

Press Release

Malbros International Private Limited (MIPL)

21 January, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.39.21 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **SMERA BBB- (read as SMERA triple B minus)** and a short term rating of **SMERA A3 (read as SMERA A three)** to the Rs.39.21 crore bank facilities of Malbros International Private Limited (MIPL). The outlook is '**Stable**'.

SMERA has consolidated the financial and business risk profile of Oasis Distilleries Limited (ODL), Malbros International Private Limited (MIPL), Oasis Commercial Private Limited (OCPL), Oasis Overseas Exports Private Limited (OOEPL), Vijeta Beverages Private Limited (VBPL) and Om Sons Marketing Private Limited (OSMPL) together referred to as the 'Oasis Group' (OG). The consolidation is in view of the common ownership and operational linkages within the group.

OG is engaged in the business of manufacturing and trading of liquor and Extra Natural Alcohol (ENA) in Madhya Pradesh, Punjab, Haryana, Rajasthan and Chandigarh.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations: The Oasis Group (OG), established in 1980 by Mr Malhotra and family has interests in liquor and hospitality industries. The group is engaged in the manufacture and trading of Extra Neutral Alcohol and County Liquor & IMFL. SMERA believes that OG will continue to benefit from its management's long standing experience in the liquor industry. The scale of operations is healthy. The group reported operating income of Rs.1,633.56 crore in FY2016 as compared to Rs. 1,315.72 crore in FY2015.

Comfortable financial risk profile: The financial risk profile is marked by comfortable debt protection metrics. The Interest coverage indicator remained healthy at 2.36 times in FY2016 as against 2.21 times in FY2015. OG continued to report a comfortable Debt Service Coverage Ratio (DSCR) of 1.43 times in FY2016 as compared to 1.29 times in FY2015. The gearing improved to 1.80 times as on 31st March, 2016 from 2.28 times on 31st March, 2015 and the overall financial leverage of the group continued to remain modest. SMERA expects the gearing to improve over the medium term on account of the healthy internal accruals.

Well established market position: OG also continues to benefit from its well established business model and value chain. The group has integrated its operations backward by entering into the business of manufacturing Extra Neutral Alcohol (ENA) from grain. The group has also integrated forward by running over 390 retail liquor vends in Punjab. SMERA believes that OG's profitability indicators will continue to remain comfortable over the medium term.

Weaknesses:

Exposure to regulatory risk: The rating, however, is constrained by the group's exposure to adverse regulatory changes in the liquor industry. With substantial amount of liquor sales concentrated in

Punjab, non-allotment of retail vends and/or changes in regulations can impact the operating performance and profitability of the group.

Exposure to volatility in raw material prices: OG is also exposed to volatility in raw material (grain) prices. Grains are an agricultural commodity. The prices are prone to fluctuation from season to season based on demand and supply conditions. The highly competitive nature of the liquor and ENA industry hinders OG's ability to pass on changes in raw material prices to the end customer.

Analytical approach: Consolidation of group entities as stated above.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Consolidation - <https://www.smera.in/criteria-consolidation.htm>

Outlook: Stable

SMERA believes that OG will maintain a stable outlook on account of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of substantial improvement in debt protection metrics, coupled with sustained increase in profitability indicators. Conversely, the outlook may be revised to 'Negative' in case of unfavourable changes in regulations/substantial deterioration in the debt-equity ratio or coverage indicators.

About the Group

The Oasis Group, established in 1995 by Mr. Deep Malhotra is engaged in the manufacture of Extra Neutral Alcohol (ENA) and trades in liquor. The group owns five grain based distilleries (in Punjab, Haryana and Madhya Pradesh), three bottling units (in Punjab, Rajasthan and Madhya Pradesh) and 390 retail liquor vends across India.

In FY2016, OG reported Profit After Tax (PAT) of Rs.39.86 crore on operating income of Rs.1,636.56 crore against PAT of Rs.23.68 crore in FY2015 on operating income of Rs.1,315.72 crore.

About the Rated Entity

MIPL was incorporated in 1988 and acquired by the Malhotra family in 2004. The company has a grain based distillery in Ferozpur, Punjab and a bottling plant. It has an installed capacity of bottling 24 lakh cases per annum.

In FY2016, MIPL reported a Profit After Tax (PAT) of Rs.7.44 crore on an operating income of Rs.288.99 crore against PAT of Rs.5.31 crore on operating income of Rs.262.45 crore in FY2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan I	LT	3.75	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Term Loan II	LT	2.53	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Term Loan III	LT	4.00	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Cash Credit	LT	24.00	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Standby Line of Credit	LT	3.00	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	1.50	SMERA A3 (Assigned)	-	-	-	-	-	-
Proposed Fund Based Facilities	LT	0.43	SMERA BBB-/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
Term Loan I	N.A	N.A	31 st March, 2019	3.75	SMERA BBB-/Stable (Assigned)
Term Loan II	N.A	N.A	31 st March, 2019	2.53	SMERA BBB-/Stable (Assigned)
Term Loan III	N.A	N.A	31 st March, 2019	4.00	SMERA BBB-/Stable (Assigned)
Cash Credit	N.A	N.A	N.A	24.00	SMERA BBB-/Stable (Assigned)
Standby Line of Credit	N.A	N.A	N.A	3.00	SMERA BBB-/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	1.50	SMERA A3 (Assigned)
Proposed Fund Based Facilities	N.A	N.A	N.A	0.43	SMERA BBB-/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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