



Press Release

Gendalal Hazarilal & Company

September 15, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.50 crore*
Long Term Rating	ACUITE BB+/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 13.50 crore bank facilities of Gendalal Hazarilal & Company (GHC). The outlook is '**Stable**'.

Madhya Pradesh-based, Gendalal Hazarilal & Company (GHC) was established as a partnership firm in the year 1998 by Mr. Rakesh Kumar Rai and Mr. Akhilesh Kumar Rai. The firm is engaged in the retailing of the country-made and Indian Made Foreign Liquor.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GHC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

GHC was established as a partnership firm in the year 1998 by Mr. Rakesh Kumar Rai and Mr. Akhilesh Kumar Rai. The firm has witnessed a growth in the operating income to Rs. 84.51 crore in FY2020 (Prov.) from Rs. 72.34 crore in FY2019 and Rs. 57.87 crore in FY2018, therefore reflecting a growth at a CAGR of 9.93 per cent over a period of five years.

- **Healthy financial risk profile**

GHC financial risk profile is healthy marked by its healthy net worth, low gearing and moderate debt protection measures.

The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.05 times and 0.05 times

as on March 31, 2019, over the past three years. The net worth increased to Rs. 45.92 Crore in FY2020 (Prov.) as against Rs. 37.75 Crore in FY2019 supported by healthy net cash accruals. The gearing continues to stand low at 0.03 times in FY2020 (prov.) as against 0.05 times in FY2019. The same is expected to remain range-bound at current levels in the absence of debt-funded capex. The total outside liability against total net worth remained comfortable at 0.03 times in FY2020 (Prov.) as against 0.05 times in the previous year. The debt protection metrics remained healthy with an interest coverage ratio of 73.37 times in FY2020 (Prov.) as against 23.72 times in the previous year. The total debt of Rs. 1.54 crore as on 31 March 2020 (Provisional) comprised of long term borrowings of Rs. 1.20 crore and unsecured loans of Rs. 0.34 crore.

Healthy profitability has led to an improvement in coverage indicators of the firm marked by debt-service-coverage-ratio of 73.37 times as on 31st March, 2020 (Provisional) as against 23.72 times as on 31st March, 2019. Acuité believes that the financial risk profile will continue to remain healthy on account of healthy profitability.

Weaknesses

- **Exposure to regulatory risk**

The Indian alcohol industry is highly regulated at almost every stage in the value chain. Moreover, every state has its set of regulations with respect to distribution and retail channels, registration, taxation, and pricing of alcohol. The industry is expected to remain highly regulated by the government going forward, exposing the business risk profile to adverse regulatory changes. Furthermore, players within the industry are susceptible to high excise duties; any adverse change in excise duties can weaken profitability, and consequently, affect its credit risk profile.

Rating Sensitivity

- Significant deterioration in its working capital management.
- Decline in profitability levels, thereby impacting firm's debt coverage indicators.

Material Covenants

None

Liquidity: Strong

The firm has a strong liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.13.75 crore during FY2020 (Provisional), against no significant maturing debt obligations during the same period. The cash accruals of GHC are likely to remain in the range of Rs. 20.27 crore to Rs. 23.55 crore in FY2021-23 as against no significant maturing obligations during the same period. The current ratio of the company stood at 751.17 times as on March 31, 2020 (Provisional). The unencumbered cash and bank balances of GHC stood at Rs. 4.49 crore as on March 31, 2020 (Provisional) (PY: 2.91 crore).

Outlook: Stable

Acuité believes that GHC will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in the operating margins, or deterioration in working capital leading to a higher reliance on external borrowings, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	84.51	72.34
PAT	Rs. Cr.	13.21	10.90
PAT Margin (%)		15.63	15.06
Total Debt/Tangible Net Worth	Times	0.03	0.05
PBDIT/Interest	Times	73.37	23.72

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24 th December, 2019	Cash Credit	Long-Term	6.00	ACUITE BB+ (Downgraded; Issuer not co-operating*)
	Bank Guarantee	Short Term	7.41	ACUITE A4+ (Downgraded; Issuer not co-operating*))
	Proposed Term Loan	Long Term	0.09	ACUITE BB+ (Downgraded; Issuer not co-operating*)

08 th January, 2019	Cash Credit	Long-Term	6.00	ACUITE BBB- (Issuer not co-operating*)
	Bank Guarantee	Short Term	7.41	ACUITE A3 (Issuer not co-operating*)
	Proposed Term Loan	Long Term	0.09	ACUITE BBB- (Issuer not co-operating*)
26 th October, 2017	Cash Credit	Long-Term	6.00	ACUITE BBB- (Issuer not co-operating*)
	Bank Guarantee	Short Term	7.41	ACUITE A3 (Issuer not co-operating*)
	Proposed Term Loan	Long Term	0.09	ACUITE BBB- (Issuer not co-operating*)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.98	ACUITE BB+/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.02	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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