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NV Distilleries & Breweries Private Limited

April 06, 2021

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Current Rating	Previous Rating	Rating Action
Long Term Bank Facilities – Fund Based	192.76	IVR BBB/ Credit Watch with Developing Implications (IVR Triple B / Credit Watch with Developing Implications)	IVR BBB- / Credit Watch with Negative Implications (IVR Triple B Minus/ Credit Watch with Negative Implications)	Revised
Short Term Bank Facilities- Fund Based (Proposed)	50.00	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with Developing Implications)	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three/ Credit Watch with Negative Implications)	Revised
Short Term Bank Facilities- Non-Fund Based	1.75	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with Developing Implications)	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three/ Credit Watch with Negative Implications)	Revised
Total	244.51			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision of the rating to the bank facilities of NV Distilleries & Breweries Private Limited (NVDBPL) reflects the various news reports appeared in media relating to Mr Ashok Jain, Chairman of NV Group. **The rating is under credit watch with developing implications** on account of challenges posed due to above mentioned reasons. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit and operational risk profile of the company are clear.

The rating assigned to the bank facilities of NV Distilleries & Breweries Private Limited (NVDBPL) continues to draw comfort from parentage of the NV group and strong support from



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group synergy, locational advantage, improvement in financial performance of the NV group in FY20 albeit moderation in profit margin and satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics. The rating also continues to positively factor in improvement in top line and margins in 9MFY21 (Standalone). However, the rating strengths continues to partially offset due to its volatility in input prices, competition from unorganized players, vulnerability to regulatory changes in the liquor industry and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics
- Geographical diversification in sales

Downward factor:

- Moderation in operating income and/or profitability impacting the cash accruals
- Any stretch in working capital cycle driven by pile-up of inventory or stretched receivables or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.
- Withdrawal of subordinated unsecured loans amounting to Rs.18.36 crore from the NV Group and/or deterioration in overall gearing to over 1.5x and interest coverage to below 2x on a combined basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Parentage of the NV group and strong support from group synergy**

The promoters of the NV group have more than two decades of experience in the beverage industry. Currently, Mr. Ashok Jain (Whole Time Director) and Mr. Sameer Goyal (Managing Director) with more than two decades of experience in the beverage industry is at the helm of affairs of the company. Since, last 10 years the promoters have been engaged in the related business through other group companies i.e., NVIPL and NVDPL.



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- **Locational advantage**

NVDBPL distributes Country Liquor (CL) & IMFL in Punjab and nearby states which are one of the biggest consumers of liquor in North Region. NVDBPL has a grain-based distillery in Rudrapur (Punjab) which provides locational advantage in terms of availability of raw material (Broken Rice) in Punjab and neighboring states (Haryana & UP).

- **Improvement in financial performance of the NR group in FY20**

NVDBPL's total operating income registered a CAGR of ~4% during FY18-FY20 with a y-o-y growth of about 0.05% in FY20, due to increase in sales realization from IMFL, CL. The EBITDA margin of the company has increased in FY 20 as against previous year majorly due to efficient in raw material cost and other operating expenses. Increase in EBITDA also led to increase in PAT margin in FY20 coupled with significant interest and depreciation expenses though reduced marginally as against previous year.

- **Satisfactory financial risk profile marked by satisfactory gearing**

On a standalone basis, NVDBPL has satisfactory financial risk profile, the long-term debt equity and the overall gearing ratio of the company stood satisfactory at 0.52x and 0.87x respectively as on March 31, 2020 [0.58x and 0.92x as on March 31, 2019] and has improved this year on account of no major addition of borrowings and comfortable tangible net worth. The debt protection parameters reflected by interest coverage ratio remained moderate and marginally improved from 1.94x in FY19 to 2.00x in FY20 driven by moderation improvement in absolute EBITDA. Further, the Total debt to GCA and TOL/TNW also remained moderate at 6.41 years and 1.30x as on March 31, 2020.

B. Key Rating Weaknesses

- **Volatility in input prices**

NV group 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 grains (Broken rice) and the same may vary depending on the production, since grains are seasonal products being susceptible to vagaries of nature.

- **Competition of unorganized players**



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Alcohol industry 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.

- **Vulnerability to regulatory changes in the liquor industry**

The liquor industry in India is governed by strict government regulations and license regime that differ from state to state. India's states each have their own regulatory controls on the production, marketing, and distribution, and even pricing of alcohol. Further, high taxation and duties also make the industry dynamics complex. The business risk profile thus remains vulnerable to any changes in the license authorisation policy, taxes, and duty structure.

