



Press Release

K. D. Liquor & Fertilizer Pvt. Ltd

February 10, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	49.85 (enhanced from 25.73)	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	1.50 (reduced from 13.50)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Short Term Bank Facilities – ILC	-	-	Withdrawn	-
Total	51.35 (Rs Fifty-One crore and Thirty Five lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of K. D. Liquor & Fertilizer Pvt. Ltd. (KDL) continues to derive comfort from its experienced promoters with backward integration initiatives to strengthen its operations, presence of established brand in product portfolio, increased market share through tie-ups and low counter party risk after introduction of West Bengal State Beverages Corporation (BEVCO) in West Bengal. The ratings also note its stable operating performance in FY21, comfortable gearing with healthy debt protection parameters and comfortable working capital management. These rating strengths are, however, continues to remain constrained by volatility in its input prices, competition from unorganised players, presence in highly regulated Indian alcohol industry and exposure to group company in the form of corporate guarantee.

Key Rating Sensitivities:

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/TNW to remain below 1x on a sustained basis
- Reduction in exposure to group company

Downward Factors



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- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 3x
- Deterioration in the capital structure with TOL/TNW gone over 2.5x
- Deterioration in working capital management affecting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and backward integration initiatives**

The promoters are well experienced in the industry. Mr. Sinha and Mr. Pandey both have an experience of more than two decades in the industry. Mr. Jaiswal is an MBA, has around five years of experience. In order to support the operations, the promoters have set up a group entity named Westwell Distributors Private Limited for manufacturing of Preform and Pet blowing Bottles near the factory unit of KDL to ensure uninterrupted supply of bottles to the company. Around 50% of companies' requirements are procured from its group company.

- **Established Brand and increased market share through tie-ups**

Over the years of its operation KDL has established its brands like 'Bengal Tiger' and 'Uddan' in various districts of West Bengal. These brands are now well established in Nadia and Burdwan districts and have spread to other nearby areas like Haldia, and Hoogly, Dankuni regions through tie-up manufacturing units. In order to expand its reach, KDL has entered into an agreement with M/s Pappu country spirit bottling plant in Haldia district, K.P. Shaw Bottling Pvt. Ltd. in Hoogly and Herald Beverages Pvt Ltd. in South 24 Parganas district of West Bengal region as tie up units where the liquor will be produced under the brand names owned by KDL. This arrangement has been done to expand its market share in the country liquor space.

- **Low counter party risk after introduction of West Bengal State Beverages Corporation (BEVCO)**

In FY17, the BEVCO was formed to regulate the alcoholic beverage segment of the state of West Bengal. After setting up of BEVCO, the distribution channel of the IMFL and country liquor was completely changed and is controlled by the state government. Earlier the company would sell their products to distributors, who, in turn, would sell to the retailers; however, after the incorporation of BEVCO, the entire production is bought by BEVCO, and the distribution thereof to the retailers is regulated by the same. Though the



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company faced initial hurdles, but after the setting up of BEVCO, KDL is confined to a single debtor, witnessing ease in collection of the receivables and low counter party risk as BEVCO being a state government entity. However, BEVCO is going to be dissolved in near future.

- **Stable operating performance**

Though the TOI has declined by ~6% in FY21 over FY20 due to lockdown in Q1FY21 and yearlong pandemic situation in the country, profitability has further improved in FY21. The improvement is fuelled by increase in Toll Collection revenue (~3% of TOI in FY21) coupled with continuous increase in the acceptability of its brands. During FY21, EBITDA margin has improved to 7.78% and PAT margin was at 4.02%. In 9MFY22, the company has achieved a revenue of ~Rs.138 crore. Infomerics expects the operating performance of KDL will continue to remain stable with positive bias in the near term.

- **Comfortable gearing with healthy debt protection parameters**

Though the company availed Covid loans and has higher utilised bank borrowing to fund its working capital needs, the long-term debt equity ratio and overall gearing continued to remain comfortable at 0.16x and 0.88x respectively as on March 31, 2021 (0.18x and 0.61x respectively as on March 31, 2020). Total indebtedness as indicated by TOL/TNW also remained comfortable at 1.48x as on March 31, 2021. Debt protection parameters marked by the interest coverage and Total debt to GCA though moderated marginally continued to remain comfortable at 3.82x and 5.96x respectively in FY21 (2.73x and 4.20x respectively in FY20).

- **Comfortable working capital management**

Earlier KDL had to deal with a number of distributors and retailers, and receivables had to be tracked from around 200-300 debtors with varied payment periods leading to delay in collections. However, introduction of BEVCO resulted in low average collection days for the company as under BEVCO the company gets its payment within three months from raising of bill. Further, the average utilization of working capital limits for the past 12 months ended Nov-21 was low at ~78%.

