

Press Release

Kalpatharu Liquor Distributors (KLD)

31st January, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	SMERA B+/ Outlook: Stable (Reaffirmed)

**Refer annexure for details*

SMERA has reaffirmed long term rating of '**SMERA B+**' (**read as SMERA B plus**) on the above mentioned bank facilities of Kalpatharu Liquor Distributors. The outlook is '**Stable**'.

KLD was started by Mr. S. Kantappa and family in 2007 as a sole distributor for Indian Made Foreign Liquor (IMFL) brands of Tilak Nagar Industries Ltd in the state of Karnataka. The management of KLD has experience for almost a decade in the given line of business. Tilak Nagar Industries Ltd is a leading manufacturer of liquor in South India and the major categories are whisky, brandy, rum, vodka and Gin. The firm looks after the excise duty and other payments towards KSBCL (Karnataka state beverages corporation limited) on behalf of TIL. The firm markets the liquor products in Karnataka, Kerala and Andaman. The day to day operations of the firm is managed by Mr. Lingaraj who is well supported by experienced and qualified professionals.

Key rating drivers

Strengths

Moderate financial risk profile

KLD's moderate financial risk profile is marked by moderate debt equity of 1.51 times and interest coverage ratio of 2.13 times in FY17 (Provisional). The debt service coverage ratio (DSCR) also stood at around 2.13 times in FY17 (Provisional). The financial risk profile is expected to remain at comfortable levels over the medium term backed by steady accruals and no long term debt obligations apart from interest obligations on short term borrowings.

Experienced management in Liquor industry and sole distribution rights for liquor brands of Tilak Nagar Industries Limited (TIL)

KLD was started by Mr. S. Kantappa and family in 2007 as a distributor for Indian Made Foreign Liquor (IMFL). Mr S.Kantappa who is the founder of the business has 30 years of experience as a wholeseller, retailer and manufacturer in the liquor industry. The firm has the distribution rights for brands of Tilak Nagar Industries Limited (TIL). Tilak Nagar Industries Ltd manufactures liquor which is widely accepted in South India and the product categories are whisky, Brandy, Vodka etc. The day to day operations of the firm is managed by Mr. Lingaraj who is well supported by experienced and qualified professionals.

Weaknesses

Small scale of operations and uneven revenue trend

KLD's small scale of operations is marked by revenue of Rs.5.15 crore in FY17 (Provisional) as against Rs. 3.46 crore in FY16 and Rs.5.31 crore in FY15. With a track record of almost a decade the revenues are at a low level.

Presence in highly regulated industry

The alcohol industry in India is highly regulated which often require a lengthy process to obtain a license for the manufacturing, distribution and sale. There is a lack of uniform duty structure as each state has its own taxation policy, and regulations (regarding licensing fees, pricing, cross border movement etc.) Thus, alcohol industry falls under the legislative power of individual states. The distribution channel of the industry is also regulated by the state government. Movement of liquor between various states in India is subject to multiple tax laws and many regulations, making sales between states very difficult.

Analytical approach:

SMERA has considered standalone financial and business risk profile of the company to arrive at the rating.

Outlook: Stable

SMERA believes that KLD will maintain a stable business risk profile in the medium term backed by its promoters' extensive experience and long track record of operations. 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 or profitability or if the capital structure deteriorates.

About the Rated Entity - Key Financials

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	5.16	3.46	5.31
EBITDA	Rs. Cr.	3.15	1.75	2.61
PAT	Rs. Cr.	1.67	0.70	0.93
EBITDA Margin	(%)	61.09	50.62	49.16
PAT Margin	(%)	32.40	20.09	17.50
ROCE	(%)	12.57	8.95	13.30
Total Debt/Tangible Net Worth	Times	1.51	1.43	0.83
PBDIT/Interest	Times	2.14	1.66	1.56
Total Debt/PBDIT	Times	5.22	7.65	2.83
Gross Current Assets (Days)	Days	785	934	684

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing entities- <https://www.smera.in/criteria-services.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>

Status of non-cooperation with previous CRA (if applicable): None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs .Cr.)	Ratings/Outlook
25th Nov 16	Cash Credit	Long Term	14.00	SMERA B+/ Stable (Assigned)

*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	NA	NA	NA	14.00	SMERA B+/ Stable (Reaffirmed)

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ABOUT SMERA

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