August 29, 2013

CARE REAFFIRMS/REVISES RATINGS ASSIGNED TO THE BANK FACILITIES OF TILAKNAGAR INDUSTRIES LIMITED

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Loans	252.95	**CARE BBB+ (Triple B Plus)**	Reaffirmed (enhanced from Rs.80.67 crore)
Long-term Bank Facilities	425	**CARE BBB+ (Triple B Plus)**	Reaffirmed
Short-term Bank Facilities	45	**CARE A3+ (A Three Plus)**	Revised from **'CARE A3'**
Total	**722.95**		

Rating Rationale

The ratings continue to factor in strength from Tilaknagar Industries Ltd's (TI's) healthy profitability margins and growth in revenues in FY13 (refers to the period April 1 to March 31). Further, the ratings also factor in the company's strong presence in Southern India backed by TI's wide distribution network and infrastructure, presence in various segments of the IMFL industry along with portfolio of established brands and rich experience of the promoters in the alcohol industry.

However, the ratings are constrained by deterioration in gearing levels, long working capital cycle, company's rising exposure towards its subsidiaries/group companies by way of investment in equity, loans and advances and corporate guarantees extended, project execution risks associated with completion of the same within envisaged cost and time, foreign exchange fluctuation risk, volatility in raw material prices, intense competition and highly regulated nature of alcohol industry.

Going forward, ability of TI to successfully complete and stabilize the expanded capacities resulting into increase in revenues along with improvement in profitability margins and capital structure remain the key rating sensitivitie

Background

Tilaknagar Industries Limited (TI) was established in 1933 as a manufacturer of sugar and allied products under the name of Maharashtra Sugar Mills Ltd. (MSML). Later, in 1973, the company diversified into Industrial Alcohol, Indian Made Foreign Liquor (IMFL) and sugar cubes business through its wholly owned subsidiary ''Tilaknagar Distilleries and Industries Ltd" and thereafter as on August 06, 1993, both these companies were merged to form Tilaknagar Industries Limited (TI). Presently, TI's business is broadly classified into manufacturing, marketing and sale of Indian Made Foreign Liquor (IMFL), industrial alcohol and chemicals. TI's manufacturing operations comprises of 32 manufacturing units (1 directly operated unit, 8 units operating under its subsidiaries, 10 leased units and 13 tie-up units) present across various states in India. TI's primary manufacturing facility is in Shrirampur, Maharashtra with an installed capacity of 200 KLPD comprising 100 KLPD molasses based distillation and grain based distillery of 100 KLPD. As on June 30, 2013, TI had eight wholly-owned existing subsidiaries, and the major ones are namely Prag Distillery (P) Ltd. (Prag), Vahni Distilleries (P) Ltd., Kesarval Springs Distilleries (P) Ltd. and Punjab Expo Breweries Pvt. Ltd (PEBPL). All these subsidiaries are engaged in the similar business

[1]*Complete definition of the ratings assigned is available at www.careratings.com and in other CARE publications.*

and operate in the States of Andhra Pradesh, Karnataka, Goa and Punjab respectively. The company is largely a domestic player with dominance in Southern region of India (Andhra Pradesh, Kerala, Karnataka, Tamil Nadu and Pondicherry) and exports its products to Western Africa, the Middle East, Far East and Caribbean countries. Furthermore, in FY13, the company acquired 26% equity stake in Mason and Summers Marketing Services (MSMSPL) with an aim to use its distribution network to market its products in North and North East India. Besides, the company has entered into an agreement with Pernod Ricard India (PRI) to manufacture PRI's products at its bottling facilities located in Maharashtra and Andhra Pradesh (A.P.) in order to manufacture 50,000 cases per month for PRI. In addition, TI has also entered into an agreement with Mohan Breweries and Distillers Ltd. (MBDL) for assignment of MBDL's trademarks "Brigadier No. 1 Brandy" and "Vorion No. 1" for a period of 25 years. These two brands have together sold 3.20 million cases for the year ended March 2013. The arrangement will help the company to increase its penetration in Tamil Nadu. As per the agreement, TI will be utilizing MBDL's manufacturing and bottling facilities to build upon its existing sales and distribution

During FY13 (refers to the period April 1 to March 31), TI posted PAT of Rs.50.34 crore (FY12 – Rs.38.75 crore) on total income of Rs.575.21 crore (FY11 – Rs.449.11 crore).

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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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