

Press Release

Gendalal Hazarilal & Company

December 15, 2021



Rating Upgraded

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.02	10.02		ACUITE A3 Upgraded
Bank Loan Ratings	3.48	3.48	ACUITE BBB- Stable Upgraded	
Total	-	13.50	-	-

*Refer Annexure for Details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**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**'.

Rationale for Rating Upgrade

The rating upgrade is on account of improved financial risk profile and consistent business performance of GHC. The Firm's revenues have shown an increasing trend in the last three years from FY2019-21. The operating income increased to Rs.97.21 Cr in FY2021 from Rs. 72.34 Cr in FY2020. The Firm's margins improved to 17.12 percent in FY2021 from 14.30 percent in FY2020. The Financial risk profile remained healthy marked by healthy net-worth, low gearing and robust debt protection metrics. The gearing stood at 0.04 times as on March 31, 2021 (Provisional) as against 0.03 times as on March 31, 2020. The interest coverage stood at 52.05 times in FY2021 (Provisional) as against 74.15 times in FY2020.

About the Company

Incorporated in 1980, by Mr. Gendalal Rai along with four other partners, Gendalal Hazarilal and Company (GHC) is engaged in retailing of Country Made Liquor (CML) and Indian Made Foreign Liquor (IMFL) in Sehore district of Madhya Pradesh. The firm is currently managed by Mr. Akhilesh Kumar Rai and Mr. Rakesh Kumar Rai, sons of the founder partner. As on date GHC operates 68 of the 71 government licensed liquor shops in Sehore district.

Analytical Approach

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

Key Rating Drivers

Strengths

> Experienced management and long track record of operations

GHC has been operational over four decades. It was incorporated in 1980 and is currently

owned and operated by Mr. Rakesh Kumar Rai and Mr. Akhilesh Kumar Rai. The brothers have over three decades of industry experience. GHC operates 68 of the 71 government licensed liquor shops in Sehore district of Madhya Pradesh. It generated an operating income of Rs.97.21 Cr in FY2021 (Provisional) as against Rs. 72.34 Cr in FY2020. Its operating margins improved to 17.12 percent in FY2021 (Provisional) from 14.30 percent in FY2020.

Acuite believes that GHC will continue to benefit from the experience of its partners and its long track record of operations.

> **Healthy financial risk profile**

The Financial risk profile remained healthy marked by healthy net-worth, low gearing and robust debt protection metrics. The net-worth of the Firm stood at Rs. 44.77 Cr as on March 31, 2021 (Provisional) as against Rs. 45.92 Cr as on March 31, 2020. The gearing stood at 0.04 times as on March 31, 2021 (Provisional) as against 0.03 times as on March 31, 2020. The Total debt outstanding as on March 31, 2021 (Provisional) stood at Rs. 1.83 Cr and included Rs. 1.48 Cr of short term borrowings and Rs. 0.34 Cr of unsecured loans from partners and related parties. The TOL/TNW stood at 0.08 times as on March 31, 2021 (Provisional) as against 0.03 times as on March 31, 2020. The Debt to EBITDA stood at 0.10 times in FY2021 (Provisional) as against 0.11 times in FY2020. The interest coverage stood at 52.05 times in FY2021 (Provisional) as against 74.15 times in FY2020.

Acuite expects the financial risk profile of GHC to remain healthy over the medium term in the absence of any major debt funded capex.

Weaknesses

> **Inherent risk of capital withdrawal in a partnership firm**

GHC is exposed to the inherent risk of capital withdrawal being a partnership constitution by nature. Significant withdrawals may adversely affect the financial risk profile of the firm. The partners have continuously withdrawn funds from FY2019 to FY2021. The partners have withdrawn Rs. 13.22 Cr in FY2021 (Provisional) as against Rs. 1.08 Cr in FY2020.

> **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.

Liquidity Position: 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.12.64 crore during FY2021 (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. 13-15 in FY2022-23 as against no significant maturing obligations during the same period. The current ratio of the company stood at 14.10 times as on March 31, 2021 (Provisional). The unencumbered cash and bank balances of GHC stood at Rs. 14.52 crore as on March 31, 2021 (Provisional).

Rating Sensitivities

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

Material covenants

None

Outlook: Stable

Acuité believes that GHC will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to the extensive experience of its partners, its long track record of operations and healthy financial risk profile. 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' in case of slower than expected growth in scale of operations or major debt funded capex affecting the financial risk profile of the firm.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	97.21	84.51
PAT	Rs. Cr.	12.08	9.24
PAT Margin	(%)	12.42	10.94
Total Debt/Tangible Net Worth	Times	0.04	0.03
PBDIT/Interest	Times	52.05	74.15

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Sep 2020	Cash Credit	Long Term	1.50	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.02	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	1.98	ACUITE BB+ Stable (Reaffirmed)
24 Dec 2019	Proposed Term Loan	Short Term	0.09	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB+ (Issuer not co-operating*)
	Bank Guarantee	Long Term	7.41	ACUITE BB+ (Issuer not co-operating*)
08 Jan 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 Long Term Loan	Long Term	0.09	ACUITE BBB- (Issuer not co-operating*)
26 Oct 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 Long Term Loan	Long Term	0.09	ACUITE BBB- (Issuer not co-operating*)
08 Aug 2016	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	7.41	ACUITE A3 (Assigned)
	Proposed Long Term Loan	Long Term	0.09	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.02	10.02	ACUITE A3 Upgraded (from ACUITE A4+)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	1.50	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.98	1.98	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Salony Goradia Senior Analyst-Rating Operations Tel: 022-49294065 salony.goradia@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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