

Press Release

Alpine Distilleries Private Limited

November 10, 2022



Rating Assigned, Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.95	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	10.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	74.71	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	85.66	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned and upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B plus**) from '**ACUITE BB**' (read as **ACUITE Double B**) and reaffirmed the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.85.66 Cr bank facilities of Alpine Distilleries Private Limited (ADPL). The outlook is '**Stable**'.

Rationale for the rating

The rating upgrade is on account of overall sound risk profile of the company marked by substantial increase in the turnover and absolute profitability levels thus translating into higher cash accruals, which is backed by growing spurt in post-pandemic social gatherings thereby boosting alcobev industry. The rating continues to derive comfort from the experienced management and strong promoter background and their consistent financial support in the form of unsecured loans. This apart, Acuite takes comfort from improvement in the adjusted gearing (adjusted for unsecured loans, which are treated as quasi equity based on the bank covenant to maintain unsecured loans in the company during the currency of the bank loans). The rating also considers the adequate liquidity position of the company, aided by prudent working capital management and adequate accruals. These strengths are however, partly constrained by the customer concentration risk and vulnerability to changing regulatory environment.

About the Company

Incorporated in 2002, Alpine Distilleries Private Limited (ADPL), is a Kolkata based company, engaged in bottling of Indian made Foreign Liquor (IMFL). The company is promoted by Mr Debasis Mukherjee, Mr Debraj Mukherjee and IMFL bottling facility in Hooghly (WB) in April 2012 with an installed capacity of 18 lakh cases per annum. From 2019, Mr Yogesh Jain, Delhi based businessman has invested funds and is presently the major shareholder of the company (64.42 per cent). The total shareholding of the Jain family is around 85.65 per cent. The company bottles and markets well-known brands like "Officer's Choice", "Officer's Choice Blue" and "Old Monk Rum" for prominent liquor manufacturers. As a part of backward

integration initiative, the company has set up a grain-based Extra Neutral Alcohol (ENA) plant with an installed capacity of 60 KLPD (20 million litres p.a.) and a co-generation power plant of 3MW. The plant has become operational from December- 2020. The company has planned to enhance the capacity of the Extra Neutral Alcohol (ENA) plant to 80 KLPD and have already incurred Rs.3.5 Cr from Promoter's Contribution.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of ADPL to arrive at the rating.

Key Rating Drivers

Strengths

Diversified presence in IMFL, IMIL and ENA supported by experienced management and favourable plant location

The promoters of ADPL have an experience of more than two decades in the business, i.e. Extra Neutral Alcohol (ENA) manufacturing. Further, the plant is headed by Mr. Debraj Mukherjee, having more than three decades of experience in distillery plant. Mr Yogesh Jain is the major shareholder of ADPL and has rich experience in various business like hospitals, hotels, chewing tobacco, pan masala, distillery & IMFL plants, washing powder, real estate, tea etc. The promoters have demonstrated financial support to the company in the past through significant fund infusion.

The manufacturing unit of the company is strategically located near the grain growing region of West Bengal which provides logistical advantage to the company. ADPL procures most of its raw material like broken rice from local farms located in and around the unit. Furthermore, distilling is highly water sensitive process, and it is necessary to have continuous supply of water to have uninterrupted output. The plant is in the vicinity of Hooghly River, thus ensuring continuous stream of water. ADPL has diversified presence across all the three segments of the distilleries business. Majority of ENA produced by the company is captively consumed for manufacturing IMIL and IMFL; while the rest is sold in the open market.

Steady improvement in the business profile and prudent working capital management

ADPL is a relatively small player in the industry with an operational capacity of around 60KLPD (newly commissioned grain-based distillery in December 2020) and turnover of Rs. 10.96 crore in FY21 as against Rs. 6.02 crore in FY20. The gradual improvement in ADPL's operations since FY2022 has helped the company achieved revenues of Rs 103.18 Cr till March 2022. The turnover of the company has been growing at a CAGR of more than three hundred per cent from FY20 to FY22. Further, the company has registered a revenue of Rs 68.07 Cr till September 2022 (Provisional).

However, the operating margin moderated to 19.30 per cent in FY2022 from 58.04 per cent in FY2021. The increasing share of the ENA manufacturing business (76.15%) in the revenue mix moderated the EBITDA margin in FY22, given their weaker margin profile compared to the bottling unit and lease rental segment. EBITDA margins were also adversely affected due to increase in raw material prices including broken rice and coal during the same period. The PAT margin of the company also declined to 1.08 per cent in FY2022 from 5.04 per cent in FY2021, owing to higher depreciation and interest cost. Acuité expects the profit margin to remain range bound in near term backed by a favorable revenue mix with a higher share of the ENA manufacturing business, as well as a scaled-down income from bottling unit and constant lease rental fees.

Strong demand conditions supporting faster inventory turnaround helped the company to improve its working capital cycle as the working capital intensity improved significantly which is reflected through comfortable Gross Current Assets (GCA) of 61 days in as on March 31, 2022 as against 434 days as on March 31, 2021. In FY21 December, the company started its distillery division and hence there was significant increase in purchase of raw materials. The

inventory holding improved to 33 days as compared to 555 days as on 31st March 2021. As distillation is a continuous process and the key raw materials are susceptible to price volatility, the company maintains high inventory levels during the crop season to mitigate the impact of demand-supply gap and change in dynamics of the market. Further, the debtor days stood low at only 10 days as on March 31, 2022 owing to improved collections from the customers. The company's ability to effectively manage the working capital cycle, by sustaining its improved receivable and inventory position, would remain critical from a credit perspective.

