Agrawal Distilleries Private Limited

June 10, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term- Fund Based Bank Facilities	44.00	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus; Credit Watch with Developing Implications)	Rating reaffirmed and placed under Credit Watch with Developing Implications	Simple
Short Term- Non Fund Based Bank Facilities	1.00	IVR A3; Credit Watch with Developing Implications (IVR A Three; Credit Watch with Developing Implications)	Rating reaffirmed and placed under Credit Watch with Developing Implications	Simple
Total	**45.00 (Rupees Forty Five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of the Agrawal Distilleries Private Limited (ADPL) derives strength from its experienced promoters, strong business profile with high entry barriers in the industry and moderate financial profile of the company. The ratings are, however, constrained by the high project risk, susceptibility of profitability to volatility in the input prices, and highly regulated nature of liquor industry.

Further, the ratings have been placed on Credit Watch with Developing Implications on account of the ongoing debt funded capex and its expected commissioning in July 2022. Infomerics will be closely monitoring the impact of the same on the company's credit profile.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and improvement in profitability
- Sustenance of the capital structure and improvement in debt protection metrics

Downward Factors

- Any further cost or time overrun in the implementation of ongoing capex, thereby delaying cash flows from the project
- Any un-envisaged incremental debt funded capital expenditure deteriorating its overall gearing ratio beyond 1.75x on a sustained basis
- Adverse regulatory changes having significant impact on the operations/ financials of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters of the company have more than three decade-long experience in the liquor industry. Mr Harminder Singh Bhatia is engaged in government licensed wholesale liquor and distillation of liquor since 1987. He has a broad experience in trading and manufacturing of country liquor and Indian made foreign liquor (IMFL). Mr Jaivinder Singh Bhatia, son of Mr. Harminder Singh Bhatia, looks after the day-to-day administration of the company for a decade.

Strong business profile with high entry barriers in the industry

The liquor industry is state driven i.e. under the control of state government. The state of Madhya Pradesh has provided licence to ADPL to sell country liquor in 3 of its districts. It has a distillation plant and bottling plant in Khargone district, and government provided warehouses located at Katni, Khandwa and Betul districts. The company enjoys a monopoly with exclusive right to sale in 3 districts, which mitigates the risk of price competition and ensures steady demand.

Further, liquor policies governing production and sale are entirely controlled by the various state governments. With all alcohol consuming states/union territories having their own regulations, tax structures and entry-exit restrictions, it is very difficult for new entrants to get licenses, thus providing a competitive advantage to the existing players.

Moderate financial profile

ADPL's total operating income declined by 17%, from Rs.55.21 crore in FY20 to Rs.45.97 crore in FY21 mainly due to covid-19 related lockdown and its impact on the liquor industry in FY21, especially in H1FY21. Despite this, its EBITDA margin increased substantially from 9.79% in FY20 to 17.22% in FY21 due to improvement in the raw material prices. In line with this, its PAT margin also improved from 5.64% in FY20 to 9.86% in FY21 and GCA increased marginally from Rs.4.01 crore in FY20 to Rs.5.52 crore in FY21.

ADPL is executing a capacity expansion project, due to which it availed debt in FY21. Accordingly, its overall gearing ratio and TOL/ TNW ratio deteriorated from 0.27x and 0.59x respectively as on March 31, 2020 to 0.92xand 1.32x respectively as on March 31, 2021. Its interest coverage ratio declined marginally from 9.39x in FY20 to 9.06x in FY21 due to the increase in interest expenses, while the Total debt/ GCA deteriorated from 1.50x in FY20 to 4.57x in FY21.

Post unlocking, ADPL reported 8% increase in the total operating income to Rs.49.67 crore in FY22 (Prov.). Its EBITDA margin and PAT margin moderated due to an increase in the raw material prices. However, they remained high at 13.48% and 7.42% respectively in FY22 (Prov.). Due to the ongoing capex, its capital structure and debt protection metrics moderated further, with overall gearing and TOL/ TNW ratios of 1.11x and 1.37x respectively as on March 31, 2022 (Prov.), while its interest coverage and Total debt/ GCA ratios stood at 8.42x and 10.23x respectively in FY22 (Prov.).

Key Rating Weaknesses

High project risk

The company is in the process of expanding its manufacturing capacity by setting up of a grain-based distillery plant of 144 lac bulk ltr p.a., making the total installed capacity of 198 lac bulk ltr p.a. against licensed capacity of 360 lac bulk ltr. p.a. This will be in addition to its molasses-based distillery plant. The setting up of new unit is proposed to be done on turnkey basis. The company has finalised Praj Industry Limited (PIL) as the contractor. PIL will be responsible for entire civil work, installation and site development. The proposed unit is over 3.21 hectare of land, adjacent to the existing manufacturing unit. The land is already owned by the company.

