

H G Narayan and Sons

September 21, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	4.00	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; Issuer not cooperating)	Issuer not cooperating; Revised from CARE BBB-; Stable; Issuer Not Cooperating (Triple B Minus; Outlook: Stable; Issuer Not Cooperating) on the basis of best available information
Total Facilities	4.00 (Rupees Four Crore Only)		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated April 01, 2020, placed the rating of H. G. Narayan and Sons (HGN) under the 'issuer non-cooperating' category as HGNS had failed to provide information for monitoring of the rating as agreed to in its rating agreement. HGNS continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and letter dated June 24, 2020 to September 09, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The revision in the rating is pursuant to Securities and Exchange Board of India (SEBI)'s circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

Detailed Rationale & Key Rating Drivers

At the time of last rating on April 01, 2020 the following were the rating strengths and weakness:

Key Rating Weakness**Modest scale of operations with constitution has partnership firm**

The scale of operations marked by the total operating income stood almost stable at Rs. 77.92 crore in FY19 over FY18. Constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency which can adversely affect its capital structure. Furthermore, partnership firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders. Further partners have withdrawn the capital to extent of Rs. 7.31 crore during FY19.

Low profitability margin

HGN, like all other liquor distributors in Karnataka, does not have any control over the selling price of the products dealt with, and has to transact at rates determined by the KSBCL. Hence, the firm has limited ability to expand its margins. The profitability margins remained in the similar range, the PBILDT margin stood stable at 3.41% in FY19. However, the PAT margin has improved by marginally by 20 bps and stood at 1.97% in FY19 due to decline in finance cost during the period.

Highly regulated industry:

Liquor retailing is a highly regulated industry. The firm has to follow the terms fixed by KSBCL. Currently the gross profit margin fixed is around 10% which is included in the MRP of the liquor and the outlets are forced to sell at the MRP rates, which restrict the bargaining power of the firm.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer Not Cooperating; based on best available information

Key Rating Strengths

Experience of partners in liquor and allied industry

The partners of have a collective experience of more than five decades in liquor and allied industry

Comfortable capital structure and debt coverage indicators

The capital structure marked by the overall gearing ratio stood comfortable at 0.10x as on March 31, 2019 as compared to 0.06x as on March 31, 2018 due to increase in utilization level as on balance sheet date. The debt coverage indicators marked by the interest coverage ratio stood strong at 11.57% in FY19 and total debt to GCA at 1.78% in FY19.

Favorable demand outlook with steady increase in consumption of alcohol

Karnataka and Maharashtra are the 2nd largest consumers of IMFL (Indian Made Foreign Liquor) and beer in the country. The factors such as rising income levels and changing mindsets which are more open to the consumption of alcoholic beverages drive the growth of the IMFL segment.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[CARE's Rating Methodology- Organized Retail Companies](#)

About the Firm

H. G. Narayan & Sons (HGN) was established in 1986 by Late Mr. H G Narayan. HGN is presently running 30 liquor retail stores (all on leased basis) to sell IMFL (Indian Made Foreign Liquor) and Beer in various districts of Karnataka viz; Hassan, Mandya, Chikmagalur etc. The firm started with 2 retail licensed liquor outlets in the year 1986. Over the years, it acquired 28 additional licenses. Presently, the business is run by the proprietor's son; Mr. Prithvi Narayan. As applicable with all liquor retail shops located in Karnataka, Karnataka State Beverages Corporation (KSBCL) is the only supplier for HGN. The licenses for the stores are required to be renewed annually for all outlets.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	77.05	77.92
SBID	2.67	2.66
Surplus	1.36	1.54
Overall gearing (times)	0.06	3.07
Interest coverage (times)	5.19	11.57

A-Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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	-	-	^	4.00	CARE BB+; Stable; ISSUER NOT COOPERATING*

^Proposed

*Issuer not cooperating; based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan [^]	LT	4.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (01-Apr-20)	-	1)CARE BBB-; Stable (15-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE BBB-; Stable (17-May-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (01-Apr-20)	-	1)CARE BBB-; Stable (15-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE BBB-; Stable (17-May-17)

[^]Proposed

*Issuer not cooperating; based on best available information

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

Annexure-4: Complexity level of various instruments rated for this company

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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