

Press Release

Rama Wines (RW)

March 09, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.21.00 Cr (Enhanced from Rs.13.00 crore)
Long Term Rating	SMERA BB+/Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the rating of '**SMERA BB+**' (read as SMERA double B plus) on the Rs.21.00 crore bank facility of Rama Wines (RW). The outlook is '**Stable**'.

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Rama Wines (RW) and Magnum Traders (MT), together referred to as the RW Group. The group has significant operational and financial linkages apart from a common management.

The RW Group, is a distributor of the Diageo Group (IMFL and Wine) and United Breweries (beer). The rating has been reaffirmed on account of healthy revenue growth, moderate working capital intensity and experienced management. The rating also draws comfort from the exclusive distributorship of Diageo and United Breweries products. However, the rating is constrained by the low profitability, high TOL to TNW ratio and highly regulated and competitive liquor industry. The rating also factors in the inherent risk of capital withdrawal.

List of key rating drivers and their detailed description

Strengths:

Experienced management: The firm is led by Mr. Gurmukhdas N. Khubchandani who has experience of around four decades in a similar line of business. He is joined by his sons, Mr. Anil and Mr. Sunil who have been in the business for the last two decades.

Healthy revenue growth: The group revenues increased to Rs.349.66 cr from Rs.298.28 cr in FY2015 (~17 per cent) mainly on account of increase in demand for DSP Black, Royal Challenge Whisky and Kingfisher Mild. Further, the group achieved turnover of Rs.343.50 cr during April to December, 2016 after receiving the exclusive distributorship of Diageo Group products for IMFL and wine along with beer products of United Breweries Group.

Moderate working capital intensity: The GCA stands low at around 58 days in FY2016 which increased from 45 days in FY2015 due to moderate increase in debtors to 29 days in FY2016 from 23 days in FY2015. Further, the average cash credit utilisation has been around 72 per cent during July to December, 2016.

Exclusive distributorship: The group has exclusive distributorship of all products of Diageo Group in the IMFL and Wine categories for Thane, Pen, Panvel, Kalamboli, Uran, Taloja and Kamothe. It is also an exclusive distributor of United Breweries for beer in Thane and Raigad district.

Weaknesses:

Low profitability: The group's operating margins fell to 1.59 per cent in FY2016 from 1.73 per cent in FY2015 owing to limited margin flexibility in trading operations.

High TOL to TNW ratio: The group has total outside liability to tangible networth ratio of 2.37 times in FY2016 as compared to 1.73 times in FY2015 owing to increase in creditors.

Highly regulated and competitive 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. Besides, movement of liquor between states is subject to multiple tax laws. Also, the business profile can be impacted due to changes in consumer preferences and pricing.

Inherent risk of capital withdrawal: The group is exposed to the inherent risk of capital withdrawal.

Analytical approach: For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Rama Wines (RW) and Magnum Traders (MT), together referred to as the RW Group. The group has significant operational and financial linkages apart from a common management.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Criteria for Consolidation of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook will remain stable over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook maybe revised to 'Positive' in case the company registers sustained growth in revenues while achieving significant improvement in profit margins and working capital management. Conversely, the outlook maybe revised to 'Negative' in case of steep decline in revenues and profit margins or significant deterioration in the financial risk profile.

About the Rated Entity

Rama Wines was established in 1980 as a proprietorship concern by Mr. Gurmukh Khubchandani. The RW Group, is a distributor of the Diageo Group (IMFL and Wine) in Thane and United Breweries (beer) in Thane and Kalyan Dombivli. The day-to-day operations are managed by Mr. Gurmukh Khubchandani, along with his sons Mr. Sunil and Mr. Anil. The warehouse is located at Bhiwandi. Since June 2010, the firm's Raigad operations are carried out by Magnum Traders.

Magnum Traders was established in 2010 as a partnership firm by Mr. Gurmukh Khubchandani, Mr. Sunil Khubchandani and Mr. Anil Khubchandani (Partners) to take over the existing operations of Rama Wines (Raigad). The warehouse is located at Panvel.

For FY2015-16, the RW group reported net profit of Rs.2.76 cr on operating income of Rs.349.66 cr, as compared to net profit of Rs.2.11 cr on operating income of Rs.298.28 crin FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

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	21.00	SMERA BB+/Stable (Reaffirmed)	Feb 10, 2016	SMERA BB+/Stable (Assigned)	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in crore)	Ratings/ Outlook
Cash Credit	NA	NA	NA	21.00	SMERA BB+/Stable (Reaffirmed)

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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