The cost of project was initially estimated at Rs.54.15 crore to be funded by debt of Rs.34 crore and remaining Rs.20.15 crore to be funded from promoters' funds. The project has achieved financial closure. The project is estimated to be completed by July 2022. The project was initially expected to be completed by July 2021. However, there was a delay in implementation on account of Covid-19 lockdown and the COD was postponed by a year to July 2022. Against the initial estimated cost of Rs.54.15 crore, the project cost is estimated to increase to Rs.62.00 crore. The increase in the cost will be funded by unsecured loans from promoters.

As on December 31, 2021, the company has incurred Rs.54.95 crore on the capex funded through share capital of Rs.7.08 crore, share application money of Rs.3.20 crore, reserves and share premium of Rs.10.24 crore, unsecured loan of Rs.4.62 crore and term loan from bank of Rs.29.81 crore. Successful and timely completion of the project with no further cost or time overrun remains a key rating sensitivity.

Susceptibility of profitability to volatility in the input prices

The raw material accounts for around 60% of total cost of sales. The company procures the raw materials like molasses, glass bottles, packing materials etc. from the market at spot rates, the prices of which are volatile in nature. Any upward movement in the raw material prices may adversely affect the profitability of ADPL.

Highly regulated nature of liquor industry

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently including control on pricing. Beside this, there is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. The complexity of the industry further lies in the different types of distribution models followed in various states like government-controlled agencies, private distribution system and auction. The uncertainty evolving around any regulatory norms make the industry vulnerable and profitability susceptible to any unforeseen changes.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation (Non- Financial Sector)](#)

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its debt repayment obligations. Besides, average utilisation of working capital limits remained comfortable at around 55% in the twelve months ended March 2022. Current ratio and quick ratio were 2.43x and 2.02x respectively as on March 31, 2021, indicating comfortable short-term liquidity. The company is undertaking a capacity enhancement project which will be funded out of debt and promoters' contribution.

About the Company

ADPL promoted by Mr. Subhash Agrawal and Mr. Luv Agrawal, was incorporated as Agrawal Breweries & Textile Limited in 1997. Subsequently, the company was taken over by Vivashwan Hotel India Pvt. Ltd. (VHIPL) in 2005 and renamed to Agrawal Distilleries Private Limited. Post takeover VHIPL sold 65% of the shares to the current promoters of the company which is entirely managed by Mr. Harminder Singh Bhatia since April 2015.

Mr Harminder Singh Bhatia has been in liquor industry for more than three decades, with vast experience in trading and manufacturing of country liquor and IMFL. He is also part of Regent Beers and Wines since past 4 years. Regent Beer manufactures 'The Bira 91' beer. Mr. Jaivinder Singh is actively involved in administration of the company.

The company is engaged in business of distilling and bottling of country liquor. The company has manufacturing capacity of 54 lac bulk litre p.a. in distilleries plant and 17 lacs cases p.a. in bottling plant. The company operates its business in 4 different districts of Madhya Pradesh; it has a distillation plant and bottling plant in Khargone district and the company has warehouses located at Katni, Khandwa and Betul districts of Madhya Pradesh which are provided by government.

The company operates molasses-based distillery and currently, it has capacity of 54 lac bulk ltr p.a against its licensed capacity of 360 lakh bulk ltr p.a.

Financials (Standalone):

(Rs. crore)

For the year ended/As on*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	55.21	45.97
EBITDA	5.40	7.91
PAT	3.14	4.56
Total Debt	6.03	25.20
Tangible Net Worth	22.73	27.29
Ratios		
EBITDA Margin (%)	9.79	17.22
PAT Margin (%)	5.64	9.86
Overall Gearing Ratio (x)	0.27	0.92

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (October 14, 2019)
1.	Long Term-Fund Based Bank Facilities	Long Term	44.00	IVR BBB-; Credit Watch with Developing Implications	-	• IVR BBB-/ Stable (March 12, 2021) • IVR BB+; Issuer Not Cooperating* (December 18, 2020)	IVR BBB-/ Stable
2.	Short Term-Non Fund Based Bank Facilities	Short Term	1.00	IVR A3; Credit Watch with Developing Implications	-	• IVR A3 (March 12, 2021) • IVR A4+; Issuer Not Cooperating* (December 18, 2020)	IVR A3

**Issuer did not cooperate; based on best available information*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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	-	-	-	10.00	IVR BBB-; Credit Watch with Developing Implications
Term Loan	-	-	March 31, 2025	34.00	IVR BBB-; Credit Watch with Developing Implications

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Bank Guarantee	-	-	-	1.00	IVR A3; Credit Watch with Developing Implications

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/10-06-22-ADPL-Lender.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.