K. D. Liquor & Fertilizer Pvt. Ltd

August 07, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities- Cash Credit	21.73	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	**Reaffirmed**
2.	Long Term Bank Facilities- WCDL	-	-	**Withdrawn**
3	Short Term Bank Facilities	1.50	IVR A3 (IVR A Three)	**Reaffirmed**
	Total	**23.23 (Rs. Twenty Three crore and Twenty Three lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of K. D. Liquor & Fertilizer Pvt. Ltd (KDLF) continues to derive comfort from its experienced promoters, backward integration initiatives, established brand and increase in market share by tie-ups and low counter party risk after introduction of West Bengal State Beverages Corporation (BEVCO). The ratings also consider its healthy growth in the scale of operations, comfortable gearing and debt protection parameters and comfortable working capital management. However, the rating strengths are partially offset by moderation in its operating margin, volatility in input prices, competition from unorganised players and highly regulated nature of the Indian alcohol industry.

Infomerics has withdrawn the outstanding ratings of 'IVR BBB-; Stable (Triple B Minus; Outlook: Stable) assigned to the Working Capital Demand Loan bank facilities of KDLF with immediate effect. The above action has been taken on the back of 'No due Certificate' received from the bank that has extended the facilities rated by Infomerics.

Rating Sensitivities

Upward factors

- Growth in operations with improvement in profit margin on a sustained basis
- Improvement in the debt protection metrics
- Market expansion

Downward Factors

- Dip in scale of operation with moderation in profitability impacting the debt protection metrics on a sustained basis
- Any negative Government regulations
- Moderation in the capital structure with TOL/TNW moderated below 3x

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters and backward integration initiatives

The promoters are well experienced in the industry. Mr. Sinha and Mr. Pandey both have an experience of more than two decades in the industry. Mr. Jaiswal is a MBA, has around five years of experience. In order to support the operations the promoters have set up a group entity named Westwell Distributors Private Limited for manufacturing of Preform and Pet blowing Bottles near the factory unit of KDL to ensure uninterrupted supply of bottles to the company. Around 100% of companies' requirements are procured from its group company.

Established Brand and increased market share by tie-ups

Over the years of its operation KDL has established its brands like 'Bengal Tiger' and 'Uddan' in various districts of West Bengal.

Low counter party risk after introduction of West Bengal State Beverages Corporation (BEVCO):

In FY17, the BEVCO was formed to regulate the alcoholic beverage segment of the state of West Bengal. After setting up of BEVCO, the distribution channel of the IMFL and country liquor was completely changed and is controlled by the state government. After the incorporation of BEVCO, the entire production is sold to BEVCO, and the distribution thereof to the retailers is regulated by the same. Though the company faced initial hurdles, but after the setting up of BEVCO, KDL is confined to a single debtor, witnessing ease in collection of the receivables and low counter party risk as BEVCO being a state government entity.

Healthy growth in the scale of operations:

The total operating income of the company grew at a CAGR of ~59% during FY17-FY19 with a y-o-y growth of ~47%. The growth is fuelled by continuous increase in the acceptability of its brands along with increased penetration in new geographies. During FY19, the company has expanded its reach to other regions like Haldia and Hoogly through tie-up units which resulted in sharp increase in its total operating income.

Comfortable gearing and debt protection parameters:

The long term debt equity ratio and overall gearing remained comfortable as on March 31, 2019. Debt protection parameters marked by the interest coverage and Debt service coverage ratio were comfortable in FY19 at 4.48x and 2.35x respectively. Long term debt/GCA and Total debt/GCA was at 1.70x and 3.72x for FY19. Total indebtedness as indicated by the TOL/TNW also remained comfortable at 0.98x as on March 31, 2019.

Comfortable working capital management:

Earlier KDL had to deal with a number of distributors and retailers, and receivables had to be tracked from around 200-300 debtors with varied payment periods leading to delay in collections. However, introduction of BEVCO resulted in low average collection days for the company as under BEVCO the company gets its payment within 12-15 days from raising of bill. Further, the average utilization of working capital limits for the past 12 months ended July-19 was low at 59%.

Key Rating Weaknesses

Moderation in operating margin

The company has witnessed moderation in its profit margins over the past three years. Under BEVCO, the company has lost its pricing power as the prices are controlled by the corporation. Lack of ability to pass on the increased operating cost vis-a-vis increase in price of its major raw material (i.e Extra Neutral Alcohol (ENA)) along with higher sales expenditure for brand promotion and incentives to the retailer resulted in moderation in profit margin of the company during the past period. However, once the demand is generated, the selling expenditure would reduce as liquor is a taste based product.

Volatility in input prices

KDL uses ENA as a raw material for its production. About 50% of cost of raw materials equivalents to the ENA cost. The price of ENA may vary as major raw material for ENA is grains and the same may vary depending on the production, since grains are seasonal products being susceptible to vagaries of nature.

Highly regulated nature of the Indian alcohol industry

Government regulation of the liquor industry covers licensing, production, wholesale and retail distribution, and pricing. KDL has to bid for tenders and is required to procure a licence from the state government to operate in each district. The licence caps KDL's annual volume of liquor production

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its healthy gross cash accruals vis-a-vis its repayment obligations. Further, the company has adequate buffer in its working capital lines with an average utilisation of ~59% in the past 12 months ended July, 2019. Moreover, the company has sufficient gearing headroom due to its comfortable capital structure marked by its overall gearing at 0.66x as on March 31, 2019.

About the Company

K.D. Liquor & Fertilizer Pvt. Ltd. (KDL) was incorporated in 1995 by Mr. Pradyut Sinha and Mr. Kamal Pandey of West Bengal (promoter directors) with an objective to carry out the business of country liquor bottling in the state of West Bengal. The company has its bottling plant based at Nadia District of West Bengal with an annual capacity of 10,36,80,000 bottles. KDL sales its products under the brands named “Bengal Tiger” and Uddan which are well established in Nadia and Burdwan region and have spread to Hoogly, Haldia, Dankuni regions through tie-up manufacturing units. During FY20 provisional, the company achieved a TOI of Rs.173.22 crore with a PAT of Rs.5.45 crore.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	108.81	159.06
EBITDA	8.70	9.20

For the year ended* / As On	31-03-2018	31-03-2019
PAT	4.75	6.18
Total Debt	22.55	25.05
Tangible Net worth	29.26	38.45
EBITDA Margin (%)	8.00	5.78
PAT Margin (%)	4.34	3.84
Overall Gearing Ratio (x)	0.77	0.65

**Classification as per Infomerics' standards;*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Cash Credit- i	Long Term	17.00	IVR BBB- / Stable	IVR BBB- / Stable (Aug 30, 2019)	-	-
2	Cash Credit- ii	Long Term	4.73*	IVR BBB- / Stable	IVR BBB- / Stable (Aug 30, 2019)	-	-
3	Working Capital Demand Loan	Long Term	-	Withdrawn	IVR BBB- / Stable (Aug 30, 2019)	-	-
4	Bank Guarantee	Short Term	1.50	IVR A3	IVR A3 (Aug 30, 2019)	-	-

**change in bank with conversion from WCDL to CC*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit- i	-	-	-	17.00	IVR BBB- / Stable
Long Term Fund Based Limits – Cash Credit- ii	-	-	-	4.73*	IVR BBB- / Stable
Long Term Fund Based Limits – Working Capital Demand Loan	-	-	-	-	Withdrawn
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	1.50	IVR A3

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