



Press Release

Agrawal Distilleries Private Limited (ADPL)

March 12, 2021

Ratings

Facilities	Amount (INR crore)	Current Ratings	Previous Ratings	Rating Action
Long term Bank Facilities – Term Loan	34.00	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	-	Assigned
Long term Bank Facilities – Term Loan	3.90	-	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	Withdrawn
Long term Bank Facilities – Proposed Term Loan	36.00	-	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	Withdrawn
Long term Bank Facilities – Cash Credit	10.00 (enhanced from 4.00)	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	Reaffirmed
Short term Bank Facilities – Bank Guarantee	1.00	IVR A3 (IVR A Three)	-	Assigned
Short Term Bank Facilities – Bank Guarantee	3.00	-	IVR A4+ ISSUER NOT COOPERATING (IVR A Four Plus ISSUER NOT COOPERATING)	Withdrawn
Total	45.00 (Forty-Five)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank loan facilities of Agrawal Distilleries Private Limited (ADPL or 'Company') has been removed from the 'ISSUER NOT COOPERATING' category as the



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Company has now submitted the information required for the rating exercise. In a review of the information, the ratings take cognisance of the Extensive Experience and Established Track Record of the Promoters in Liquor Industry, Strong Business Profile and Moderate Financial Profile. The ratings also derive comfort from the High Entry Barriers in Alcohol Industry and Favourable Industry Prospects. However, these rating strengths are constrained by Volatility in Input Prices, Highly Regulated Nature of Alcohol Industry and Project Related Risk.

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

- Cost or time over run in the implementation of planned capex, thereby delaying cash flows from the project, or creating tightening of the company's liquidity position.
- 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

Extensive Experience and Established Track Record of the Promoters in Liquor Industry

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



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Harminder Singh Bhatia, looks after the day-to-day administration of the company since a decade.

Strong Business Profile

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

Moderate Financial Profile

Company's operating income and profitability deteriorated in FY20 on account of Covid-19 related lockdown in March 2020 and increase in raw material prices of molasses. However, the debt profile and coverage indicators of the Company remained healthy. Company recorded operating income of INR 55.21 Crore (FY19: INR59.40Crore), EBITDA margin of 9.79% (12.54%), overall gearing of 0.27x (0.36x), debt/EBITDA of 1.12x (0.96) and interest coverage of 9.39x (12.39x).

High Entry Barriers in Alcohol Industry

Liquor policies governing production and sale of liquor are entirely controlled by the respective state governments. With all the 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.

Favourable Industry Prospects

Growing disposable incomes, increasing rural consumption, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, are all factors that make India one of top markets for global spirit companies. These demographics also support the case for the growth of aspirational brands and premium products. Consumer needs and preferences are evolving, and they are now more focused on quality, convenience, value proposition and personalization to suit their styles and values. India has a young



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demographic profile with a median age of 28 years and around 67% of the population is within the legal drinking age. These two indicators represent significant growth opportunities for the industry.

Key Rating Weaknesses

Volatility in Input Prices

The raw material accounts for around 60% of total cost of sales. The company procure 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 materials may adversely affect the profitability of ADPL, as evidenced in FY20.

Highly Regulated Nature of Alcohol 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. Moreover, 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.

Project Related Risk

The company is proposing to expand its manufacturing capacity by setting up of an additional grain-based distillery process plant of 40,000 KLPD at existing factory site, making the total capacity of 65,000 KLPD. However, the cost of project is estimated at Rs.54.15 crore which is to be funded by debt of INR34Crore and remaining shall be funded out of promoters' funds and internal accruals. The project has achieved financial closure. The project is estimated to be completed by December 2021. Successful and timely completion of the project with no cost over-run and time delay remains a key rating sensitivity.



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Analytical Approach: Standalone

Applicable Criteria:

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. Further, the average utilisation of working capital limits also remained comfortable at ~ 62% in the twelve months ended January 2021. Current ratio and quick ratio were recorded at 1.84x and 1.52x respectively, indicating comfortable short-term liquidity.

About the Company

Incorporated in 1997 as Agrawal Breweries & Textile Limited, Company was renamed in 2005 to Agrawal Distilleries Private Limited. It was taken over by current promoters in 2015. ADPL is engaged in business of distilling and bottling of country liquor. The company has manufacturing capacity of 54 lac bulk liter p.a of distilleries plant and 17 lacs cases p.a of bottling plant. Company operates its business in three 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 district of Madhya Pradesh which are provided by government. The company operates molasses-based distillery and has capacity of 54 lac bulk ltr p.a against its licensed capacity of 360 lakh bulk ltr p.a. However, with the planned capex of 144lac bulk ltr p.a. with grain-based distillery, at village Sabalpura, Khargone (M.P.), the total installed capacity of the Company will increase to 198 lac bulk ltr p.a. against licensed capacity of 360 lac bulk ltr. p.a.

Financials (Standalone)*:

(In Crore)

For the year ended / As on	31-03-2018	31-03-2019	31-03-2020
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	(Audited)	(Audited)	(Audited)
Total Operating Income	50.28	59.40	55.21
EBITDA	6.51	7.45	5.40
PAT	3.77	5.80	3.14
Total Debt	3.11	2.15	1.43
Tangible Net-Worth	13.79	19.59	22.73
Ratios			
EBITDA Margin (%)	12.95	12.54	9.79
PAT Margin (%)	7.44	9.49	5.64
Overall Gearing Ratio (x)	0.53	0.36	0.27

* Classification as per Infomerics' standards

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

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (December 18, 2020)	Date(s) & Rating(s) assigned in 2019-20 (October 14, 2019)	Date(s) & Rating(s) assigned in 2018-19
1.	Long term Bank Facilities – Term Loan	Fund Based	34.00	IVR BBB- /Stable Outlook (IVR Triple B Minus with Stable Outlook)	-	-	-
2.	Long term Bank Facilities – Term Loan	Fund Based	3.90	-	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	IVR BBB- /Stable Outlook	
3.	Long term Bank Facilities – Proposed Term Loan	Fund Based	36.00	-	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	(IVR Triple B Minus with Stable Outlook)	-



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4.	Long term Bank Facilities – Cash Credit	Fund Based	10.00 (enhanced from 4.00)	IVR A3 (IVR A Three)	IVR BB+ ISSUER NOT COOPERATING (IVR Double BB Plus ISSUER NOT COOPERATING)	IVR A3 (IVR A Three)	
5.	Short term Bank Facilities – Bank Guarantee	Non-Fund Based	1.00	IVR A3 (IVR A Three)	-	-	
6.	Short Term Bank Facilities – Bank Guarantee	Non-Fund Based	3.00	-	IVR A4+ ISSUER NOT COOPERATING (IVR A Four Plus ISSUER NOT COOPERATING)	IVR A3 (IVR A Three)	

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



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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	Size of Facility (Rs. Crore)	Maturity Date	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	34.00	FY28	IVR BBB-/Stable Outlook
Long Term Bank Facility – Term Loan	3.90	FY22	Withdrawn
Long Term Bank Facility – Proposed Term Loan	36.00	-	Withdrawn
Long Term Bank Facility – Fund Based – Cash Credit	10.00 (enhanced from 4.00)		IVR BBB-/Stable Outlook
Short Term Bank Facility – Non-Fund Based – Bank Guarantee	1.00		IVR A3
Short Term Bank Facility – Non-Fund Based – Bank Guarantee	3.00		Withdrawn



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Annexure 2 Facility wise lender details (Hyperlink to be added)

<https://www.infomerics.com/admin/prfiles/lender-Agrawal-Distilleries-Private-Limited-March-21-.pdf>

