

Press Release

Maharashtra Beer And Wine Centre

January 27, 2020

Rating Reaffirmed



| | |
|-------------------------------------|-------------------|
| Total Bank Facilities Rated* | Rs.12.36 Cr. |
| Long Term Rating | ACUITE BB-/Stable |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.12.36 crore bank facilities of MAHARASHTRA BEER AND WINE CENTRE (MBWC). The outlook is '**Stable**'.

Established in 1973, MBWC is a Mumbai-based partnership firm engaged in the business of wholesale trading of liquor. It is an authorised distributor for products of United Spirits Limited (USL) in Mumbai region marked by entire region of Mahim to Colaba. The firm is managed by Mr. Kiran Mehta, Mr. Viral Mehta and Mrs. Anajni Mehta. The firm is FL-I license holder.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of MBWC to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

MBWC has long track record of operations since 1973. The day to day operations are managed by its partners, Mr. Kiran Mehta, Mr. Viral Mehta and Mrs. Anajni Mehta who has experience of over two decades in wholesale trading industry. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers.

Acuite believes that MBWC will continue to benefit from its experienced management and established relationships with customers.

• Comfortable working capital operations

The working capital of MBWC is comfortable in nature marked by low Gross Current Asset (GCA) days of 54 for FY2019 as against 60 in the previous year. Debtor days stood at 24 for FY2019 as against 26 for FY2018, further inventory days stood at 21 in FY2019 as against 28. However, the reliance on working capital facility is high, it is fully utilized on an average for last 6 months ending December, 2019.

Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

Weaknesses

• Moderate scale of operations and profitability

The company has reported marginal revenue growth with compounded annual growth rate (CAGR) of around ~1.72 percent through the last three years ended 31 March, 2019. The company reported revenue growth of ~2.63 percent with operating income of Rs.69.15 crore in FY2019 as against operating income of Rs.67.37 crore in FY2018. Revenue is generated by trading of products of two companies i.e. United Spirits and Sula Wines. Going forward, firm won't be registering any revenues from Sula Wines because of the restricting in distributorship by Sula Wines. Revenues registered for the period April to December, 2019 is Rs.46.46 crore. Further, the operating margins of the company marginally increased to 1.68 percent in FY2019 from 1.38 percent in FY2018. This is majorly because of the reduction in operational expenses.

Acuite believes that the scale of operations will be impacted by the loss of Sula Wine's distributorship. However, the firm will be acquiring new brands distributorship.

• Average financial risk profile

The financial risk profile is average marked by modest net worth, low debt protection measures and high gearing. The net worth of the company is Rs.4.34 crore as on 31 March 2019 as against Rs.4.13 crore as on 31 March 2018. The gearing (debt to equity) of the company stood at 1.91 times as on March 31, 2019 as against 2.19 times as on March 31 2018. Total debt of Rs.8.29 crore consists of unsecured loans of Rs.0.03 crore, term loans of Rs.0.69 crore and working capital facility of Rs.7.57 crore as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.37 times as on 31 March, 2019 as against 2.84 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 1.25 times in FY2019 as against 1.28 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.03 times as on 31 March 2019 and as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 0.96 times in FY2019 as against 0.71 times in FY2018.

Rating Sensitivity

- Deterioration in scale of operations along with profitability.
- Deterioration in working capital operations.

Material Covenants

None.

Liquidity Position: Stretched

MBWC's liquidity is stretched marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.29 crore in FY2019 as against Rs.0.27 crore in FY2018 and negative Rs.0.08 crore in FY2017, while its maturing debt obligation was around Rs.0.35 crore for FY2019, Rs.0.35 crore for FY2018 and Rs.0.77 crore for FY2017. Further, the company's working capital operations are comfortable as marked by low gross current asset (GCA) days of 54 in FY2019. However, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.0.26 crore as on March 31, 2019. The current ratio of the company stands at 1.05 times as on March 31, 2019.

Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low net cash accrual.

Outlook: Stable

Acuite believes that MBWC will maintain a 'Stable' outlook over the medium term on the back of its promoter's experience. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in MBWC's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 69.15 | 67.37 |
| PAT | Rs. Cr. | 0.22 | 0.22 |
| PAT Margin | (%) | 0.31 | 0.33 |
| Total Debt/Tangible Net Worth | Times | 1.91 | 2.19 |
| PBDIT/Interest | Times | 1.25 | 1.28 |

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading entities - <https://www.acuite.in/view-rating-criteria-61.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|-----------|------------------|--|
| 06-Dec-2018 | Cash Credit | Long Term | 8.00 | ACUITE BB-/Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.76 | ACUITE BB-/Stable (Reaffirmed) |
| | Proposed Cash Credit | Long Term | 3.60 | ACUITE BB-/Stable (Reaffirmed) |
| 23-Jan-2018 | Cash Credit | Long Term | 8.00 | ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable) |
| | Term Loan | Long Term | 1.06 | ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable) |
| | Proposed Cash Credit | Long Term | 0.80 | ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable) |
| 19-Sept-2016 | Cash Credit | Long Term | 4.75 | ACUITE BB/Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.20 | ACUITE BB/Stable (Reaffirmed) |
| | Proposed Cash Credit | Long Term | 2.91 | ACUITE BB/Stable (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 8.00 | ACUITE BB-/Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.13 | ACUITE BB-/Stable (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.23 | ACUITE BB-/Stable (Reaffirmed) |

Contacts

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About Acuite Ratings & Research:

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