

Press Release

Pincon Spirit Limited (PSL)

March 09, 2017

Rating Upgraded

Total Instruments Rated*	Rs.280.00 Cr
Long Term Rating	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating assigned to the Rs. 245.00 crore bank facilities and the Rs. 35.00 crore Proposed Non-Convertible Debenture Issue of Pincon Spirit Limited (PSL) to **SMERA BBB+ (read as SMERA triple B plus)** from SMERA BBB (read as SMERA triple B). The outlook is '**Stable**'.

PSL is engaged in the business of manufacturing and trading of IMFL (Indian Made Foreign Liquor) and IMIL (Indian Made Indian Liquor) in West Bengal, Karnataka, Orissa, Uttarakhand and Jharkhand. The company is also engaged in the trading of edible oil in West Bengal and neighbouring states. SMERA has taken a consolidated view of the financial and business risk profile of PSL and its subsidiaries. Together, they have been referred to the PSL Group.

The rating upgrade takes into account the sustained growth in operating income of the company coupled with improvement in profitability metrics. The rating upgrade is further supported by the increase in geographical presence of the company along with expansion in product portfolio. SMERA believes that the PSL's entry into the export market via the acquisition of Orbitol Solutions Pte will further enable it to improve its overall business risk profile.

List of key rating drivers and their detailed description

Strengths:

Continued growth in operating income and well-diversified revenue mix: PSL Group reported a 27.77 per cent compounded annual growth rate in its operating income over the last four financial years. The net sales increased to Rs.987.95 cr in FY2016 from Rs. 692.81 cr in FY2015 on account of entry into new markets and product verticals apart from addition of new liquor brands. In FY2016, PSL Group captured a considerable market share in Karnataka. The company added 3 IMIL brands and 11 IMFL brands to its product portfolio. The company also acquired three new bottling plants in West Bengal augmenting its IMIL production capacity in the state.

Improvement in profitability margins: The PSL Group reported substantial improvement in operating margins to 5.89 per cent in FY2016 as compared to 5.12 per cent in the previous year. PSL Group's margins are further supported by the well established distribution network of the company and favourable movement in Extra Neutral Alcohol (ENA) prices. PSL Group's longstanding relationship with suppliers shall enable it to procure ENA at competitive rates in a timely manner. SMERA, however, notes that any adverse movement in ENA prices can result in substantial shortfall in operating cash flows vis-à-vis debt servicing requirements and capital expenditure commitments.

Comfortable financial risk profile: PSL Group reported a comfortable financial risk profile marked by an interest coverage ratio of 3.48 times in FY2016 (as compared to 5.03 times in FY2015). SMERA believes that over the medium term, the debt protection metrics are expected to remain comfortable on

account of the healthy internal accruals generated by the group, stable profitability margins and low debt servicing commitments.

Further, SMERA expects PSL Group to continue to benefit from its ability to mobilise funds from the capital market as also from various financial institutions. PSL Group raised its equity base by Rs. 79.47 cr over the last three financial years.

Weaknesses:

Exposure to regulatory risk: The rating continues to reflect the group's exposure to risks associated with the regulatory environment surrounding the liquor industry in India. Adverse changes in the regulations and policies can affect the group's ability to maintain its offtake and generate adequate operating cashflows.

SMERA further takes note of the reorganisation of the liquor industry in West Bengal via the formation of a state government corporation which shall be responsible for procurement and distribution of IMIL products. Impact of the above change in the regulatory system is yet to be seen and shall remain a credit monitorable. However, these risks are partially offset by PSL Group's presence in the edible oils industry – which is relatively less regulated.

Exposure to geographical concentration risk: Currently, approximately 80 per cent of PSL Group's revenues are derived from sales in West Bengal. Changes in the political landscape, demographic trends and demand-supply dynamics can adversely affect PSL Group's business risk profile.

These risks are, however, offset by PSL group's gradual diversification to neighbouring states and to the in South India. SMERA believes that PSL Group's ability to reduce its geographical concentration shall be instrumental in sustaining its business and financial risk profile.

Analytical approach: SMERA has taken a consolidated view of the above entity.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Consolidation: <https://www.smera.in/criteria-consolidation.htm>

Outlook: Stable

SMERA believes that the PSL Group will maintain a stable outlook on account of its well-established market position, prudent capital structure and healthy debt protection metrics. The outlook may be revised to 'Positive' in case of substantial improvement in profitability margins and further diversification of the group's revenue streams. Conversely, the outlook may be revised to 'Negative' in case of adverse changes in the regulatory environment and/or deterioration in the group's financial risk profile

About the Rated Entity

PSL was incorporated in 1978 and is engaged in the business of blending, bottling and trading of IMIL, IMFL and Edible Oils. The PSL Group comprises PSL and its subsidiaries – Paul Distributors Private Limited (PDPL), Priya Laboratories Private Limited (PLPL) and Yours Laboratories Private Limited (YLPL).

PDPL is engaged in the wholesale trading and distribution of IMFL. PLPL and YLPL are engaged in the blending and bottling of IMFL and IMIL, respectively. These products are marketed under the brand of PSL.

The group reported net profit of Rs. 25.50 cr on operating income of Rs.987.95 cr in FY2015-16, as compared with profit after tax (PAT) of Rs.16.66 cr on operating income of Rs. 692.81 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	245.00 (Increased from Rs. 120.00 crore)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)	16 Dec, 2015	SMERA BBB/Stable (Assigned)	-	-	-	-
Proposed Fund Based Facilities	LT	-	-	16 Dec, 2015	SMERA BBB/Stable (Assigned)	-	-	-	-
Proposed Non-Convertible Debentures	LT	35.00	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)	16 Dec, 2015	SMERA BBB/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	N.A	N.A	N.A	245.00 (Increased from Rs. 120.00 crore)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Proposed Non-Convertible Debentures	N.A	N.A	N.A	35.00	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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