



Press Release

Khandoba Distilleries Limited.

March 24, 2021

Ratings

Sl. No	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term/Short Term Bank Facilities	52.60	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	Assigned
2.	Short Term Bank Facilities	8.92	IVR A3 (IVR A Three)	Assigned
	Total	61.52 (Rupees Sixty One Crore and Fifty Two Lakhs Only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The ratings assigned to the bank facilities of Khandoba Distilleries Limited. (KDL) derives strength from extensive experience of its promoters, locational advantage and reputed clientele. The ratings also note gradual improvement in its capital structure with adequate debt protection metrics and favourable policy initiatives by the Government. However, these rating strengths are constrained by susceptibility of profitability to volatile raw material prices, its modest scale and working capital intensive nature of operations.

Rating Sensitivities:

Upward Factors:

- Growth in scale of business with improvement in cash accruals and debt protection metrics on a sustained basis.
- Sustenance of the capital structure with TOL/TNW to remain below 2x.
- Improvement in liquidity

Downward factors:

- Dip in operating income and/or profitability impacting the debt protection metrics with deterioration in the interest coverage ratio to below 2x.
- Withdrawal of subordinated unsecured loans and/or deterioration in the capital structure
- Deterioration in working capital management affecting the liquidity.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoter**

The promoters of KDL have an experience of more than two decades in the industry and have strong understanding of the market dynamics which has helped them to establish good relationship with its customers and suppliers.

- **Locational advantage**

The manufacturing facility of the company is located in Solapur with an installed capacity of 110 Kilo Liters Per Day (KLPD). Solapur District of Maharashtra. Solapur District of Maharashtra is one of the major sugar growing area of the state with more than 150 sugar factories out of which only 40 of them have captive distilleries. The company procure its raw materials (molasses) mainly from non-integrated sugar factories hence, procurement of raw material is not an issue for the company.

- **Reputed Clientele**

KDL caters to the requirements of government owned petroleum companies viz. HPCL, BPCL. Orders are secured through bidding for tenders floated by these OMC's. The tender is usually for a period of one-year post which the company again participates via a fresh tender. Besides, the company also caters to various liquor manufacturing companies.

- **Gradual improvement in capital structure with adequate debt protection metrics**

The capital structure of the company remained moderate with a net worth base of Rs.65.78 crore (including subordinated unsecured loans aggregating to Rs.18.43 crore treated as quasi equity). However, the capital structure witnessed gradual improvement as on the past three account closing dates with improvement in the overall gearing ratio from 2.20x as on March 31,2018 to 1.42x as on March 31,2020 driven by accretion of profit to net worth, scheduled repayment of debts and infusion of subordinated unsecured loan in FY19. Further, the total indebtedness of the company also improved during the aforesaid period marked by improvement in TOL/Adjusted TNW from 1.75x as on March 31,2019 to 0.94x as on March 31,2020. Debt protection metrics of the company underpinned by its healthy profit margin remained adequate over the past two fiscals with interest coverage ratio at 2.50x and Total debt to GCA at 4.50 years in FY20.

- **Favourable policy initiatives by the Government**



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In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to sell petrol blended with at least 5 per cent of ethanol. The EBP programme is presently being implemented in a total of 13 states with blending level of about 2% against a mandatory target of 5%. In a later decision, the government has set a target of 10 per cent ethanol blending in petrol by 2022. In lieu of the above developments and also given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry.

Key Rating Weaknesses

- **Susceptibility of profitability to volatile raw material prices and exposure to agro-climatic risk**

The key raw material for ethanol manufacturing is molasses which is a by-product of the sugar making process which starts with crushing sugar cane to access the juices inside. Sugar cane. Molasses is mainly produced by sugar manufacturing companies and is dependent on availability of sugar cane which is an agro-product and exposed to high agro-climatic risks. With high exposure to agro climatic risks molasses availability and prices both are volatile in nature.

