

Press Release

Malbros International Private Limited

13 September, 2017

Rating Reaffirmed



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

**Refer Annexure for details*

Rating Rationale

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

Analytical approach: SMERA has consolidated the financial and business risk profile of MIPL, Oasis Overseas Exports Private Limited (OOEPL), Overseas Commercial Private Limited (OCPL), Oasis Distilleries Limited (ODL), 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.

The Oasis Group (OG) is engaged in the manufacturing and trading of liquor - county liquor, Indian Made Foreign Liquor (IMFL)) and Extra Natural Alcohol (ENA), in Madhya Pradesh, Punjab, Haryana, Rajasthan and Chandigarh.

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

List of Key Rating Drivers and their detailed description

Strengths:

Long track record of operations, experienced management and integrated operations: The Oasis Group (OG), established in 1980 by Mr. Malhotra and family has interests in the liquor and hospitality industries. OG benefits from its well established business model and value chain. The group has integrated its operations backward by entering into the manufacturing of Extra Neutral Alcohol (ENA) from grain. The group has also integrated forward by running 482 retail liquor vends in Punjab in FY2017-18 (previous year 390).

SMERA believes that OG will continue to benefit from its management's long standing experience and established market position in the liquor industry.

Healthy business risk profile: The scale of operations is healthy. The group reported decline in operating income to Rs.1,375 crore in FY2017 (Provisional) from Rs.1,633.56 crore in FY2016 majorly on account of reduced retail liquor vends (390 in FY2017 as against 450 in FY2016) resulting in fall in trading revenues. However, the operating margins improved to 9.37 per cent in FY2016-17 (Provisional) from 7.92 per cent in FY2015-16. The company has healthy net cash accruals of Rs.64.69 crore in FY2015-16 and Rs.66.00 crore in FY2016-17 (Provisional) with annual term debt obligations of around Rs.35 crore.

SMERA believes that OG will maintain a healthy business risk profile on the back of its established market presence.

Comfortable financial risk profile: OG has a comfortable financial risk profile marked by tangible networth of Rs.207.26 crore as on 31 March, 2016. The tangible networth includes unsecured loans from promoters to the tune of Rs.37.36 crore which is subordinated to bank debt. The gearing stood at 1.81 times on 31 March, 2016. The total debt of Rs.375.33 crore comprises long term loans of Rs.148.47 crore and short term working capital funds of Rs.226.87 crore as on 31 March 2016. The interest coverage ratio (ICR) stood healthy at 2.36 times in FY2016 and debt service coverage ratio (DSCR) at 1.43 times. As per provisional financials, the ICR stood at 2.44 times and DSCR at 1.38 times for FY2017.

SMERA expects the gearing to improve over the medium term on account of the healthy internal accruals and absence of any debt funded capex.

Weaknesses

Working capital intensive operations: OG's operations are working capital intensive. The gross current asset days stood at 84 in FY2016 (82 days in FY2015). Over 90 per cent of the working capital limits have been utilised.

SMERA believes that efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

Exposure to regulatory risk and volatility in raw material prices: OG is exposed 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 operating performance and profitability. OG is also exposed to volatility in raw material (grain) prices. The highly competitive nature of the liquor and ENA industries hinder OG's ability to pass on changes in raw material prices to the end customer.

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 Rated Entity – Key Financials

For FY2015-16, OG registered profit after tax (PAT) of Rs.39.87 crore on operating income of Rs.1633.56 crore as against PAT of Rs.23.68 crore on operating income of Rs.1315.72 crore in the previous year.

For FY2015-16, MIPL registered profit after tax (PAT) of Rs.7.44 crore on operating income of Rs.288.99 crore as against PAT of Rs.5.31 crore on operating income of Rs.262.45 crore in the previous year.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.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>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: CARE has suspended (31 December 2016) the ratings assigned to the bank facilities of Oasis Overseas Exports Pvt Ltd with immediate effect. The ratings have been suspended as the company has not furnished the information required by CARE for monitoring of the ratings.

Any other information: None

Rating History (Upto last three years):

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
21 Jan, 2017	Term Loan I	Long Term	3.75	SMERA BBB-/Stable (Assigned)
	Term Loan II	Long Term	2.53	SMERA BBB-/Stable (Assigned)
	Term Loan III	Long Term	4.00	SMERA BBB-/Stable (Assigned)
	Cash Credit	Long Term	24.00	SMERA BBB-/Stable (Assigned)
	Standby Line of Credit	Long Term	3.00	SMERA BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	1.50	SMERA A3 (Assigned)
	Proposed Fund Based Facilities	Long Term	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 March 2019	3.75	SMERA BBB- /Stable (Reaffirmed)
Term Loan II	N.A.	N.A.	31 March 2019	2.53	SMERA BBB- /Stable (Reaffirmed)
Term Loan III	N.A.	N.A.	31 March 2019	4.00	SMERA BBB- /Stable (Reaffirmed)

Cash Credit	N.A.	N.A.	N.A.	24.00	SMERA BBB- /Stable (Reaffirmed)
Standby Line of Credit	N.A.	N.A.	N.A.	3.00	SMERA BBB- /Stable (Reaffirmed)
Bank Guarantee	N.A.	N.A.	N.A.	1.50	SMERA A3 (Reaffirmed)
Proposed Fund Based Facilities	N.A.	N.A.	N.A.	0.43	SMERA BBB- /Stable (Reaffirmed)

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ABOUT SMERA

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