Press Release

Agrawal Distilleries Private Limited

October 09, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	48.54 (Increased from Rs.40.00 crore)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities	4.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook) and Withdrawn	Reaffirmed and Withdrawn *	Simple
Short Term Bank Facilities	4.00 (Increased from Rs.1.00 crore)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**56.54 (Rupees Fifty Six Crore and Fifty Four Crore Only)**			

* The above action has been taken at the request of ADPL and 'No Objection Certificate' received from the bank who has extended the facilities, and which is rated by Infomerics.

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank loan facilities of Agrawal Distilleries Private Limited (ADPL) derives strength from experienced promoters, strong business profile with high entry barriers in the industry, substantial improvement in revenue in FY23 and stable credit profile. The ratings however constrained by significant decline in EBITDA margin in FY23, Susceptibility of profitability to volatility in the input prices and highly regulated nature of liquor industry.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the company's revenue and/or profitability while maintaining the debt protection parameters
- Sustenance of the capital structure and improvement in debt protection metrics.

Downward Factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection parameters
- 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 4 of its districts. It has a grain-based distillation plant in Khargone district, and government provided 8 warehouses and the local shops located at Khandwa, Annupur, Ratlam and Sehore can purchase only from the company. The company enjoys a monopoly with exclusive right to sale in 4 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.

- **Substantial improvement in revenue in FY23**

  Revenue has increased by 53% during FY23 to Rs.76crs driven by increase in volumes. Volumes have increased to 76,35,556 in FY23 as compared to 17,89,789 in FY22 due to capacity additions. The company has achieved total operating income of Rs.62.73 crore for 5MFY24 as compared to Rs.22.52 crore for 5MFY23, driven by higher realisation and increase in volumes. Realisation per case has increased to Rs.562 per case for Masala brand during FY24 (FY23: Rs.410 per case); while for plain it has increased to Rs.478 per case during FY24 (FY23: Rs.378 per case).

- **Stable Credit Profile**

  Despite declined in profitability ADPL's credit profile marked by TOL/TNW and overall gearing marginally deteriorated yet remain comfortable and stood at 1.27x and 2.04x respectively at the end of FY23 as compared to 1.10x and 1.37x respectively at the end of FY22. IVR expects credit profile to improve from FY24 onwards with improvement in profitability and TOL/TNW and overall gearing is likely to improve to 1.02x and 1.33x respectively at the end of FY24.

Key Rating Weaknesses

- **Significant decline in EBITDA margin in FY23**

  EBITDA margins have declined to 8.82% in FY23 as compared to 13.85% in FY22 due to increase in power and fuel cost which has increased to Rs.Rs.15.27 crore in FY23 as compared to Rs.2.83 crore in FY22. Power and fuel cost have increased due to increase in coal cost which has increased to Rs.11,500 per tonne in FY23 as compared to Rs.8,000 per tonne in FY22, coal cost has increased due to Ukrain-Russia war. However, EBITDA margins have improved during FY24 reflected by margins of 12% for 5MFY24 with stable coal cost and higher realisation.

- **Susceptibility of profitability to volatility in the input prices**

  The raw material along with fuel expenses accounts for around 68% of total cost of sales. The company procures the raw materials like rice, caps, bottles, labels 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:

Policy on Default Recognition

Criteria of assigning Rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Policy on Withdrawal of Ratings

Liquidity – Adequate

ADPL's liquidity is moderate with average monthly cash credit utilization is at 46% for the twelve months ended August 23. Net working capital cycle has improved in FY23 to 8 days due to increase in creditor days which has increased to 88 days in FY23 as compared to 45 days in FY22. Creditors days have increased due to change in the suppliers from sugar companies to food grain, as the company is getting more credits from food grain suppliers. DSCR at the end of FY23 declined to 1.2x due to decline in profitability. Cash flow from operations remained positive in FY22 and FY23 despite decline in profitability.

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 and sales of spirits. ADPL operates business out of government owned warehouse located at 4 districts of Madhya Pradesh, (having 8 warehouses) and the local shops located at Khandwa, Annupur, Ratlam and Sehore can purchase only from the company. Thus, country liquor shop owners are the major customers of ADPL.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	49.67	75.89
EBITDA	6.88	6.69
PAT	3.92	-1.48
Total Debt	48.16	53.77
Tangible Net worth	43.78	42.30
EBITDA Margin (%)	13.85	8.82
PAT Margin (%)	7.84	-1.94
Overall Gearing Ratio (times)	1.10	1.27

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil.

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
Press Release						**–**	**March 12, 2021**
1.	Long Term Bank Facilities – Cash Credit	Long Term	6.00	IVR BBB-/ Stable	IVR BBB-/ Stable (December 5, 2022) IVR BBB-/ CWDI * (June 10, 2022)	–	IVR BBB-/ Stable
2.	Long Term Bank Facilities – Cash Credit	Long Term	4.00	IVR BBB-/ Stable and Withdrawn	IVR BBB-/ Stable (December 5, 2022) IVR BBB-/ CWDI (June 10, 2022)	–	IVR BBB-/ Stable
3.	Long Term Bank Facilities – Secured Overdraft	Long Term	5.00	IVR BBB-/ Stable	–	–	–
4.	Long Term Bank Facilities – Term Loan	Long Term	33.04	IVR BBB-/ Stable	IVR BBB-/ Stable (December 5, 2022) IVR BBB-/ CWDI (June 10, 2022)	–	IVR BBB-/ Stable
5.	Long Term Bank Facilities – GECL	Long Term	4.50	IVR BBB-/ Stable	–	–	–
6.	Short Term Bank Facilities –	Short Term	4.00	IVR A3	IVR A3 (December 5, 2022)	–	IVR A3

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
Press Release						**–**	**March 12, 2021**
	Bank Guarantee				IVR A3 / CWDI (June 10, 2022)		

* CWDI – Credit Watch with Developing Implications

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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

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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	–	–	–	6.00	IVR BBB-/ Stable
Long Term Bank Facilities – Cash Credit	–	–	–	4.00	IVR BBB-/ Stable and Withdrawn
Long Term Bank Facilities – Secured Overdraft	–	–	–	5.00	IVR BBB-/ Stable
Long Term Bank Facilities – Term Loan	–	–	May 31, 2028	33.04	IVR BBB-/ Stable
Long Term Bank Facilities – GECL	–	–	February 01, 2027	4.50	IVR BBB-/ Stable
Short Term Bank Facilities – Bank Guarantee	–	–	–	4.00	IVR A3

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Agrawal-oct23.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.