

Press Release

Tulsi Trading Corporation

April 06, 2020

Ratings

| Sl. No. | Instrument/Facility | Amount (INR Crore) | Rating Assigned | Rating Action |
|--------------|---|-----------------------|---|--|
| 1 | Long Term Fund Based Facility – Cash Credit | 24.00 | IVR BBB-/ (Credit Watch with Developing Implications) | Changed from IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook) |
| Total | | 24.00 | | |

Details of Facilities are in Annexure I

Detailed Rationale

The rating affirmation continues to derive strength from Experienced promoters, Established relationship with UB group, Diversified clientele and Moderate capital structure and debt protection metrics. However, these strengths are, partially offset by Low profitability, Prices controlled by manufacturers, Exposure to regulatory changes, Withdrawal from the partners’ capital and Competition from established brands.

The Rating is under Credit watch with developing implications on account of decline in the revenue & EBITDA margin in 9MFY20.

Key Rating Sensitivities

- **Upward rating factor(s)** – Substantial improvement in revenue and/or profitability margins leading to sustained improvement in debt coverage indicators may lead to a positive rating action

- **Downward rating factor(s)** - Any deterioration in revenue and/or profitability margin leading to deterioration in debt coverage indicators may lead to a negative rating action

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoter

The promoters of Tulsi Trading Corporation (TTC) have a long track record of more than four decades in the beer and liquor trading segment. Initially they were engaged in the distribution of beer of United Breweries Limited and IMFL brands of United Spirits Limited through Tulsi Trading Corporation (TTC). The business was originally started by Mr. Somjimal Fatnani, father of Mr. Ram Fatnani, in 1972. FY16 onwards, the business was split between RB and TTC.

Established relationship with UB group

The firm has an established relationship with United Breweries Limited and United Spirits Limited and is the main distributor of their products in its area of operation i.e., Thane district. Both these suppliers together control 65-70% of market share in the liquor industry.

Diversified clientele

The firm has a diversified client base. As the firm is into trading business of beer and IMFL, it caters to many small wine and beers shops and clubs in Thane district. The top 10 customers of the company accounted for 19.08% of total sales in 2019.

Moderate capital structure and debt protection matrix

TTC has a moderate capital structure is marked by an overall gearing ratio of 1.12x as on March 31, 2019 (as compared to 1.42x on March 31, 2018). In FY18 total debt to GCA and long term debt to EBITDA were 8.09x (8.83x for FY18) and 0.00x (0.41x for FY18), respectively. The Interest coverage ratio of the firm was also comfortable at 1.98x as on 31st March 2019.

Key Rating Weaknesses

Low profitability

The profitability ratios of the firm are low with an EBITDA margin of 1.79% and a PAT margin of 0.87% for FY19. They have come down in FY19 as compared to the previous years. Furthermore, the profitability took a hit due to the decreasing topline resulting from the legislative elections of 2019 in various parts of Maharashtra.

Prices controlled by manufacturers

The firm does not have any control over the pricing of the products that it distributes. The prices are closely controlled by the manufacturers, UB and USL. Hence, TTC has limited flexibility in terms of pricing and consequently the margins earned by the firm are restricted to that extent.

Exposure to regulatory changes

TTC, like other players in the liquor business, remains exposed to changes in the legal and regulatory environment such as close monitoring of sales, revision of tax rates, ban on liquor sales, etc.

Withdrawal from the partners' capital

There is no restriction on the partners as regards withdrawal of capital from the business. They may do so at any time and to any extent. Any withdrawals from the capital account is a key monitorable for the rating of the entity.

Competition from established brands

The firm is exposed to the risk of losing market share to brands that are competing against the brands of UB group. However, the prime position of the UB group brands in the market provides comfort.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Trading Entities

Financial Ratios & Interpretation (Non - Financial Sector)

Liquidity

The firm does not have any term loans and the DSCR for FY19 has been adequate, while the projected DSCR also appears to be comfortable. The average bank limit utilisation of the firm is ~76.05%. Since, the entity is carrying on a trading business, the profitability margins are moderate. However, the cash accruals are sufficient to ensure servicing of the interest outgo. The promoters are resourceful and can infuse capital if required. The overall liquidity of the company is **Adequate**.

About the Company

Tulsi Trading Corporation (TTC) was incorporated in 1987 as a proprietorship firm. The firm is led by Fatnani family. Mr. Ramchand Fatnani, Mr. Bhagwan Fatnani, Mr. Shanker Fatnani. TTC is engaged in the distribution of beer of United Breweries Limited (UBL) and IMFL brands of United Spirits Limited (USL). Effective December 31, 2018, TTC was reconstituted in to a partnership firm, with two partners in Mr. Bhagwan Fatnani and Mr. Shankar Fatnani, who are Mr. Ram Fatnani's cousins.

For selected brands of UBL's beer, the firm has distributorship rights for Ulhasnagar and Navi Mumbai (Airoli to Belapur). For USL's IMFL, TTC has distributorship rights for Dombivili and Kalyan. The offices of the firm are located at Ulhasnagar and Thane and warehouses at Kongoan (Kalyan), Maharashtra.

Financials Standalone

(INR crores)

| For the year ended* / As On | 31-03-2018 (Audited) | 31-03-2019 (Audited) |
|------------------------------------|---------------------------------|---------------------------------|
| Total Operating Income | 219.15 | 237.07 |
| EBITDA | 4.71 | 4.25 |
| PAT | 2.51 | 2.06 |
| Total Debt | 23.26 | 17.41 |
| Tangible Networkth | 15.63 | 10.48 |
| EBITDA Margin (%) | 2.15 | 1.79 |
| PAT Margin (%) | 1.14 | 0.87 |
| Overall Gearing Ratio (x) | 1.42 | 1.12 |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 sanctioned/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 | Long Term Fund Based Facility - Cash Credit | Long Term | 24.00 | IVR BBB-/ (Credit Watch with Developing Implications) | IVR BBB- / Stable (May 03, 2019) | | -- |

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 |
|-------------------------|-------------------------|-------------------------|----------------------|-------------------------------------|--|
| Cash Credit | -- | -- | -- | 24.00 | IVR BBB-/ (Credit Watch with Developing Implications) |