Press Release

M/s. Agrawal Distilleries Private Limited

October 14, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Fund Based Facility - Term Loan	39.90 (including proposed limits of Rs. 36.00 crore)	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)
3	Long Term Fund Based Facility - Cash Credit	4.00	
4	Short Term Non-Fund Based-Bank Guarantee	3.00	IVR A3 (IVR A Three)
	Total	**46.90**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters, increase in scale of operation with moderate profitability margins, competitive advantage from location and moderate capital structure with improving coverage metrics. However, the rating is partially offset by highly regulated nature of the Indian alcobev industry and volatility in input prices and project completion risk.

Key Rating Sensitivities

- **Upward Factor**
  - Significant improvement in scale of operation
  - Improvement in profitability margins
- **Downward Factor**
  - Sharp deterioration in debt protection metrics
  - Any change in the regulatory framework
  - Any delays in the completion of the envisaged project

List of key rating drivers with detailed description

Key Rating Strengths

- **Experienced Promoters**

  The promoters of ADPL, Mr. Harminder Singh Bhatia and his son Mr. Jaivinder Singh Bhatia are experienced in the alcobev business. Mr. Harminder Singh Bhatia has been managing brewery and distillery plants for around 3 decades and he has a broad experience in trading and manufacturing of country liquor (CL) and Indian made foreign liquor (IMFL). Since 1987 he is engaged in government licensed wholesale liquor and distillation of liquor. Mr. Jaivinder Singh Bhatia has completed BA (Hons) in business studies from De Montfort University, UK and has joined company since then. He actively looks into the day-to-day administration of the company.

- **Increase in scale of operation with moderate profitability margins**

  ADPL was able to improve its scale of operation in FY19 with a total operating revenue of Rs.59.40 crore as compared to Rs.50.28 crore in FY18, despite decline in revenue in FY17 due to ban on sale of alcohol within 500 meters of state and national highways. The profitability margins were moderate with an EBIDTA margin at 12.17% and PAT margin of 9.50% in FY19 as compared to 12.63% and 7.45%, respectively in FY18.

- **Competitive advantage from location**

  The Alcobev industry is state driven i.e under the control of state government. However, the Madhya Pradesh government has provided licence to ADPL in 3 different districts and it has a distillation plant and bottling plant in Khargone district and the company has government provided warehouses located at Katni, Khandwa and Betul districts. The company enjoys a monopoly in with exclusive right to sale in 3 districts, which mitigate the risk of price competition in this area.

- **Moderate capital structure with improving coverage metrics**

  The company has low leverage i.e overall gearing stood 0.36x in FY19, tangible net worth improved and stood at Rs.19.59 crore FY19 as compared to Rs.13.79 crore in FY18 and long term debt equity ratio stood at 0.11x in FY19. The interest coverage was comfortable at 10.23x in FY19 as compared to 8.10x in FY18.

Key Rating Weaknesses

- **Highly regulated nature of the Indian alcobev industry and volatility in input prices**

  Very few large players dominate the organised alcobev industry. The industry dynamics are 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 a bit uncertain. The industry is vulnerable to such unanticipated changes as the direction or timing of any regulatory changes is difficult to predict.

- **Project completion risk**

  The company is proposing to expand its manufacturing capacity by setting up of an additional grain based distillery process plant. This expansion will increase the existing production since it will be located nearby exiting unit company will get advantage of economies of scale. However, the cost of project is Rs.54.15 crore which is to be funded in debt equity ratio of 3.86x. The loan has not been sanctioned presently. However, there exist challenges for the company to set up the expansion in the expected period, as the loan has not been sanctioned.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

ADPL generated a moderate level of gross cash accrual in FY19 of Rs.6.54 crore and it is expected to increase in future with increase in scale of operation. The ICR and DSCR are comfortable and expected to be adequate over the projected period. On an overall basis, liquidity position is expected to be adequate.

About the Company

Agrawal Distilleries Private Limited (ADPL) was incorporated in 1997, under the name of Agrawal Breweries and Textile Limited by Mr. Subhash Agrawal and Mr. Luv Agrawal. The Breweries Division was renamed as Agrawal Distilleries Pvt Limited (ADPL). However, in 2005 the company was taken over by Vivashwan Hotel India Pvt ltd. The company is promoted by Mr. Harminder Singh Bhatia and his son Mr. Jaivinder Singh Bhatia. Mr. Harminder Singh Bhatia has vast experience in trading and manufacturing of country liquor and Indian made foreign liquor. 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.

Also the company operates its business in 3 different districts of Madhya Pradesh, it has a Distillation Plant and bottling plant in Khargone district.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	50.28	59.40
EBITDA	6.35	7.23
PAT	3.77	5.80
Total Debt	7.33	7.12
Tangible Networth	13.79	19.84
EBITDA Margin (%)	12.63	12.17
PAT Margin (%)	7.45	9.50
Overall Gearing Ratio (x)	0.53	0.36

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Facility - Term Loan	Long Term	39.90 (including proposed limits of Rs. 36.00 crore)	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)	--	--	--
2.	Long Term Fund Based Facility - Cash Credit	Long Term	4.00	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)	--	--	--
3.	Short Term Non-Fund Based- Bank Guarantee	Short Term	3.00	IVR A3 (IVR A Three)	--	--	--

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. 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 Facility - Term Loan	--	--	January 2023	39.90 (including proposed limits of Rs. 36.00 crore)	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)
Long Term Fund Based Facility - Cash Credit	--	--	Revolving	4.00	IVR BBB-/ Stable outlook (IVR Triple B minus with stable outlook)
Short Term Non-Fund Based- Bank Guarantee	--	--	Less than one year	3.00	IVR A3 (IVR A Three)