

## Radico NV Distilleries Maharashtra Ltd

October 04, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term facilities - CC	25.00	<b>CARE A; Stable</b> (Single A; Outlook: Stable)	Reaffirmed
LT/ST – Fund-based/Non-Fund-based	5.00	<b>CARE A; Stable / CARE A1</b> (Single A; Outlook: Stable / A ONE)	Reaffirmed. Reclassified from ST to LT/ST.
<b>Total facilities</b>	<b>30.00</b> (Rupees thirty crores only)		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Radico NV Distilleries Maharashtra Ltd (RNVD) continue to derive strength from experience of the promoters in the alcohol industry and improved profitability margins. The ratings also draw comfort from improved operational performance & financial risk profile, high entry barriers for new entrants due to restrictive licensing, improved debt service coverage indicators and strong liquidity profile.

However, the ratings continue to be constrained by the company's presence in a highly regulated industry with heavy burden of duties and taxes and exposure to volatility in raw material prices.

Going forward, the ability of the company to scale up its operations while improving its profitability levels and sustain its capital structure would be the key rating sensitivities.

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

##### *Experienced promoters*

RNVD is promoted by Radico Khaitan Ltd (RKL) and NV group along with a strategic investor. RKL is a renowned name in the Indian made foreign liquor industry with pan-India presence. RKL enjoys four in-house "millionaire brands" and has been in the liquor manufacturing business for last 6 decades. RKL is providing management support for operating the unit at RNVD. NV group, promoted by Mr. Ashok Jain and Mr. Sameer Goyal, has invested in RNVD (through one of its holding companies). NV group also has substantial experience in liquor industry. It has its manufacturing facilities in Punjab and Haryana and enjoys tie-ups with various renowned liquor manufacturing companies.

##### *Improved operational performance*

Total income from operations registered a growth of 8.60% to Rs 306.42 crore in FY19 from Rs 282.13 crore in FY18 on account of increased sale of alcohol and other alcoholic products. PBILDT margin improved to 19.08% in FY19 compared to 8.51% in FY18 on account of decrease in price of raw material, mainly molasses.

##### *Improved financial risk profile*

In FY19, interest expense amounted to Rs 4.28 crore as against Rs 6.02 crore in FY18. PAT margin was 5.48% in FY19 as against 0.50% in FY18. Further, PBILDT interest coverage improved to 13.70x in FY19 as against 3.99x during FY18 due to higher PBILDT & lower interest cost.

Total debt decreased to Rs. 23.22 crore as on 31<sup>st</sup> Mar 2019 as against Rs 49.25 crore as on 31<sup>st</sup> March 2018 on account of reduction in working capital loan. Thus, overall gearing improved to 0.05x as on 31<sup>st</sup> Mar 2019 as against 0.12x as on 31<sup>st</sup> Mar 2018.

##### *High Entry Barriers*

Liquor policies governing its production and sale are entirely controlled by respective State governments. With all the alcohol consuming States/Union Territories having their own rules and regulations, it is very difficult for new entrants to get licenses thus providing a competitive edge to existing players. This acts in favor of incumbents as new players find it difficult to start.

### Key Rating Weakness

#### *Highly regulated industry*

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. As a result, there are difficulties in transfer of production from one state to another along with huge burden of duties and taxes. The state controls the licenses for production, distributorship and retailing also.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

In November 2018, the state excise commissioner's office had sent notice to 14 distilleries in Maharashtra including RNVD on account of violation of rule by using grains with higher starch content for a higher yield without informing the government. RNVD had been sent a showcause notice with a tax demand of Rs 93.44 crore. However, the 14 distilleries had written a joint letter to the excise commissioner against the showcause notice. Although RNVD has not received any reply to the joint letter as of yet, however any adverse decision on the same shall remain critical for the company.

#### ***Cyclicality in raw material prices***

The margins are highly susceptible to the volatility in the price of molasses and grains, which in turn are governed by various factors including its supply which is in turn dependent upon production, government regulations, demand from other sectors like biodiesel etc. Though company maintains sufficient inventory of raw material to shield itself from adverse movement in price in short term, sustained high price of raw materials can affect the profitability of the company.

#### **Liquidity: Strong**

The Company has created a portfolio of investments comprising of Mutual Funds and fixed income securities. The amount invested as on March 31, 2019 stood at Rs. 60.06 crore (PY: Rs 63.15 crore). The average fund based working capital utilization for 12 months ending July 2019 stood at a comfortable 3.89%.

**Analytical approach:** Standalone

#### **Applicable Criteria**

- [CARE's Criteria on assigning Outlook to Credit Ratings](#)
- [CARE's Policy on Default Recognition](#)
- [CARE's methodology for Short-term Instruments](#)
- [CARE's methodology for Manufacturing Companies](#)
- [Financial ratios – Non-Financial Sector](#)
- [CARE's methodology for Factoring Linkages in Ratings](#)

#### **About the Company**

Radico NV Distilleries Maharashtra Ltd. (RNVD) was formed as a tripartite joint venture (JV) amongst Radico Khaitan Ltd (36%; rated CARE AA-; Stable/CARE A1+), Enn Vee Holding Pvt Ltd (32%) and Ridhi Sidhi Shares Pvt Ltd (32%) in 2007. Earlier, the name of the company was Shetkari Baliraja Sugars Ltd. (SBSL) (incorporated in November 03, 2000) which was involved in manufacturing of Ethanol from Rectified Spirit in the district of Beed, when the existing promoters purchased the unit and later renamed as RNVD. The company is engaged in the manufacture of Extra Neutral Alcohol (ENA), Indian Made Foreign Liquor (IMFL) & Ethanol at Aurangabad in Maharashtra.

RNVD has molasses based distillation capacity of 120 Kilo Litres Per Day (KLPD), grain-based distillation capacity of 50 KLPD, and IMFL bottling capacity of 5,000 cases per day.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	282.13	307.45
PBILDT	24.01	58.65
PAT	1.37	16.86
Overall gearing (times)	0.12	0.05
Interest coverage (times)	3.99	13.70

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

**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-Cash Credit	-	-	-	25.00	CARE A; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	5.00	CARE A; Stable / CARE A1

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (23-Jan-17)
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE A; Stable	-	1)CARE A; Stable (27-Nov-18)	1)CARE A-; Stable (28-Nov-17)	1)CARE A; Stable (23-Jan-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Nov-18)	1)CARE A-; Stable (28-Nov-17)	-
4.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	5.00	CARE A; Stable / CARE A1	-	1)CARE A1 (27-Nov-18)	1)CARE A2 (28-Nov-17)	-

**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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