

## Seven Seas Distillery Private Limited

September 25, 2020

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	34.51	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities	15.49	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Assigned
<b>Total Facilities</b>	<b>50.00</b> (Rs. Fifty crore only)		

Details of facilities in Annexure 1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Seven Seas Distillery Private Limited (SSDPL) is constrained by the low and volatile profitability margins of the company, geographical concentration of revenues and the inherent regulatory risk associated with IMFL business. The rating also factors in the exposure in group entities by way of loans extended.

The ratings, however, derive strength from vast experience of the promoters, long track record of operations of the company, healthy capital structure and SSDPL's long-association with United Spirits Limited (USL).

### Rating Sensitivities

#### Positive Factors

- Sustained increase in PBILDT margins

#### Negative Factors

- Sustained increase in raw material prices leading to significant reduction in PBILDT margins
- Any adverse impact on the operations due to policy changes by the government

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Low operating profit margin susceptible to volatile raw material prices**

The prices of the Extra Neutral Alcohol (ENA) which is the main raw material for distilleries are volatile and market driven based on sugar cycle. Since procurement is solely done by KSBC, which controls the prices, the manufacturers cannot pass the increase in raw material cost. As a result, the profitability is exposed to the vagaries in the raw material prices and other fixed manufacturing cost which cannot be transferred to customers. During FY20 the Total Operating Income (TOI) grew by 3% to Rs.420.45 crore on account of increase in sales volume however company's PBILDT margin has reduced from 2.99% in FY19 to 1.81% in FY20 mainly on account of increase in the raw material price-ENA. Usage of molasses and grain based ENA by SSDPL, mitigates dependence on single source ENA to some extent.

##### **Exposure in group entities**

The company had extended loans and advances of Rs.12.9 crore (Outstanding as on March 31, 2020); (PY: Rs.11.4 crore) to its group entities. Adjusting for this exposure the company's overall gearing ratio works out to 1.2x as on March 31, 2020 (PY:1.11x).

##### **Geographically concentrated revenues and highly regulated industry**

SSDPL's sales are concentrated in the state of Kerala only exposing it to demand risk as well as regulatory risk related to the state. Kerala liquor market is highly regulated with production, distribution, retailing and pricing of IMFL products controlled by Kerala State Beverage Corporation, a Government of Kerala entity. Further, IMFL market is strictly regulated around the country as alcohol is a state subject. The state has the control to regulate the movement, possession and use of alcohol through licensing mechanism. However, dependence of state coffers on the tax revenue from this industry made earlier bans short-lived in previous instances imposition of ban.

### Key rating Strengths

#### **Vast experience of the promoters and long track record of operation**

The company is one of the main manufacturers of liquor since its inception in 1981 in Kerala. The promoters of SSDPL have been involved in the IMFL industry for over three decades. The day-to-day operations of SSDPL is managed by the promoter

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

Mr. A. Shivkumar Reddy. Besides SSDPL, the promoter group also operates other distilleries in Puducherry and Andhra Pradesh under the names of Balaji Enterprises (pondy) Private Limited and Pearl Distillery Limited.

#### **Comfortable capital structure**

The company's financial risk profile is marked by comfortable capital structure. Total debt of the company majorly comprises short-term working capital borrowings. In terms of long-term debt, it has only vehicle loans outstanding of Rs.0.77 crore as on March 31, 2020. The overall gearing stood at 0.89x on March 31, 2020 as against 0.89x as on March 31, 2019.

#### **Strong Relationship with USL and KSBC**

SSDPL is the franchisee of USL in Kerala market. The company has long term relationship with USL since the brand and label which Seven Seas use, belongs to USL. The company is one of the major suppliers of IMFL to Kerala State Beverage Corporation (KSBC) and has established relationship with KSBC over the years. The company has contributed 31% of the IMFL requirement of KSBC in FY20. The company's sales volume has increased by 3% in FY20 to 66.97 lakh cases and the realization remained stable during the period. During FY21, in the first four months, the sales has been moderate with sales of 8.85 lakh cases, this is on account of lock-down measures imposed by the government.

#### **Liquidity – Stretched**

The company's liquidity is stretched with tightly matched accruals against repayment obligations and accruals are highly sensitive to volatility in raw material prices. The company has cash credit limit of Rs.30 crore and average utilization on the same was around 68% for the past twelve months ended July 2020. The company had modest cash balance of Rs.0.72 crore as on March 31, 2020. In the wake of COVID – 19 outbreak to conserve cash, the company had availed deferment for the interest and principal portion for drop line OD facility for the period April 2020 to August 2020.

#### **Impact of Covid - 19**

The company's operations were temporarily shut from March 24, 2020 and the liquor retail outlets in Kerala were also not operating temporarily due to the nationwide lock-down imposed to contain the COVID – 19 outbreak from March 2020 to May 2020. In Kerala, retail alcoholic beverages outlets started operating from end of May 2020 onwards. Subsequently, SSDPL has started its operation in its manufacturing plants and offices subject to the guidelines extended by the government. SSDPL reported total sales of Rs.56 crore in 4 months period ended July'20 in FY21.

**Analytical approach:** Standalone

#### **Applicable criteria**

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

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

[CARE's Methodology for manufacturing companies](#)

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

[Liquidity Analysis of Non-financial Sector Entities](#)

#### **About the company**

SSDPL was incorporated in 1981 and is based in Thrissur, Kerala. It is involved in manufacturing and bottling of Indian Made Foreign Liquor (IMFL) for United Spirits Limited. SSDPL has a total capacity (including those units taken under contract) of 78 lakh cases / annum.

<b>Brief Financials (Rs. crore)</b>	<b>FY19 (A)</b>	<b>FY20 (Prov.)</b>
Total operating income	406.43	420.45
PBILDT	12.14	7.60
PAT	4.02	0.80
Overall gearing (times)	0.89	0.89
Interest coverage (times)	2.69	1.44

A: Audited; Prov: provisional

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

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

#### 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-Working Capital Limits	-	-	-	34.39	CARE BB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	0.13	CARE BB+; Stable
Fund-based - LT-Working Capital Limits	-	-	April 2028	15.49	CARE BB+; Stable

#### 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-Working Capital Limits	LT	34.39	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Aug-19)	1)CARE BB+; Stable (28-Aug-18)	1)CARE BB+; Stable (01-Aug-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	0.13	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Aug-19)	1)CARE BB+; Stable (28-Aug-18)	1)CARE BB+; Stable (01-Aug-17)
3.	Fund-based - LT-Working Capital Limits	LT	15.49	CARE BB+; Stable	-	-	-	-

**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
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based - LT-Bank Guarantees	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](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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