

Press Release

Rama Wines (RW)

06 April, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 21.00 crore
Long Term Rating	SMERA BBB-/ Stable

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs. 21.00 crore bank facility of Rama Wines (RW) to '**SMERA BBB-**' (read as SMERA triple B minus) from '**SMERA BB+**' (read as SMERA double B plus). 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 for liquor brands of the Diageo Group (IMFL and Wine) and United Breweries (beer). The rating has been upgraded on account of healthy revenue growth of 31.65 percent in FY2016-17 with moderate working capital intensity and established track record of the management. The rating also draws comfort from the exclusive distributorship of Diageo and United Breweries' products for more than a decade in Thane and Raigad.

Key rating drivers

Strengths

Experienced management and established track record of operations

The group is led by Mr. Gurmukhdas N. Khubchandani who has experience of about 40 years in the liquor distribution business. His sons, Mr. Anil and Mr. Sunil, are also engaged in the business since around 20 years.

The group spilt its business into two entities - Rama Wines (Thane Corporation) and Magnum Traders (as a partnership firm) in Raigad district.

Healthy revenue growth

The group's revenue increased from Rs.349.66 crore in FY2015-16 to Rs.460.34 crore in FY2016-17 with annual CAGR (Compounded Annual Growth Rate) of 18 percent over the last five years. The EBITDA margin has shown benign growth of 0.17 percent in FY2016-17 at 1.76 percent in FY2016-17.

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 beer of United Breweries in Thane and Raigad districts.

Weaknesses

Thin profitability, competition from other brands

The group profit margins stood at 1.76 percent in FY2017 as compared to 1.59 per cent in FY2016. The low profit margins are usually on account of limited pricing flexibility with prices being dictated by IMFL manufacturers. Changes in customer preferences or prices may impact the business profile.

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.

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.

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 and suppliers. The outlook maybe revised to 'Positive' in case the firm 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 revenue and profit margins or significant deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	460.34	349.66	298.28
EBITDA	Rs. Cr.	8.12	5.58	5.16
PAT	Rs. Cr.	3.93	2.76	2.11
EBITDA Margin (%)	(%)	1.76	1.59	1.73
PAT Margin (%)	(%)	0.85	0.79	0.71
ROCE (%)	(%)	14.80	12.51	13.14
Total Debt/Tangible Net Worth	Times	1.53	1.67	1.52
PBDIT/Interest	Times	2.06	2.18	1.80
Total Debt/PBDIT	Times	4.40	5.25	4.40
Gross Current Assets (Days)	Days	53	58	45

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

None

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
10-Feb-2016	Cash Credit	Long Term	13.00	SMERA BB+/ Stable (Assigned)
9-Mar-2017	Cash Credit	Long Term	21.00	SMERA BB+/Stable (Reaffirmed)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	SMERA BBB-/ Stable (Upgraded)

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ABOUT SMERA

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