- **Working capital intensive nature of operations**

The operating cycle remained elongated at 137 days majorly due to stretched inventory days at 128 days in FY20. The major raw material for production is Grain (Broken Rice), majorly used by the company for manufacturing for Extra Neutral Alcohol, they maintain high stock of grain to ensure uninterrupted operation of distillery. This is being the seasonal item; there is volatility in prices during off season. Therefore, they must maintain higher inventory level to offset the impact of the price fluctuations. With regards to packing material, they manufacture no. of brands in different sizes and therefore they must maintain enough stock of every category to avoid any hurdle in-timely availability of packing material.

Analytical Approach: Consolidated

For arriving at the ratings, INFOMERICS analytical team has combined the financials of NV Distilleries Pvt Ltd (NVDPL), NV Distilleries & Breweries Pvt Ltd (NVDBPL), and NV International Pvt Ltd (NVIPL) commonly referred as NV Group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The NV group's liquidity profile is expected to remain adequate marked by its healthy cash accruals. On a standalone basis, the liquidity profile of NVDBPL is expected to remain



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adequate with its satisfactory gross cash accruals of INR 29.88 Crore against its debt repayment obligations of Rs. 26.83 crore in FY20. Further, the average cash credit utilisation of the company remained at ~95% during the past 12 months ended Feb 2020 indicating a limited liquidity cushion.

About the Company

NVDBPL, a part of NV group has grain-based distillery at Punjab for manufacturing of Extra Neutral Alcohol (ENA).

The NV group (NVDPL, NVDBPL and NVIL) is engaged in liquor industry since 1980's and was engaged in distribution of liquors and set up one bottling plant in early 90's. The company started distillery in 2008 with NVDPL, in 2012 started NVDBPL and set up a unit in Rajpura and started NVIL in 2014, together the group boasts of an installed capacity of ~279 KL/day for the production of ENA, 47000 cases/day of country liquor and 25000 cases/day of IMFL.

Financials: (Standalone)

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	434.32	436.89
EBITDA	55.15	56.66
PAT	0.85	6.02
Tangible Net worth	235.37	219.89
EBITDA Margin (%)	12.70	12.97
PAT Margin (%)	0.19	1.37
Overall Gearing Ratio (x)	0.92	0.87

**As per Infomerics Standards*

Financials: (Consolidated)

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1024.85	1083.65
EBITDA	114.30	108.17
PAT	2.07	7.90
Tangible Net worth	685.65	673.23
Adjusted Net worth^	704.01	697.91
EBITDA Margin (%)	11.15	9.98
PAT Margin (%)	0.20	0.73



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For the year ended*/As on	31-03-2019	31-03-2020
Overall Gearing Ratio (x)	0.59	0.52

**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 Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	85.22	IVR BBB/Credit watch with developing implications (IVR Triple B Under credit watch with developing implications)	IVR BBB-/Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications) (November 03, 2020)	IVR BBB-/Stable (March 30, 2020)	-
2.	Term Loan	Long Term	107.54	IVR BBB/Credit watch with developing implications (IVR Triple B Under credit watch with developing implications)	IVR BBB-/Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications) (November 03, 2020)	IVR BBB-/Stable (March 30, 2020)	-
3.	Bill Discounting (Proposed)	Short Term	50.00	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three/ Credit Watch with Negative Implications)	IVR A3 (March 30, 2020)	-



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				Developing Implications)	(November 03, 2020)		
4.	BG	Short Term	1.75	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with Developing Implications)	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three/ Credit Watch with Negative Implications) (November 03, 2020)	IVR A3 (March 30, 2020)	-

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 Bank Facilities - CC	-	-	-	85.22	IVR BBB/Credit watch with developing implications (IVR Triple B Under credit watch with developing implications)
Long Term Bank Facilities - Term Loan	-	-	August 2023	107.54	IVR BBB/Credit watch with developing implications (IVR Triple B Under credit watch with developing implications)
Short Term Bank Facilities - Bill Discounting (Proposed)	-	-	-	50.00	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with Developing Implications)
Short Term Bank Facilities - BG	-	-	-	1.75	IVR A3+ / Credit Watch with Developing Implications (IVR Single A Three Plus/ Credit Watch with Developing Implications)

Annexure 2: Lender's Details



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<https://www.infomerics.com/admin/prfiles/Lender-NV-DIstilleries-Breweries-Private-Limited-06-Apr-21-.pdf>