

Press Release

Malbros International Private Limited

February 14, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	173.25	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	8.09	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	181.34	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A Two**) on the Rs. 181.34 crore bank facilities of Malbros International Private Limited (MIPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The revision in rating is on account of better than expected operating performance of Oasis Group indicated by improvement in operating revenues of Rs. 1910.52 Cr in FY2021(Prov.) as against Rs. 1,755.98 Cr in FY2020. The group has generated revenue of Rs. 1722.19 Cr. in Q3FY2021, thereby giving healthy revenues visibility for FY2022. The company has achieved operating profit margin of 7.96 per cent in FY2021 (Prov.) improved from 7.54 per cent in previous year and net profit margin of 3.15 per cent in FY2021 (Prov.) as against 2.55 per cent in previous year. The rating assigned also factors in healthy financial risk profile of the company marked by low gearing of 0.60 times as on 31st March 2021 (Prov.) and total outside liabilities to total net worth (TOL/TNW) of 1.20 times as on 31st March 2021(Prov.), healthy net worth at Rs. 529.32 Cr as on 31st March 2021(Prov.) and moderate debt-coverage indicators with Interest Coverage Ratio (ICR) of 3.84 times. The group currently has production capacity of 490 KLPD and has further enhanced the capacity by 360 KLPD. This increase in ethanol capacity will help grow revenues in the near future due to push for higher ethanol blending. Further, the rating also takes into account the extensive experience of management of around three decades in the liquor industry. The rating is constrained on account of working capital intensive nature of industry and highly regulated nature of liquor industry. Going forward, the ability of the company to further sustain its scale of operations along with the effective management of its working capital cycle and financial risk profile would be the key rating sensitivities

About Company

Malbros International Private Limited (MIPL) was incorporated in 1988 and was later acquired by the Malhotra family in 2004. It has one grain based distillery in Ferozpur, Punjab and one bottling plant in the same compound. The company has installed capacity of 280 KLPD out of

which 180 KLPD is added in FY2022. The distillery has its own in-house power generation unit. The company is engaged in three lines of business namely Trading & Bottling of IMFL, Manufacturing of Country liquor, Manufacturing of IMFL. The company manufactures its own ENA by procuring grain from Punjab. MIPL supplies ENA in bulk quantity to well-established liquor houses – including UB Group, Seagrams, Globus Spirits Limited, Tilaknagar Distilleries etc. The company has an integrated grain milling section wherein it procures grain, mills it and prepares the grain for manufacturing ENA.

About the Group

Oasis Group (OG) is promoted by the Malhotra Family and has an operational track record of over five decades in the liquor industry. The Group currently owns five distillation units and 3 Bottling Plants situated in Punjab, Haryana, Madhya Pradesh, Rajasthan and Chandigarh, with a collective grain spirit production of more than 17 Crore liters per annum. The Group is also engaged in the retail trading business of liquor through Government contract route, by submitting tenders in the State of Punjab, Haryana and U.T. Chandigarh. At present, it owns about 700 retail vendis in Punjab.

The group's core business strength lies in the business of alcohol production, manufacturing and marketing of grain based IMFL. It is one of the largest retailers of liquor in the state of Punjab. Three plants owned by the group have their in-house power generation units and the group also markets DDGS (Dried Distilled Grain Soluble) for the cattle industry and harnesses Carbon-di-Oxide for industrial uses. DDGS and Carbon-di-Oxide are byproducts of the ENA manufacturing and distillation process.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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, cross corporate guarantees extended by the group companies for bank facilities and strong operational and financial linkages within the group.

Key Rating Drivers

Strengths

>Experienced management

The Oasis group commenced its operations in 1980's under the lead of Mr. Deep Malhotra and his family and thus the group boasts a long track record of operations of four decades in the Alcohol manufacturing and trading industry. Currently, the day-to-day operations of the group are managed by Mr. Gautam Malhotra, Miss Dimpy Malhotra and Mr. Gaurav Malhotra along with other industry veterans with an experience of over two decades in the aforementioned industry. The group is well supported by the second line of the experienced management team. Established presence of the group along with experienced management, has helped OG maintain a long relationship with its customers which has aided the group in maintaining healthy revenue.

In October 2018, Oasis group began the production of Ethanol in through its three entities in the group viz. Om Sons Marketing Private Limited, Malbros International Private Limited and Oasis Commercial Private Limited with an installed capacity of 3.20 lakh litres per day, the ethanol produced by the group is supplied to major oil companies like Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and Indian Oil Corporation limited among others. In addition to the aforementioned, OG caters to reputed clientele such as Kerala State Corporation Limited, United Spirits Limited and Karnataka State Beverages Corporation Limited, to name a few.

Acuité believes Oasis group will continue to benefit from its long track of operations, a strong

presence of the group in the domestic market and the rich experience of the management over the medium term.

