

Kalpatharu Liquor Distributors: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	14.00	SMERA B+/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.14.00 crore long term bank facility of Kalpatharu Liquor Distributors (KLD). The outlook is '**Stable**'. The rating is constrained by the small scale of operations and working capital intensive business. The rating also factors in the low value additive nature of business and intense competition in the highly regulated liquor industry. However, the rating draws support from the experienced management and sole distribution rights for liquor brands of Tilak Nagar Industries Limited (TIL).

KLD is the sole distributor of Indian made foreign liquor for TIL. The firm's revenue of KLD decreased from Rs.5.31 crore in FY2015 to Rs.3.46 crore in FY2016 on account of fall in commission income. While the firm has a track record of almost a decade, the revenues are small. The firm generates revenues from commission income and reimbursement of expenses from TIL. The revenues are at a small level limiting the firm's financial and operational flexibility. KLD has high debtor days of 212 in FY2016 as against 146 in FY2015 which affects the working capital cycle. The rating also factors in the stringent government regulations in the industry.

However, KLD benefits from its promoter's experience in the liquor industry. Mr S. Kantappa, the founder has 30 years of experience as a wholesaler, retailer and manufacturer in the liquor industry. KLD has the sole distribution rights for Tilaknagar Industries Ltd products -whisky, Brandy, Vodka etc in South India.

Rating Sensitivity Factors

- Significant improvement in revenue while maintaining profitability
- Efficient working capital management

Outlook – Stable

SMERA believes that KLD will maintain a stable outlook in the medium term backed by its promoters' extensive experience and established relations with (TIL). The outlook may be revised to 'Positive' if the firm registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenues, profitability or if the working capital cycle further deteriorates.

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

KLD, incorporated in 2007, is the distributor of Indian made foreign liquor (IMFL) for TIL in Bangalore. The firm benefits from its experienced management. Mr. S. Kantappa (Director), the founder possesses over 30 years of experience in the liquor industry. The day-to-day affairs are managed by Mr. Lingaraj.

For FY2016, KLD reported profit after tax (PAT) of Rs.0.70 crore on operating income of Rs.3.46 crore as compared with PAT of Rs.0.93 crore on operating income of Rs.5.31 crore in the previous year.

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ABOUT SMERA

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