Above average financial risk profile

The company's above average financial risk profile is marked by improving networth base, comfortable gearing and moderate debt protection metrics. Acuité has considered unsecured loans of Rs.30.00 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Hence, the tangible net worth of the company improved to Rs.87.17 Cr as on March 31, 2022 from Rs.56.05 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company also stood comfortable below unity at 0.93 times as on March 31, 2022 as compared to 2.15 times as on March 31, 2021. With higher retained earnings and net worth, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.19 times as on 31st March, 2022 as against 2.43 times as on 31st March, 2021. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 2.28 times and Debt Service coverage ratio at 1.18 times as on 31st March, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31st March, 2022. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

Concentrated product portfolio

ENA is the primary product of the company that contributes more than 75 per cent of the total revenue thereby exposing it to product concentration risk. The by-products derived in the process of manufacturing starch, known as Distillers Wet Grain Soluble- Wet Cake and Distillers Dried Grain Soluble (DDGS) is used for cattle feed and poultry feed and contributes around 15 per cent and bottling unit contributes about 3.33 per cent of the total revenue.

Exposure to risks related to the highly regulated nature of the liquor industry

The Indian alcohol industry is highly regulated at almost every stage in the value chain. Moreover, every state has its own regulations with respect to distribution and retail, registration, taxation and pricing of alcohol. Any change in the regulatory environment will affect the profitability of the liquor industry.

Volatility of input prices with limited pricing power

ADPL uses grain as a raw material for its production of ENA. Since grains are seasonal products and its production depends on the vagaries of nature, the price of the same may vary depending on the production. The company's ability to pass on any raw material price remains limited.

Rating Sensitivities

- Sustainability in revenue growth and profitability margin

- Elongation of working capital cycle
- Change in Capital Structure

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals stood at Rs. 11.24 Cr as on March 31, 2022 as against long term debt repayment of Rs. 8.25 Cr over the same period. The cash and bank balances of the company stood at Rs.1.12 Cr as on March 31, 2022. The company meets its working capital requirement through unsecured loans from the promoter group. Given the likely ramp-up in operations, Acuité expects ADPL's cash flows to be able to meet its debt service obligations, going forward. Further, any shortfall in servicing the debt repayment obligations shall be made out of fund infused by the promoters. However, the current ratio stood low at 0.84 times as on March 31, 2022. Acuité believes that consistent financial support from the promoters, which are expected to be adequate, relative to its debt service obligations and expected comfortable cash accruals buoyed by efficient working capital management would be sufficient to meet regular capital expenditure and thereby maintain an adequate liquidity position.

Outlook: Stable

Acuité believes that the outlook on ADPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, strong business risk profile and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating 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 or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	103.18	10.96
PAT	Rs. Cr.	1.12	0.55
PAT Margin	(%)	1.08	5.04
Total Debt/Tangible Net Worth	Times	0.93	2.15
PBDIT/Interest	Times	2.28	2.60

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

IVR vide its Press Release dated Sept 26th 2022, had rated ADPL to IVR D; INC

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Mar 2022	Bank Guarantee	Short Term	0.95	ACUITE A4+ (Upgraded from ACUITE D)
	Term Loan	Long Term	42.70	ACUITE BB Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	15.98	ACUITE BB Stable (Upgraded from ACUITE D)
	Proposed Bank Facility	Long Term	16.03	ACUITE BB Stable (Upgraded from ACUITE D)
02 Jul 2021	Bank Guarantee	Short Term	0.95	ACUITE D (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	1.25	ACUITE D (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.34	ACUITE D (Downgraded and Issuer not co-operating*)
	Proposed Term Loan	Long Term	55.00	ACUITE D (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	3.05	ACUITE D (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	11.07	ACUITE D (Downgraded and Issuer not co-operating*)
08 Mar 2021	Cash Credit	Long Term	3.05	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.95	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	11.07	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.34	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	1.25	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Proposed Term Loan	Long Term	55.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
31 Dec 2019	Term Loan	Long Term	4.34	ACUITE BB (Issuer not co-operating*)
	Proposed Term Loan	Long Term	55.00	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	1.25	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	11.07	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.95	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	3.05	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	4.34	ACUITE BB (Issuer not co-operating*)

06 Oct 2018	Term Loan	Long Term	11.07	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	1.25	ACUITE BB (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	55.00	ACUITE BB (Issuer not co-operating*)
		Short		
09 Mar 2017	Bank Guarantee	Term	0.95	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	3.05	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	1.25	ACUITE BB (Issuer not co-operating*)
	Cash Credit	Long Term	3.05	ACUITE BB (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	55.00	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	11.07	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	4.34	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.95	ACUITE A4+ (Issuer not co-operating*)
	Term Loan	Long Term	15.41	ACUITE BB Stable (Assigned)
	Proposed Long Term Loan	Long Term	55.00	ACUITE BB Stable (Assigned)
30 Dec 2015	Cash Credit	Long Term	4.30	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	0.95	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.95	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	19.24	ACUITE BB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.92	ACUITE BB+ Stable Upgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	40.55	ACUITE BB+ Stable Upgraded

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About Acuité Ratings & Research

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