Midas Golden Distilleries Private Limited (MGDPL)

Rating Rationale

SMERA RATINGS LIMITED

April 08, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	40.00	SMERA BB/Stable (Assigned)

SMERA has assigned a long-term rating of **'SMERA BB' (read as SMERA double B)** to the Rs.40.00 crore bank facility of Midas Golden Distilleries Private Limited (MGDPL). The outlook is **'Stable'**. The rating draws comfort from the company's established market position and long-standing relations with reputed customers. The rating also draws comfort from the strong revenue growth registered by the company. However, the rating is mainly constrained by the company's exposure to regulatory risks. The rating is also constrained by the company's moderate financial risk profile and weak operational performance. The rating notes that the company's profit margins are susceptible to raw material price volatility and intense competitive pressure.

MGDPL, incorporated in 2002, is a Chennai-based company engaged in manufacturing of Indian Made Foreign Liquor (IMFL). MGDPL holds 18–20 per cent market share (of IMFL industry) in Tamil Nadu. The company has signed exclusive manufacturing agreements with United Spirits Limited, Radico Khaitan Limited, Allied Blenders & Distillers Private Limited and Jagajit Industries Limited.

MGDPL's revenues have increased at a strong compound annual growth rate (CAGR) of 52 per cent during FY2010–11 (refers to financial year, April 01 to March 31) to FY2013–14. The company is expected to report operating income of Rs.675.00 crore in FY2014–15, as against operating income of Rs.576.00 crore in FY2013–14.

MGDPL's business is highly susceptible to adverse changes in regulations governing the IMFL industry. The distribution and pricing of IMFL is controlled by the State Government of Tamil Nadu (through The Tamil Nadu State Marketing Corporation). MGDPL is thus unable to revise prices in view of increase in raw material cost.

MGDPL's moderate financial risk profile is reflected in net worth of Rs.32.18 crore and leverage (debt-equity ratio) of 0.93 times as on March 31, 2014. The company's operational performance has weakened over the past three years on account of increase in raw material cost. However, MGDPL's profit margins are likely to improve over the medium term with the revision in selling price of IMFL in November 2014. MGDPL is expected to report net profit of over Rs.6.00 crore in FY2014–15, as against net loss of Rs.13.19 crore in FY2013-14. The company's ability to register sustained improvement in operating profits is a key rating sensitivity.

MGDPL's operations are working capital-intensive. The company's bank limit utilisation was high at 98.55 per cent (average) during March 2014 to February 2015. MGDPL's liquidity position is likely to improve on the back of increase in working capital limit from Rs.30.00 crore to Rs.40.00 crore.

MGDPL operates in an intensely competitive segment of the IMFL business, which is highly regulated by the state government. The company's profit margins are susceptible to volatility in raw material prices.

Rating sensitivity factors

- IMFL price revision by Tamil Nadu State Marketing Corporation
- Sustained improvement in operating profitability
- Working capital management
- Bank limit utilisation

Outlook: Stable

SMERA believes MGDPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established market presence (in Tamil Nadu) and long-standing relations with reputed customers. The outlook may be revised to 'Positive' in case the company registers strong growth in revenue with sustained improvement in profit margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the company

MGDPL, incorporated in 2002, is a Chennai-based company promoted by Mr. Sivakumaar Koothaippar Sathiamoorthy and Mr. Karthikeyan Kaliaperumal. MGDPL undertakes manufacturing of Indian Made Foreign Liquor (IMFL). The company has a distillery in Kancheepuram (Tamil Nadu), with installed production capacity of 14.40 million litres per month (equivalent to 16 lakh cases; 1 case comprises 12 bottles, each of 750 ml).

For FY2013–14, MGDPL reported net loss of Rs.13.19 crore on operating income of Rs.575.78 crore, as compared with profit after tax of Rs.4.94 crore on operating income of Rs.429.94 crore in the previous year. Further, the company reported net sales of Rs.612.49 crore (provisional) for the period April 2014 to February 2015, as compared with net sales of Rs.521.68 crore in the corresponding period of the previous year. MGDPL's net worth stood at Rs.32.18 crore as on March 31, 2014, as compared with Rs.45.38 crore a year earlier.

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