil Nadu State Marketing Corporation Ltd. (TASMAC), a GoTN entity*. TASMAC sets the pricing of the product after consultation with the Industry players; however, price revision generally does not take place frequently.

#### **Significant exposure to group entities**

Over the last few years, EDL has made significant investments by way of equity infusion and loans & advances to its group entities. As on March 31, 2016, the company's non-current investments in group companies aggregated Rs.280 crore as against the company's tangible net worth of Rs.289 crore.

#### **Instances of delays in debt servicing of bank facilities**

The moderation in the performance of EDL coupled with significant exposure to group entities primarily in the form of equity capital and their constrained liquidity position, leading to instances of delays in debt servicing of bank facilities by EDL.

#### Key Rating Strengths

#### **Improved performance in FY16**

<sup>2</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

EDL registered a net profit of Rs.2 crore on the total operating income of Rs.326 crore as against loss of Rs.3 crore on the total operating income of Rs.513 crore in 15MFY15. The improvement in profitability parameters were due to increase in procurement prices from Tamil Nadu State Marketing Corporation (TASMAC) and the upward price revision of 21% by TASMAC w.e.f November, 2014. EDL reported net loss of Rs.19 crore on the total operating income of Rs.162 crore in 9MFY17. The losses in 9MFY17 were due to demonetization, dry days announced by the governments in Tamil Nadu, Karnataka and Kerala.

***Established brand presence of the Empee group in the Tamil Nadu (TN) market***

The flagship company of the group, EDL, was established in 1983 and is primarily engaged in the manufacturing of Indian Made Foreign Liquor (IMFL) in the states of Tamil Nadu, Kerala and Karnataka. EDL has a licensed capacity of 7.2 million cases per annum, spread among these three states. EDL also produces power through a bio-mass-based power plant of 10 MW capacity in TN.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating Methodology-Manufacturing Companies](#)

[CARE's methodology for Short-term Instruments](#)

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

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

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

**About the Company**

Promoted in 1983 by Mr M P Purushothaman, EDL is the flagship company of the Empee group mainly engaged in the manufacturing of Indian Made Foreign Liquor (IMFL) in the states of Tamil Nadu (TN), Kerala and Karnataka. EDL has a licensed capacity of 7.2 million cases per annum, spread among these three states. EDL also produces power through a bio-mass based power plant of 10 MW capacity in TN and has a 60 Kilo Litre per Day (KLPD) grain based alcohol plant in Andhra Pradesh (AP).

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

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2021	36.08	CARE D
Fund-based - LT-Cash Credit	-	-	-	37.20	CARE D
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE D
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	29.45	CARE D
Debentures-Non-convertible Debentures	April 27, 2016	14%	April 26, 2021	37.50	CARE B; Negative
Debentures-Non-convertible Debentures	September 16, 2016	14%	April 26, 2021	10.00	CARE B; Negative

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	36.08	CARE D	-	-	1)CARE D (21-Mar-16) 2)CARE D (24-Apr-15)	1)CARE D (07-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	37.20	CARE D	-	-	1)CARE D (21-Mar-16) 2)CARE D (24-Apr-15)	1)CARE D (07-Apr-14)
3.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE D	-	-	1)CARE D (21-Mar-16)	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	29.45	CARE D	-	-	1)CARE D (21-Mar-16)	-
5.	Debentures-Non-convertible Debentures	LT	47.50	CARE B; Negative	-	-	1)CARE B (21-Mar-16)	-

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