Agrawal Distilleries Private Limited (ADPL)

November 12, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	60.58 (Increased from Rs.52.54 crore)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Facilities	6.00 (Increased from Rs.4.00 crore)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**66.58 (Rs. Sixty Six crore and Fifty Eight lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the bank facilities of ADPL continues to derive strength from improvement in operating performance and profitability in FY24, comfortable capital structure and debt protection metrics, strong business profile with high entry barriers in the industry and experienced promoters. However, these rating strengths are partially offset by project implementation risk, susceptibility of profitability to volatility in the input prices and highly regulated nature of liquor industry.

The Stable Outlook of ADPL reflects benefit from experienced promoters and moderate financial risk.

Key Rating Sensitivities:

Upward Factors

- Completion of capacity additions without any time and cost overrun and achievement of revenue and profitability while attaining geographical diversification
- Improvement in the overall financial risk profile and the liquidity position.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Any time or cost overrun in current capex plans and/or any declined in revenue and profitability and/or any further elongation of working capital cycle leading to deterioration in credit profile and the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Total operating income and profitability have substantially improved in FY24**
  Total operating income has substantially increased by 111.65% to Rs. 160.62 crore in FY24 (period refers from April 1,2023 to March 31, 2024) (P.Y.: Rs.75.89 crore), driven by higher realisation and increase in volumes. Further, ADPL has achieved total operating income of Rs.69.06 crore in H1FY25 against Rs.62.73 crore in H1FY24, due to increase in volumes. EBITDA margin has improved to 10.66% in FY24 against 8.82% in FY23, mainly due to operational efficiency. In line with EBITDA margin, PAT margin has also improved to 4.91% in FY24 against PAT loss in FY23.

- **Comfortable capital structure and debt protection metrics**
  ADPL's capital structure has improved due to repayment of term loans and also improvement in net worth due to retaining of profits as overall gearing on Adjusted Tangible Net Worth (ATNW) and TOL/ATNW have remained at comfortable levels and stood at 0.96x and 1.58x respectively at the end of FY24 as compared to 0.95x and 1.61x respectively at the end of FY23. Interest coverage ratio has improved and stood at comfortable level at 3.51x in FY24 (P.Y.: 2.23x) and total debt/NCA has also improved and stood at 4.28x in FY24 (P.Y.: 10.99x).

- **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. 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.

- **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.

Key Rating Weaknesses

- **Project implementation risk**

  ADPL is incurring capex of Rs.78.80 crore to expand its capacity from 40 KLPD to 100 KLPD funded through debt of Rs.57.70 crore and balance through unsecured loans from promoters/related parties. ADPL has already completed financial closure for its term loan and the term loan is sanctioned by HDFC Bank. Till September 30, 2024, ADPL has incurred cost of Rs.14.64 crore and balance are expected to be incurred as per scheduled progress of the project. The completion date for the project is proposed dated March 31, 2025.Infomerics notes that any time or cost overrun may impact its projected revenue or growth.

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

  The raw material along with fuel expenses accounts for around 74% 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:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria for assigning Rating outlook
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

ADPL's liquidity is expected to remain adequate in medium term as the company is expected adequate cash accruals ranging from Rs.11.52 crore to Rs.42.69 crore against repayments ranging from Rs.7.96 crore and Rs.15.64 during FY25 to FY27. The free cash and cash equivalents balance stood at Rs.6.00 crore as on March 31, 2024, while average working capital utilisation for the 12 months ended October 2024 remained moderate at ~72%. Current ratio stood at 1.06x as on March 31, 2024.

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 Indian made foreign liquor. Mr. Jaivinder Singh is actively engaged in administration of the company. The company is engaged in business of distilling and bottling of country liquor and sales of spirits.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	75.89	160.62
EBITDA	6.69	17.12
PAT	-1.48	7.92
Total Debt	46.69	55.02
Tangible Net Worth	49.38	57.20
EBITDA Margin (%)	8.82	10.66
PAT Margin (%)	-1.94	4.91
Overall Gearing Ratio (x)	0.95	0.96
Interest Coverage (x)	2.23	3.51

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					October 9, 2023		-
1.	Cash Credit	Long Term	15.00	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable (December 5, 2022) IVR BBB-/ CWDI * (June 10, 2022)	-
2.	Term Loan	Long Term	45.58	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable (December 5, 2022) IVR BBB-/ CWDI * (June 10, 2022)	-
3.	Bank Guarantee	Short Term	6.00	IVR A3	IVR A3	IVR A3 (December 5, 2022)	-

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					October 9, 2023		-
						IVR A3/ CWDI * (June 10, 2022)	

* CWDI – Credit Watch with Developing Implications

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	15.00	IVR BBB-/ Stable
Term Loan	-	-	-	Upto January 2032	45.58	IVR BBB-/ Stable
Bank Guarantee	-	-	-	-	6.00	IVR A3

Annexure 2: Facility wise lender details: **https://www.infomerics.com/admin/prfiles/len-Agrawal-Distilleries-nov24.pdf**

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.