

Press Release

Walvekar Brothers and Company

December 21, 2020

Rating Reaffirmed and Assigned Outlook Revised



Total Bank Facilities Rated*	Rs.28.20 Cr. (Enhanced from Rs.16.06 Cr.)
Long Term Rating	ACUITE BBB/Outlook: Stable (Reaffirmed and Assigned; Outlook revised from Positive)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.23.00 crore bank facilities and has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.5.20 crore bank facilities of Walvekar Brothers and Company. The outlook is revised to '**Stable**' from '**Positive**'.

Key Reason for Revision in Outlook

The revision of outlook to 'Stable' from 'Positive' is mainly on account of lower than anticipated operating performance in FY2020 mainly driven by decline in revenue and profitability margins, which is expected to continue in the current year mainly due to Covid-19 impact. The revision in outlook also reflects Acuite's expectation of moderation in the financial risk profile over near term mainly driven by moderation in Debt to EBITDA and Net Cash Accruals (NCA) to total debt (NCA/TD) levels on account of debt funded capex in the distillery division.

About the Rated Entity

Walvekar Brother and Company (WBC) is a Pune based firm established in the year 1995. The firm is engaged in the distribution of IMFL (Indian made foreign liquor) products, Beer and Imported Liquor in Pune city. WBC supplies to Liquor Shops (FL I License), Beer Shops (FL II License) and Permit Rooms (FL III License). The firm has also 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.

About the group Entity: Walvekar Sons

Walvekar Sons is a Pune-based established in 2005. The firm is engaged in the distribution of IMFL (Indian made foreign liquor) products - beer and imported liquor in Pune. The firm supplies stocks only to liquor shops (FL I License), beer shops (FL II License) and permit rooms (FL III License).

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

WG was established in 1995. The group is promoted by Mr. Kiran Walvekar and Mr Manoj Walvekar. The partners 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' experience and its established presence in the liquor industry, improving its business risk profile over the medium term.

- **Healthy financial risk profile**

The group's healthy financial risk profile is marked by moderate net worth, low gearing (debt-equity) and comfortable debt protection metrics. The tangible net worth of the group stood at Rs.47.35 crore (Includes quasi equity of Rs.25.74 crore) as on 31 March, 2020 (Provisional) as against Rs.39.86 crore (includes quasi equity of Rs.22.28 crore) as on 31 March, 2019. The total debt of Rs.35.43 crore as on 31 March, 2020 (Provisional) consist of long term borrowings of Rs.6.63 crore and short term borrowing of Rs.28.80 crore. The gearing (debt-equity) stood low at 0.63 times as on 31 March, 2020 (Provisional) as compared to 0.67 times as on 31 March, 2019. The Interest Coverage Ratio stood at 2.02 times for FY2020 (Provisional) as against 2.66 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood low at 0.97 times as on 31 March, 2020 (Provisional) as against 1.19 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.11 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 1.62 times in FY2020 (Provisional) as against 2.10 times in FY2019. The group has undertaken a debt funded capex for their distillery business for which a term loan of Rs.5.20 crore has been availed. This is likely to impact the financial risk profile mainly driven by moderation in Debt to EBITDA levels and Net Cash Accruals (NCA) to Total Debt (NCA/TD) levels.

Acuité believes that there will be moderation financial risk profile over near term on account of the said capex.

- **Efficient working capital cycle**

The group has an efficient working capital cycle marked by Gross Current Assets (GCA) days of 68 days in FY2020 (Provisional) and 60 days in FY2019. The receivable days stood at 27 days in FY2020 (Provisional) as against 30 days in FY2019. The inventory days stood at 36 days in FY2020 (Provisional) as against 27 days in FY2019. The average bank limit utilisation stood at ~69.00 percent for the past nine months ending September 2020.

Acuité believes that efficient working capital management will be crucial to the group in order to maintain a healthy risk profile.

Weaknesses

- **Declining trend in revenue and low profitability marked by trading nature of business**

The group has experienced a decline in the scale of operations marked by revenue of Rs.507.84 crore in FY2020 (Provisional) as against Rs.551.96 crore in FY2019. The operating margins of the group have declined marginally to 2.27 percent in FY2020 (Provisional) as against 2.61 percent in FY2019. The PAT margins stood low at 0.73 per cent in FY2020 (Provisional) as compared to 1.06 per cent in FY2019. Low profit margins are usually on account of trading nature of business, limited pricing flexibility, with prices being dictated by the manufacturers of IMFL. The operations were further impacted in FY2021 mainly due to lockdown restrictions on account of Covid-19 pandemic. The group has reported revenues of Rs.180 crore for April-October 2020 (Provisional).

Acuité believes, that the ability of the group to sustain its revenues and profitability margins will be key rating sensitivity.

• Highly regulated industry

The alcohol industry in India is highly regulated with each state having a unique taxation policy and varying regulations. The distribution channel of the industry is also regulated by the state government. There have been continuous regulatory changes in terms of state government's policies towards liquor consumption. Any change in the government regulation can have significant impact on their operating income and profitability.

• Risk of capital withdrawal

Walvekar Group is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the group.

Rating Sensitivities

- Improving the existing scale of operations and profitability.
- Maintaining the existing financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

The group has an adequate liquidity position marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.4.00-6.20 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.20-0.85 crore over the same period. The working capital cycle of the group is efficient, marked by Gross Current Assets (GCA) days of 68 days in FY2020 (Provisional) and 60 days in FY2019. The average bank limit utilisation stood high at ~69.00 percent for the past nine months ending September 2020. The group maintained unencumbered cash and bank balances of Rs.0.84 crore as on March 31, 2020 (Provisional). The current ratio of group stood moderate at 1.96 times as on March 31, 2020 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the group achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	507.84	551.96
PAT	Rs. Cr.	3.70	5.85
PAT Margin	(%)	0.73	1.06
Total Debt/Tangible Net Worth	Times	0.63	0.67
PBDIT/Interest	Times	2.02	2.66

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Mar-2019	Cash Credit	Long Term	14.00	ACUITE BBB/Positive (Reaffirmed)
	Bank Guarantee	Short Term	2.06	ACUITE A2 (Reaffirmed)
22-Dec-2017	Cash Credit	Long Term	14.00	ACUITE BBB/Positive (Reaffirmed)
	Bank Guarantee	Short Term	2.06	ACUITE A2 (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	20.50 (Enhanced from 14.00)	ACUITE BBB/Stable (Reaffirmed & Outlook revised)
Term Loan	30-Mar-2020	10.00	30-Mar-2027	5.20	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50 (Enhanced from 2.06)	ACUITE A2 (Reaffirmed)

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About Acuite Ratings & Research:

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