Press Release

South Seas Distilleries & Breweries Private Limited (SSDBPL)

May 28th, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Proposed Long Term Fund Based Facility – Proposed Term Loan	25.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
	Total	**25.00**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters backed by established track record of operations, locational advantage, healthy financial risk profile and healthy profitability margins. However, the rating strengths are partially offset by modest scale of operations, exposure to implementation risk to its on-going cap-ex and highly regulated industry.

Key Rating Sensitivities:

- **Upward Factor**
  - Substantial improvement in scale of operations, while maintaining the profitability & debt protection metrics.
- **Downward Factor**
  - Any decline in the scale of operations and/or profitability margin.
  - Significant deterioration in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

- ***Experienced promoters backed by established track record of operations:***

South Seas Distilleries & Breweries Private Limited (SSDBPL) was established in the year 1984 and is promoted by Mrs. Rupi Chinoy and her family members. The promoters haveextensive experience in the aforementioned industry. Backed by their experience, they have been able to identify opportunities in forward integration leading to business synergies, through one of their sister concern, Meher Distilleries Pvt Ltd, engaged in manufacturing of

Country Liquor and Indian made foreign liquor (IMFL).Also, the promoters are resourceful and have the ability to extend funds on a need basis. Additionally, it benefits from the vast experience of eminent professional acting as key management personals.

- ***Locational Advantage:***

SSDBPL has its manufacturing facilities located in Palghar District, Maharashtra. Palghar town is a fast emerging industrial and residential destination. The district has been identified by the state government for focused infrastructure development. It has numerous SMEs offering abundant employment avenues to spur the local economy. Industrial activity is expected to grow significantly in Palghar due to relatively cheaper land and labour. Skilled and Unskilled man power is easily available in Palghar. Since, there are industrial areas in and around the region, there is constant mobility of skilled and semi-skilled labourers. Also, the proximity to importers and exporters in Mumbai facilitates exports and imports.

- ***Healthy financial risk profile:***

SSDBPL's financial risk profile is healthy marked by strong gearing levels, healthy net worth and comfortable debt protection metrics. The company has followed a conservative financial policy since its inception, which is reflected through its gearing levels. Technically, the company avails no bank debt facility of any form and has no debt exposure as on March 31, 2019. It has received funding support in the form of equity capital and unsecured loans from its promoters and promoter driven companies. The outstanding balances of the Unsecured Loans amount to Rs. 16.44 Crore as on March 31, 2019 as against Rs. 16.42 Crore as on March 31, 2018. These funds are expected to be in the business over medium-long term.

The tangible net worth has sequentially improved to Rs. 51.08 Crore as on March 31, 2019 as compared to Rs. 46.13 Crore as on March 31, 2018 on account of healthy accretion to reserves. With the healthy net worth and no bank debt, the gearing levels remain healthy. Overall gearing (Adjusted Debt/Tangible Net worth) stood at 0.00x as on March 31, 2019 as against 0.02x as on March 31, 2018. Also, the TOL/TNW stood at 0.04x as on March 31, 2019 as compared to 0.08x as on March 31, 20198.

Other aspect of the company's healthy financial risk profile is the investments made and its liquid cash and cash equivalents. The company has non-current investments, particularly in shares amounting to Rs. 25.74 Crore as on March 31, 2019 when compared to Rs. 17.71

Crore as on March 31, 2018. Also, the Cash and Bank balances (liquid cash + FDs) amount to Rs. 7.18 Crore as on March 31, 2019 as against Rs. 5.11 Crore as on March 31, 2018.

- ***Healthy profitability margins:***

The company's EBITDA (%) improved to 45.68% in FY2019 from 41.74% in FY2018. EBITDA margin remains range bound between 38%-46% in the last four years ending FY20 (Provisional). The PAT (%) levels stand high at 19.31% in FY2019 as against 15.33% in FY18.The healthy profitability margins along with lower debt levels have resulted in healthy debt protection metrics. The interest coverage ratio (ICR) stood at 6.42x.

Key Rating Weaknesses

- ***Modest scale of operations:***

Revenues of the firm are modest and saw a marginal improvement to Rs. 25.78 Crore in FY2019 from Rs. 24.32 Crore in FY2018. This is due to the company's deals in Matured Malt spirit, which is of premium quality. In order, to expand its presence and increase its operations, the company is setting up a modification cum upgradation in its manufacturing plant based on grains as the feedstock to produce superior quality of potable alcohol (Rectified Spirit and Extra Neutral Alcohol). This certain upgradation drive shall help the company deal in volumes and improve its overall revenue generation. Revenues have further declined to Rs. 16.81 Crore in FY20 (Provisional), the company planned to keep the higher inventory to get the premium pricing due to increase age of malt spirit as the plant will remain close due to ongoing capex.

- ***Exposure to project implementation risk to its on-going capital expenditure:***

The company is undergoing a capex to upgrade its existing manufacturing plant. The total cost is to be around Rs. 31.30 Crore, which shall be funded by the way of term loan of Rs. 25.00 Crore and internal accruals of Rs. 6.30 Crore. The proposed capex is in the nascent stage and it can take upto 9 months to complete the entire upgradation drive. Any cost or time overrun could be a key rating factor. However, the promoter family being high net worth individuals would support the business in terms of any exigencies, and also, to cater the current demand, the company has very high inventory levels of spirit as on March 2020.

Hence, resourceful promoters and high inventory of stock shall help the company mitigate the risk for the medium term.

- ***Highly regulated industry:***

Indian liquor industry is heavily regulated by the governments, with regulations ranging from licensing, production, distribution, inter-state exports, raw material availability and advertisements. There has been a continuous regulatory change in terms of state government's policies towards liquor consumption. Any government regulation can have significant impact on their operating income and profitability.

Analytical Approach &Applicable Criteria:

Standalone Approach

Rating Methodology for manufacturing entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile is adequate with healthy internal cash accruals and sufficient buffer from cash and cash equivalents of Rs. 7.18 Crore as on March 31, 2019 and the investments made in shares amounting to Rs. 25.74 Crore as on March 31, 2019. Also, there is no major long term loan repayment obligation for the short-medium term. Hence, despite its high cost plant upgradation, the liquidity is expected to be comfortable given the envisaged revenues and profitability.

About the Company

South Seas Distilleries & Breweries Private Limited (South Seas) was established on November 29th, 1984. The company is engaged in manufacturing and exporting of Matured Malt, Grain and Blended Whisky in bulk and also bottled Alcoholic Beverages like Vodka, Gin and Rum. The company is promoted by a group of well experienced and business acumen professionals, led by Mrs. Rupi Chinoy, the Chairman & Managing Director. It is Maharashtra’s first and India’s largest Grain Alcohol Distillery and has around 35K to 40k of oak barrels for its whiskey ageing operations. The company is undergoing a modification cum upgradation in its existing Manufacturing plant based on grains as the feedstock to produce superior quality of potable alcohol (Rectified spirit and Extra Neutral Alcohol).

Financials:

(Rs. Crore)

For the year ended/ As On*	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	24.32	25.78
EBITDA	10.15	11.78
PAT	3.73	4.98
Total Debt^	0.86	0.00
Tangible Net-worth	46.13	51.08
EBITDA Margin (%)	41.74	45.68
PAT Margin (%)	15.33	19.31
Overall Gearing Ratio (x)	0.02	0.00

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. 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.	Proposed Long Term Fund Based Facility – Proposed Term Loan	Long Term	25.00	IVR BBB-/Stable	--	--	--

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. 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
Proposed Long Term Fund Based Facility – Proposed Term Loan	NA	NA	NA	25.00	IVR BBB-/Stable