

Press Release



P N Group

October 13, 2017

Rating Downgraded

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long-term rating of 'SMERA BB-' (read as SMERA BB minus) and short term rating of 'SMERA A4+' (read as SMERA A four plus) on the Rs. 30.00 crore bank facilities of P N Group. The outlook is 'Stable'.

P N Group (PNG), established as a proprietorship concern in 1985, was converted into a partnership firm in 2015. The firm, promoted by Mr. Ghanshyam Rathore, Mr. Vinod Rathore and Mr. Prakash Rathore is a retailer of country liquor and Indian Made Foreign Liquor (IMFL) in Madhya Pradesh. At present, PNG has 119 licenced shops.

Key Rating Drivers**Strengths****• Experienced management**

The partners, Mr. Ghanshyam Rathore, Mr. Vinod Rathore and Mr. Prakash Rathore have experience of over three decades in the liquor industry..

• Moderate financial riskprofile

PNG has a moderate financial risk profile marked by networth of Rs. 8.84 crore as on 31 March, 2017 (Provisional). The gearing (debt to equity ratio) stood at 0.50 times as on 31 March, 2017 (Provisional). The total debt of Rs. 4.44 crore as on 31 March, 2017 mainly consists of working capital borrowings of Rs. 2.94 crore and unsecured loans from promoters of Rs.1.50 crore. The interest coverage ratio (ICR) stood low at 1.12 times in FY2017 (Provisional). In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.03 times.

Weaknesses**• Operating efficiency dependent on successful bidding**

PNG presently operates from 119 shops. The firm registered revenue of Rs. 90.52 crore in FY2017 (Provisional). However, the revenue is dependent on yearly bidding to acquire new shop licenses or renewal of existing licences. Hence, the business of the firm is highly dependent on its ability to successfully bid for contracts. SMERA believes that the operating efficiency may be impacted in case the firm is unable to bid successfully for tenders.

• Low profitability

The operating margins (EBIDTA) stood at 1.06 per cent in FY2017 (Provisional) which is lower than SMERA expectations. The firm has thin profitability due to the trading nature of business. The net profit after tax (PAT) margins stood low at 0.15 percent in FY2017 (Provisional). Approximately 40 per cent of the credit facility has been utilised during the six month ended August 2017.

- **Highly regulated industry**

The alcohol industry in India is highly regulated. Movement of liquor between various states is subject to multiple tax laws making sales between states very difficult.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of PNG.

Outlook: Stable

SMERA believes that PNG's outlook will remain stable over the medium term on account of its promoters' extensive experience in the liquor industry. The outlook may be revised to 'Positive' in case of significant improvement in revenues, profitability, the financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability, deteriorating the financial risk profile or liquidity position.

About the Rated Entity - Key Financials

For FY2016-17, PNG reported profit after tax (PAT) of Rs 0.13 crore on total operating income of Rs.90.52 crore. The net worth stood at Rs.8.84 crore as on 31 March 2017 (Provisional).

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jun-2016	Secured Overdraft	Long Term	INR 5	SMERA BB / Stable
	Bank Guarantee	Short Term	INR 25	SMERA A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A4+

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ABOUT SMERA

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