

Radico NV Distilleries Maharashtra Ltd

October 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	25.00	CARE A; Positive (Single A; Outlook: Positive)	Rating reaffirmed; Outlook revised from 'Stable' to 'Positive'
Long Term/Short Term Bank Facilities	5.00	CARE A; Positive / CARE A1 (Single A; Outlook: Positive / A One)	Reaffirmed
Total Facilities	30.00 (Thirty Crore Only)		

Details of instruments/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 the long experience of its promoter groups of operating in the liquor industry and its stable financial risk profile through FY20 (refers to the period between April 01, 2019 and March 31, 2020) and Q1FY21 (refers to the period between April 01, 2019 and June 30, 2020). The ratings further derive comfort from the company's improved operational performance during FY20, restrictive licensing in the liquor industry resulting in high entry barriers for new entrants, the company's healthy 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.

Rating Sensitivities

Positive Factors

- Increase in TOI by more than 15% with PBILDT margin and PAT margin exceeding 15% and 5% respectively on sustained basis
- Sustained improvement in operating cycle to 80 days

Negative Factors

- Overall gearing of more than 0.7x
- Sustained decline in profitability with PBILDT and PAT margin of less than 8% and 1% respectively

Outlook: Positive

The outlook for the rating is changed to Positive on account of expected improvement in financial risk profile of the company with increase in profitability margins backed by declining trend of raw material prices primarily molasses.

Detailed description of the key rating drivers

Key Rating Strengths

Significant experience of promoter groups in liquor industry

RNVD is promoted by two liquor manufacturing groups- Radico Khaitan Ltd (RKL) and NV group- along with a strategic investor. RKL is a renowned name in the Indian- made foreign liquor (IMFL) industry having a pan-India presence. RKL owns four in-house- millionaire brands- and has been in the liquor manufacturing business for the past last six decades. RKL provides management support for operating RNVD's facility. 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. With manufacturing facilities in Punjab and Haryana, it enjoys tie-ups with various renowned liquor manufacturing companies.

Stable Financial risk profile with low gearing

RNVD's total income from operations improved from Rs 304.33 crore in FY19 to Rs. 319.62 crore in FY20. However, PBILDT margin has moderated to 14.19% in FY20 as against 19.32% in FY19 on account of higher raw material prices and operating overheads, mainly molasses. In FY20, interest expense amounted to Rs 3.29 crore as against Rs 4.44 crore in FY19. PAT margin was 1.49% in FY20 as against 5.54% in FY19. During FY20, the debt coverage indicators with PBILDT/interest and Total Debt/GCA stood at 13.77x and 0.99x respectively.

Total debt increased to Rs. 34.13 crore as on 31st Mar 2020 as against Rs 23.22 crore as on 31st March 2019 on account of new vehicle loan availed during the year. The working capital loan outstanding as on March 31, 2020 is nil as against sanctioned amount of Rs. 30.00 crore. Overall gearing remained stable at 0.08x as on 31st Mar 2020 as against 0.05x as on 31st Mar 2019.

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

High entry barriers due to state regulations

Liquor production and sale are controlled entirely by policies of 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, thereby providing a competitive edge to existing players. This acts in favour of incumbents as new players find it difficult to start.

Key Rating Weaknesses

Highly regulated industry

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. While regulations act as high entry barriers, there are difficulties in transfer of production from one state to another along with substantial huge burden of duties and taxes. The state controls the licences for production, distributorship and retailing also.

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 average fund based working capital utilization for 12 months ending August 2020 stood at 4%. Additionally, the company has created a portfolio of investments comprising of mutual funds and fixed income securities. The amount invested as on March 31, 2020 stood at Rs. 34.95 crore (PY: 60.06 crore). In FY20, RNVD's average collection period improved and stood stable at 16 days (PY: 22 days) and average inventory days increased to 109 days (PY: 84 days) resulting in elongated operating cycle to 109 days (PY: 91 days). The inventory days are high as RNVD needs to maintain inventory at various warehouses and provides advances to bottlers to fund operations for its bottling units. Its current ratio is strong and stood at 7.23x as on March 31, 2020. RNVD has further unutilized line of working capital facilities to the extent of 96% of Rs. 30 cr amounting Rs. 28.8 cr. The company has no outstanding term loan except vehicle loan of Rs. 14.13 cr as on March 31, 2020. The company has not availed of any moratorium for interest payment. Furthermore, the company has cash & bank balance of Rs. 22.22 cr as on August 31, 2020 against vehicle loan of Rs. 12.52 cr as on August 31, 2020.

Analytical approach: Standalone financials of RNVD

Applicable criteria

- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Rating Methodology-Manufacturing Companies
- Criteria for Short-term Instruments
- CARE's methodology for 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	304.33	319.62
PBILDT	58.80	45.35
PAT	16.86	4.55
Overall gearing (times)	0.05	0.08
Interest coverage (times)	13.26	13.77

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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; Positive
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	5.00	CARE A; Positive / 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 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-Cash Credit	LT	25.00	CARE A; Positive	-	1)CARE A; Stable (04-Oct-19)	1)CARE A; Stable (27-Nov-18)	1)CARE A-; Stable (28-Nov-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (27-Nov-18)	1)CARE A-; Stable (28-Nov-17)
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	5.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (04-Oct-19)	1)CARE A1 (27-Nov-18)	1)CARE A2 (28-Nov-17)

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	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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