



Infomerics Valuation And Rating Pvt. Ltd.

Press release

Polaris Liquor Private Limited

March 18, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	61.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
	Total	61.00*	

**Total amount of facilities include proposed limit of Rs.16 crore*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Polaris Liquor Private Limited (PLPL) derives comfort from its experienced promoters with long track record of operations, established market presence of the brands of its principal suppliers in the liquor distribution business, large customer base marked by high demand in the geographical location and positive demand outlook backed by brand portfolio restructuring. The rating strengths are partially offset by intense competition in the operating spectrum with high geographical concentration, vulnerability to regulatory changes, thin profitability and working capital intensive operations leading to leveraged capital structure.

Key Rating Sensitivities

Upward factors

- Sharp increase in total income with significant improvement in margins and cash accruals on a sustained basis
- Improvement in capital structure , debt protection metrics and liquidity

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators and/or liquidity
- Moderation in overall gearing



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- Any adverse government regulations.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record of operations

Operating since 1998, PLPL has a long track record of more than two decades. Further, Mr. Neeraj Rawal, has a vast experience of over 42 years in the liquor industry. He started operating since 1978 and gradually incorporated various companies engaged in liquor distribution or liquor related business. The Promoters has infused fresh equity of Rs.5.42 crore till December, 2019 indicating promoter's intent to support the business for further requirement.

Established market presence of the brands of its principal suppliers in the liquor distribution business

PLPL derives most of its revenue from USL/UBL products, which has healthy brand recognition in the market.

Large customer base marked by high demand in the geographical location

Total consumption of alcohol in Pune has increased with CAGR of ~20% over past few years. PLPL has a diversified clientele of which majorly constitute of retailers. Diversified customer base dissociates PLPL from sharp deterioration in credit profile and protects company from dip in sales from any single retail counter. Further, PLPL distributes the liquor in the Pune city having large consumer base marked by the increasing millennial population and increasing adaptation of liquor culture.

Positive outlook backed by brand portfolio restructuring

PLPL has achieved various milestones in liquor distribution, same has been recognised by the liquor brands resulting to which United breweries limited (UBL) has reclassified the brand portfolio for PLPL. UBL has added various high value brands in the portfolio simultaneously eliminating the low value brands, this will lead to secure better margin for the company over next fiscals.



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Key Weaknesses

Intense competition with high geographical concentration

PLPL's Operations are concentrated in Pune city hence highly exposed to local demand-supply dynamics as well as political/ economic conditions. Furthermore, liquor industry has intense competition due to presence of many brands in the sector, hence the company is also exposed to intense competition from other breweries and traders of other IMFL brands. However, PLPL's established presence over two decades imparts some comfort.

Vulnerability to regulatory changes

The liquor industry has a complex structure of duties and taxes that differ from state to state. Any change in the duty structure will constrain demand-supply dynamics. Also, the industry is governed by strict government regulations regarding advertising and brand promotion. Certain states prohibit and restrict liquor distribution. The industry is administered through a strict license regime. Any change in the license authorisation policy, such as discontinuation or restriction on renewal of licenses, or substantial increase in license fee could constrain its business risk profile.

Thin profitability

The financial risk profile of the company remained moderate marked by its thin profitability on account of low value additive trading nature of business with no pricing flexibility impacting its cash accruals and debt protection metrics. The company is operating at a thin EBITDA in the range of 2-3% in the past three years and a below unity PAT margin over the aforesaid period. However, the scale of operations of the company remained close to ~Rs.300 crore in the past two fiscals. In 9MFY20, the company generated a PBT of Rs.2.64 crore on total operating income of Rs.243.91 crore.

Working capital intensive operations leading to leveraged capital structure

Being in trading operations the company is large dependent on its bank borrowings to fund its high working capital requirements. The operations are working capital intensive due to its more



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than a month average collection period and inventory holding requirements for prompt supply of its traded goods. On the other hand, it needs to pay promptly to its suppliers to lift goods. Due to its higher reliance on bank borrowings, the average utilisation of bank borrowings of the company remained high at ~ 95% for past 11 months ended at January, 2020. Due to its higher reliance on bank borrowings the capital structure of the company remained leveraged with an overall gearing at 1.97x as on March 31, 2019. However, total indebtedness as reflected by TOL/TNW remained satisfactory 2.53x as on March 31, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

PLPL has generated a cash accruals of Rs.2.18 crore in FY19 vis-à-vis company has no debt repayment obligations. Further, PLPL liquidity position is adequate marked by sufficient cushion in expected accruals vis-à-vis its repayment obligations in FY20. The company is expected to generate cash accruals to the tune of ~Rs.2.80 crore to Rs.4.20 crore during FY20-FY22. However, the liquidity position is constrained due to its high utilisation of bank limits to ~95% for the last twelve months ended January, 2020 indicating a low liquidity buffer. However, company has sought enhancement in bank lines, supported by above unity current ratio at 1.41x as on March 31, 2019.

About the Company

Incorporated in 1998, by Mr. Neeraj Rawal, based out of Pune, Polaris Liquor Private Limited (PLPL) is in distribution of Indian-made foreign liquor (IMFL) and beers of United Breweries Ltd and distributes various brands of spirits for United Spirits Ltd/Diageo in Pune city. The company also sells imported wine and beer among others.



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Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	303.02	293.92
EBITDA	7.33	8.33
PAT	2.01	2.02
Total Debt	36.36	45.53
Tangible Net worth	21.30	23.29
EBITDA Margin (%)	2.42	2.83
PAT Margin (%)	0.66	0.69
Overall Gearing Ratio (x)	1.63	1.90

*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 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	61.00	IVR BBB- /Stable	-	-	-

*Total amount of facilities include proposed limit of Rs.16 crore

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.

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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 Bank Facilities-Cash Credit	-	-	-	61.00*	IVR BBB-/Stable

**Total amount of facilities include proposed limit of Rs.16 crore*