- **Modest scale of operations**

The scale of operations of the company remained erratic over the past three fiscals ending in FY20. The company commissioned its plant in FY16-17 however, due to delay in obtaining license the manufacturing got delayed and the operations started in FY18 after receipt of license from the state government. In its first year of operations the company incurred net loss as well as cash loss. However, in its first full year of operations in FY19 the company earned a revenue of ~Rs.120 crore and posted net profit with a gross cash accrual of Rs.12.19 crore. During FY20, owing to draught in Maharashtra availability of the molasses (the main raw material for the company) was low which resulted in spurt in raw material prices. Due to unavailability of molasses the production of the company was affected and the production was operated for limited period only which resulted in sharp drop in its topline to ~Rs.60 crore in FY20. However, with improvement in situation in FY21, the production of the company operated in full swing and till 9MFY21 the company has achieved a topline of ~Rs.78 crore. Further, the company has started procuring and processing "B Heavy Grade



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Molasses" which has a higher output ratio as compared to the previously used "C Category Molasses".

- **Working capital intensive nature of operations**

The operations of the company remained working capital intensive due to its high inventory holding requirements owing to exposure of its raw materials (mainly Molasses) to agro climatic risk. The molasses is majorly procured during sugar season i.e. October to March, as the availability of the molasses during sugar season from non-integrated sugar factories are very high. Consequently, the operating cycle of the company remained high. In order to fund its working capital requirements, the company is largely dependent on its working capital borrowing limits and the same remained at ~89% during the past 12 months ended December 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Liquidity position of the company is expected to remain adequate in the near-term mark by its expected healthy cash accruals in the range of ~Rs.15-24 crore as against its debt repayment obligations in the range of ~Rs.7-9 crore during FY21-23. The company has earned cash accruals of ~Rs.11 crore as against repayment obligations of Rs. 7.71 crore in FY20. However, the liquidity is restricted due to its working capital-intensive nature of operation with high inventory holding requirements. Average month end CC utilisation of the company stood at ~89% for last 12 months ended January 2021 also indicating a moderate liquidity buffer.

About the Company

Khandoba Distilleries Limited (KDL) was incorporated on 18th April 2007 with its head office located in Pune. The distillery unit of KDL is located in Solapur with an installed capacity of 110 Kilo Liters Per Day (KLPD). Mr. Laxman Nivruttirrao More, Mr. Pravin More, Mr.



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Shankarrao Shriranrao Bhise are the directors of the company. The company is engaged in manufacturing of Rectified Spirits (RS), Extra Neutral Alcohol (ENA), Denatured Spirits (DS) & other related products.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	120.51	60.49
EBITDA	21.32	15.02
PAT	4.07	5.89
Total Debt	59.44	48.65
Tangible Net worth**	61.26	65.68
EBITDA Margin (%)	17.69	24.83
PAT Margin (%)	3.37	9.53
Overall Gearing Ratio (x)**	0.97	0.74

*Classification as per Infomerics' standards.

** Including Quasi Equity

Status of non-cooperation with previous CRA: Brickwork Ratings vide its press release dated March 03, 2021 has migrated the ratings to Issuer Not Cooperating category due to non-submission of information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of /Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	31.29	IVR BBB-/Stable	-	-	-
2.	Cash Credit	Long Term	19.00	IVR BBB-/Stable	-	-	-
3.	COVID TL	Long Term	1.80	IVR BBB-/Stable	-	-	-
4.	FITL	Long Term	0.51	IVR BBB-/Stable	-	-	-
5.	Bank Guarantee	Short Term	8.92	IVR A3	-	-	-

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 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 – Term Loan	-	-	April, 2024	19.30	IVR BBB-/Stable
Long Term – Term Loan	-	-	March, 2024	11.99	IVR BBB-/Stable
Long Term Fund	-	-	-	19.00	IVR BBB-/Stable



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Based Limits- Cash Credit					
Long Term Fund Based Limits- Covid Add TL	-	-	May22	1.37	IVR BBB-/Stable
Long Term Fund Based Limits- Covid Add TL			May 22	0.43	IVR BBB-/Stable
Long Term Fund Based Limits- FITL			Mar 21	0.40	IVR BBB-/Stable
Long Term Fund Based Limits- FITL			Mar 21	0.11	IVR BBB-/Stable
Short Term Fund Based Limits- Bank Guarantee	-	-	-	8.92	IVR A3

Annexure 2: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/lender-Khandoba-24-3-21.pdf>