

Press Release

Essbee Intech Private Limited

January 25, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 14.75 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB-**'(read as **ACUITE double B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 14.75 crore bank facilities of Essbee Intech Private Limited (EIPL). The outlook is '**Stable**'.

The rating downgrade is in view of significant impact of regulatory changes in distribution of Indian Made Foreign Liquor (IMFL) in West Bengal. The same has been taken over by West Bengal State Beverages Corporation (WBSBC) leading to a contraction in scale of operations in FY2018-2019.

Incorporated in 1994 and promoted by Mr. Anil Grover, Ms. Tamali Basu and Mr. Ankit Grover, EIPL is an authorised distributor of United Breweries Holdings Limited in Thane district of Mumbai (Maharashtra). The company shifted its base of operation from Kolkata to Mumbai in January 2018 on account of change in regulatory environment.

Analytical Approach

Acuité has changed the analytical approach from consolidated business and financial risk profile to standalone business and financial risk profile of EIPL to arrive at the rating. The Ultra group consists of Ultra Trades & Holding Company Private Limited, Ultra Liquor Private Limited and Essbee Intech Private Limited and was engaged in trading of IMFL and Beer in West Bengal. However, West Bengal State Beverages Corporation (WBSBC) took over distribution of liquor to retailers across the state on December 2017. As a result, Ultra Group whose entire business comprised of distribution of IMFL in Kolkata, Howrah and Siliguri had to close down. EIPL is currently operating in Thane district of Mumbai (Maharashtra). on a standalone basis.

Key Rating Drivers

Strengths

• Established track record of operations and experienced promoters

EIPL has an established track record of more than three decades in liquor industry resulting in established relations with manufacturers including United Breweries Holdings Limited. The key promoters, Ms. Tamali Basu and Mr. Shankhadeep Dhar, have more than two decades of experience in the group companies- Ultra Trades & Holding Company Private Limited, Ultra Liquor Private Limited and Mazda and Company (ACUITE B+/ Stable) which are in the same line of business since 1986.

• Efficient working capital nature of operations

EIPL's working capital nature of operations is comfortable marked by gross current asset (GCA) of 22 days in FY2018 as against 25 days in FY2017 on account of low inventory maintained and speedy recovery of receivables from customers. Going forward, Acuité believes that the inventory requirement will increase but will remain comfortable in the medium term.

• Moderate financial risk profile

The financial risk profile of the firm has remained moderate marked by modest net worth and gearing and healthy debt protection metrics. The net worth stood at Rs.12.90 crore as on 31 March, 2018 as against Rs.11.30 crore as on 31 March, 2017. The gearing improved from 1.38 times as on 31 March,

2017 to 1.55 times as on 31 March, 2018 on account of lower utilisation of short term bank lines. The total debt of Rs.17.77 crore outstanding as on 31 March, 2018 comprises Rs.0.67 crore term loan, Rs.6.36 crore as working capital facility from the bank and Rs. 10.71 crore of unsecured loans from promoters. The interest coverage ratio (ICR) stood at 3.05 times in FY2018 as against 2.53 times in FY2017. The debt service coverage ratio (DSCR) remained comfortable at 2.40 times in FY2018 as against 1.91 times in the previous year. NCA/TD ratio has remained to 0.10 times in FY2018.

Weaknesses

- **Thin profit margins and expected decline in revenue in FY 2018-2019**

EIPL's margin remained thin on account of trading nature of business. The gross profit margins improved to 1.12 percent in FY2018 as against 0.86 percent in FY2017. The net margin improved but remained low at 0.55 percent in FY2018 as against 0.42 percent in FY2017. Further, the revenue is expected to decline in FY2018-2019 on account of shift in base of operations from Kolkata to Mumbai as a result of regulatory changes in West Bengal. As on November, 2018 the company has achieved operating revenue of Rs.85.00 crore (Provisional).

- **Exposure to regulatory risk**

The rating reflects the company's exposure to risks associated with the regulatory environment surrounding the liquor industry in India. Any adverse changes in the regulations and policies related to distribution and trading of IMFL and Liquor in Maharashtra can affect the sales and margins of the company.

Liquidity Position

EIPL has a moderate liquidity position. The company's net cash accruals stood at Rs.1.78 crore in FY2018, while the maturing debt obligations were in the range of Rs.0.20-0.30 crore over the same period. The cash accruals of the company are estimated to decline to around Rs.0.70-1.20 crore during 2019-21 on account of contraction in business. The company's operations are working capital efficient as marked by gross current asset (GCA) days of 22 in FY 2018. The same is reflected from the cash credit limit utilisation of ~64 percent during the last 6 months period ended September, 2018. The current ratio of the group stood healthy at 2.27 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that EIPL will maintain a 'Stable' outlook over the medium term on account of its experienced management and efficient working capital cycle. The outlook may be revised to 'Positive' in case the company registers substantial growth in revenue and cash accruals while maintaining efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or further decline in profitability metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	292.55	377.09	310.72
EBITDA	Rs. Cr.	3.28	3.25	3.13
PAT	Rs. Cr.	1.61	1.57	1.21
EBITDA Margin	(%)	1.12	0.86	1.01
PAT Margin	(%)	0.55	0.42	0.39
ROCE	(%)	12.47	15.62	15.98
Total Debt/Tangible Net Worth	Times	1.38	1.55	1.33
PBDIT/Interest	Times	3.05	2.53	2.23
Total Debt/PBDIT	Times	4.57	4.16	3.55
Gross Current Assets (Days)	Days	22	25	30

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
4-Jan-2018	Cash Credit	Long Term	14.75	ACUITE BB+ /Stable (Indicative)
19-Oct-2016	Cash Credit	Long Term	14.75	ACUITE BB+/Stable (Reaffirmed)
03-Feb-2016	Cash Credit	Long Term	9.75	ACUITE BB+/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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE BB-/ Stable (Downgraded)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in Swati Banthia Analyst - Rating Operations Tel: 033-6620-1211 swati.banthia@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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