Press Release

Walvekar Brothers and Company

March 01, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.16.06 Cr.
Long Term Rating	ACUITE BBB / Outlook: Positive
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.16.06 cr. bank facilities of Walvekar Brothers and Company (WBC). The outlook is **'Positive'**.

The Pune-based WBC, established in 1995 is engaged in the distribution of IMFL (Indian made foreign liquor) products - beer and imported liquor in Pune city. The firm supplies stocks only to liquor shops (FL I License), beer shops (FL II License) and permit rooms (FL III License). The firm has recently started the distillery operations in FY2019 by taking a factory on lease.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of WBC and Walvekar Sons (WS), hereinafter referred to as the Walvekar Group. The consolidation is on account of the common management, similar lines of business and common banking and common collateral. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

  The Walvekar group, established in 1995, is promoted by Mr. Kiran Walvekar and Mr Manoj Walvekar, Partners. The promoters have more than two decades of experience in the wholesaling of liquor. This helped the group to establish its position in the domestic market and generate healthy relations with its suppliers and customers.

  Acuité believes that the group will continue to benefit from the partners' established presence in the liquor industry and its improving its business risk profile over the medium term.

- **Healthy financial risk profile**

  Walvekar Gorup's financial risk profile is healthy marked by moderate net worth, healthy gearing and debt protection measures. group's net worth stood at around Rs.39.86 crore as on March 31, 2018. The net worth has sequentially improved from Rs.23.21 crore as on March 31, 2016. The net worth also includes unsecured loans to the tune of Rs.14.55 crore as on 31 March 2018 which are considered as quasi equity. Acuité believes that the net worth of the group will increase backed by its healthy revenue growth and stable operating margins leading to healthy accretion to reserves.

  The group has followed a conservative financial policy in the past, with its peak gearing stood at 0.94 times as on March 31, 2016. The gearing of the group, however, has improved to around 0.65 times as on March 31, 2018. The aggregate debt of Rs.25.99 crore as on 31 March 2018 mainly consists of term loans of Rs.4.19 crore and working capital borrowings of Rs.21.80 crore. The coverage indicators stood healthy with Interest Coverage Ratio (ICR) stood at 4.23 times in FY2018 as against 3.46 times for FY2017. The TOL/TNW ratio stood healthy at 1.27 times as on 31 March 2018 as against 1.31 times as on 31 March, 2017. However, the debt to EBITDA ratio deteriorated to 2.39 times in FY2018 as against 1.80 times in FY2017 mainly on account of additional debt incurred in FY2018, to support its distillery operations.

  Walvekar group revenues are estimated to increase by 35 percent in 2018-19, while its operating margins are estimated to remain in the range of 2.50 – 2.70 per cent. The healthy revenue growth coupled with moderate operating margin is expected to lead to healthy debt protection measures. The interest coverage of the group is estimated to remain 4.5-5.5 times and net cash accruals to total debt is expected to be in the range of 0.2-0.3 per cent over the medium term.

Going forward, Acuité expects the group to maintain its healthy financial risk profile in the absence of any major debt funded capex plan.

Weaknesses

- **Distillery operations**

The group has recently ventured into distillery operations through WBC. The group has signed a 10-year lease agreement with Shriram Sahakari Sakhar Karkhana Limited (SSSKL) by which WBC will use the plant of SSSKL for manufacturing of rectified spirit and country liquor. The installed capacity of the plant is 35,000 litres per day. The group will pay the one-time security deposit and the royalty fees as per the terms of the agreement. The group is currently selling the produce to chemical and pharma industries and intends to build its own brand for selling of country liquor which is expected to be done by the end ofFY2020.

Acuité notes that the group had ventured into similar project in the past but had witnessed operational issues; due to which the operations had to be stopped. The investments from the aforementioned project is yet to be recovered. Acuité believes, the group's ability to timely stabilize the operations, brand building, and achieving optimum utilization levels notwithstanding the regulatory/ operational risks will be key rating sensitivity.

- **Low profitability marked by trading nature of business**

The operating margins of the group deteriorated marginally to 2.56 percent in FY2018 as against 2.68 percent in FY2017 mainly on account of increase in the material cost. The net profit margins improved but stood low at 1.37 per cent in FY2018 compared to 1.26 per cent in FY2017. Low profit margins are usually on account of trading nature of business, limited pricing flexibility, with prices being dictated by the manufacturers of IMFL.

- **Highly regulated business**

Indian liquor industry is heavily regulated by the governments, with regulations ranging from licensing, production, distribution, inter-state exports, raw material availability and advertisements. There have been continuous regulatory changes in terms of state government's policies towards liquor consumption. Any government regulation can have significant impact on their operating income and profitability.

- **Inherent capital withdrawal risk**

Both the group companies, being in a partnership format, are exposed to capital withdrawal risk.

About the Group

The Walvekar group, established in 1995 undertakes wholesale trading of Indian-made foreign liquor (IMFL), beer, and wine in Pune. It is the sole distributor of a portfolio of brands of United Spirits Ltd, Delta Distilleries Private Limited, Grover Zampa Vineyards Limited and others in Pune as also an exclusive distributor of beer brands of Carlsberg India Ltd. The group has two companies namely, Walvekar Brothers and Company (WBC) and Walvekar Sons (WS).

Liquidity Position

Walvekar group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.3.96 crore to 5.48 crore during the last three years through 2017-18, while its maturing debt obligations were Rs.0.39 crore over the same period. The cash accruals of the group are estimated to remain around Rs.7.0 crore to Rs.9.0 crore during 2019-21 while its repayment obligations are estimated to be around Rs.0.39 Crore. The group's working capital operations are efficiently managed as marked by gross current asset (GCA) days of 76 in FY 2018. The group maintains unencumbered cash and bank balances of Rs.0.21 crore as on March 31, 2018. The current ratio of the group stands healthy at 1.75 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Positive

Acuité believes that the outlook on the facilities of the Walvekar Group will remain 'Positive' over the medium term. The rating may be upgraded in case the group continues to registers healthy growth in revenues and profitability from both trading as well as distillery operations while maintaining stable debt protection metrics. Conversely, the outlook may be revised to 'Stable' if liquidity weakens on account of stretch in working capital cycle or decline in the debt protection metrics on account of more than expected debt funded capex plans related to distillery operations or any regulatory or operational issues impacting the distillery operations.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	388.42	348.46	328.14
EBITDA	Rs. Cr.	9.96	9.33	8.33
PAT	Rs. Cr.	5.32	4.39	3.82
EBITDA Margin	(%)	2.56	2.68	2.54
PAT Margin	(%)	1.37	1.26	1.16
ROCE	(%)	18.75	20.42	37.93
Total Debt/Tangible Net Worth	Times	0.65	0.56	0.94
PBDIT/Interest	Times	4.23	3.46	3.23
Total Debt/PBDIT	Times	2.39	1.80	2.51
Gross Current Assets (Days)	Days	76	69	68

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 - http://acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.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
22-Dec-17	Cash Credit	Long term	14.00	ACUITE BBB/Positive (Reaffirmed)
	Bank Guarantee	Short Term	2.06	ACUITE A2 (Assigned)
02-Sep-16	Cash Credit	Long term	12.00	ACUITE BBB/Positive (Reaffirmed)
28-Jul-15	Cash Credit	Long term	12.00	ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB/Positive (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.06	ACUITE A2 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294022 avadhoot.mane@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.