Key Rating Weaknesses:

- **Volatility in input prices**

KDL uses ENA as a raw material for its production. About 50% of cost of raw materials equivalents to the ENA cost. The price of ENA may vary as major raw material for ENA is



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grains and the same may vary depending on the production, since grains are seasonal products being susceptible to vagaries of nature. On the other hand, under BEVCO, the company has lost its pricing power as the prices are controlled by the corporation. Lack of ability to pass on the increased operating cost vis-a-vis increase in price of its major raw material expose the operating margin of the company to volatility in raw material price.

- **Competition from unorganised players**

Country liquor segment is susceptible to low entry barriers and adulteration is common in the small set-ups of country liquor. Hence that poses a threat as those are cheaper options.

- **Highly regulated nature of the Indian alcohol industry**

Very few large players dominate the organised alcohol industry. The industry dynamics is also made complex by high taxation and heavy regulation. 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. Sudden and frequent changes in regulation at the state level make the outlook of the industry bit uncertain. Industry is vulnerable to such unanticipated changes as the direction or timing of any regulatory changes is difficult to predict. Government regulation of the liquor industry covers licensing, production, wholesale and retail distribution, and pricing.

- **Exposure to group company in the form of corporate guarantee**

The company has extended corporate guarantee to its group company which restricts its credit profile to an extent.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its comfortable gross cash accruals compared to its repayment obligations in FY22 to FY24, coupled with low average cash credit utilisation at ~78% during the past 12



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months ended November, 2021. KDL has earned a gross cash accrual of Rs.7.45 crore in FY21 and the company is expected to earn gross cash accruals in the range of ~Rs.7-9 crore as against its debt repayment obligation of around Rs.2.00 crore during FY22-24.

About the Company

Incorporated in 1995 by Mr. Pradyut Sinha and Mr. Kamal Pandey of West Bengal (promoter directors), K.D. Liquor & Fertilizer Pvt. Ltd. (KDL) is engaged in country liquor bottling in the state of West Bengal. The company has its bottling plant based at Nadia District of West Bengal with an annual capacity of 10,36,80,000 bottles. KDL sales its products under the brands named “Bengal Tiger” and ‘Uddan’ which are well established in Nadia and Burdwan district and have spread to Hoogly, Haldia, Dankuni regions through tie-up manufacturing units. This apart, the company was empanelled with National Highway Authority for collection toll and operation of toll plaza. During FY20, the company obtain a toll collection project for three months at NH-23 Sosokhurd Fee Plaza in Jharkhand. However, the same was discontinued from January 2021.

Mr. Panday looks after the marketing and expansion, Mr. Karan Jaiswal is overlooking the finance function and operations, while Mr. Sinha is looking after the regular affairs of the company.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Income	174.81	163.32
EBITDA	10.00	12.63
PAT	5.55	6.57
Total Debt	26.71	44.39
Tangible Net worth	43.99	50.56
EBITDA Margin (%)	5.79	7.78
PAT Margin (%)	3.17	4.02
Overall Gearing Ratio (x)	0.61	0.88

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Issuer non-cooperating from CRISIL vide PR dated September 17, 2021 and from India Rating vide PR dated May 17, 2021 due to non-submission of information.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
	Cash Credit	Long Term	42.00	IVR BBB- / Stable	IVR BBB- / Stable (Nov 12, 2020)	IVR BBB- / Stable (Aug 07, 2020)	IVR BBB- / Stable (Aug 30, 2019)	-
	ABL (Dropline OD)	Long Term	5.30	IVR BBB- / Stable	-	-	-	-
	GECL	Long Term	2.55	IVR BBB- / Stable	-	-	-	-
	Bank Guarantee	Short Term	1.50	IVR A3	IVR A3 (Nov 12, 2020)	IVR A3 (Aug 07, 2020)	IVR A3 (Aug 30, 2019)	-
	Working Capital Demand Loan	Long Term	-	-	-	Withdrawn (Aug 07, 2020)	IVR BBB- / Stable (Aug 30, 2019)	-
	ILC	Short Term	-	Withdrawn	IVR A3 (Nov 12, 2020)	IVR A3 (Aug 07, 2020)	IVR A3 (Aug 30, 2019)	-

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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 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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits - Cash Credit	-	-	-	42.00	IVR BBB- /Stable
Long Term Fund Based Limits – ABL (Dropline OD)	-	-	-	5.30	IVR BBB- /Stable
Long Term Fund Based Limits – GECL	-	-	Nov 2024	2.55	IVR BBB- /Stable
Short Term Non-Fund Based Limits – BG	-	-	-	1.50	IVR A3

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/KD-Liquor-lenders-feb22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.