>Healthy financial risk profile

The financial risk profile of group stood healthy marked by healthy net worth, comfortable gearing and healthy coverage indicators. The tangible net worth of OG stood healthy at around Rs. 529.32 crores as on 31 March, 2021 (Provisional) as against Rs. 460.66 crores as on 31 March, 2019 on the back of healthy accretion to reserves, which in turn is a result of healthy profitability levels maintained by the group over the years. The group has followed a conservative financial policy in the past, which is reflected by current gearing (debt-to-equity) stands at 0.64 times as on 31 March, 2021 (Provisional) and 0.75 times in the previous year. The gearing levels of the group have remained in the above mentioned range attributing to the minimal capital expenditure incurred towards the acquisition of latest machinery and expansion of the installed capacities. However, in current year due to restructuring of capital in one of the company, in which unsecured loans from promoters were replaced by term loan of Rs. 70.00 Cr. The total outside liabilities to total net worth (TOL/TNW) ratio stands at 1.20 times as on 31 March, 2021 (Provisional) and 1.57 times as on 31 March, 2020. The total debt of Rs. 337.74 crore as on 31 March, 2021 (Provisional), consists of term loans of Rs.76.80 crores, working capital borrowings of Rs. 242.99 crores and Rs. 17.95 crores of current portion of long term debt. The Debt protection metrics of the group have remained healthy marked by the interest coverage ratio 3.84 times as on 31st March 2021 (Provisional) as against 3.37 times in the previous year and the debt service coverage ratio of 2.20 times as on 31st March 2021 (Provisional) compared to 1.70 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.27 times for FY2021 (Provisional). The group reported healthy net cash accruals (NCA) of ~Rs. 92.39 crore in FY2021 and Rs. 77.47 crores in FY2020.

Acuité believes that the group will be able to sustain its existing financial risk profile in near to medium term backed by established presence in the Industry, extensive experience of promoters, healthy net cash accruals to support any major debt-funded capital expenditure.

>Push for higher Ethanol blending

In the current season, ethanol players are committed to supply 3.5bn-litres of ethanol to OMCs players, post which, average Ethanol blending with fuel across India is expected increase to 8.3-8.5%. Govt plans to increase this blend rate to 20% across India by FY25, post which the demand for ethanol is expected to increase substantially. At 20% ethanol blended rate, demand for ethanol is expected to increase to 10bn-litres. Currently the company has capacity of 490 KLPD and the company has added 180KLPD more to its portfolio. This increase in ethanol capacity will help grow revenues in the near future due to push for higher ethanol blending

Weaknesses

>Intensive working capital operations

Oasis group operates in working capital intensive nature of operations marked by gross current assets (GCA) of 143 days for FY2021(Prov.) as against 157 days for FY2020. The improvement is majorly on account of change in inventory days of 46 days as on 31 March 2021(Prov.) as against 60 days in the previous year. Further, debtors' days stood improved at 61 days as on 31 March 2020 as against 64 days in previous year. Current Ratio stood at 1.44 times as on 31 March 2021(Prov.) as against 1.28 in the previous year. The combined fund-based working capital limits are utilized at an average of 82.24 percent in the last nine months

Acuité believes that the working capital requirements will continue to remain intensive over the medium term

>Exposure to heavy 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.

Rating Sensitivities

>Sustained growth in operating performance with improvement in profitability and financial risk profile

>Slowdown in industry leading to inventory pile up.

Material Covenants

None

Liquidity Position: Adequate

The group has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 92.39 crore for FY2021(Prov.) as against Rs. 17.95 crore of repayment obligations for the same period. The group has unencumbered cash and bank balances of Rs. 30.91 crore as on 31st March 2021(Prov.). Also, gross current assets (GCA) stood at 143 days for FY2021(Prov.) as against 157 days for FY2020. Further, the combined fund-based working capital limits are utilized at an average of 82.24 percent in the last nine months. Current Ratio stood at 1.44 times as on 31 March 2021(Prov.) as against 1.28 in the previous year. Therefore, there are enough net cash accruals & limits available to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuité believes that OG will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	1910.52	1755.98
PAT	Rs. Cr.	60.13	44.75
PAT Margin	(%)	3.15	2.55
Total Debt/Tangible Net Worth	Times	0.64	0.60
PBDIT/Interest	Times	3.84	3.37

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
24 Sep 2021	Term Loan	Long Term	135.00	ACUITE BBB+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	5.25	ACUITE BBB+ Stable (Assigned)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.09	ACUITE A2 (Reaffirmed)
06 Sep 2021	Cash Credit	Long Term	28.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Bank Facility	Long Term	1.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	131.25	ACUITE BBB+ Stable (Assigned)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	8.00	ACUITE A2 (Upgraded from ACUITE A3+)
05 Oct 2020	Cash Credit	Long Term	28.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
07 Jul 2020	Term Loan	Long Term	0.39	ACUITE BBB (Withdrawn)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.40	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	28.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3+ (Reaffirmed)
26 Mar 2019	Proposed Long Term Loan	Long Term	0.21	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB Stable (Reaffirmed)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	0.98	ACUITE BBB (Withdrawn)
	Term Loan	Long Term	0.40	ACUITE BBB Stable (Reaffirmed)
		Long		

	Term Loan	Term	0.39	ACUITE BBB Stable (Reaffirmed)
30 Jan 2019	Term Loan	Long Term	2.53	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	2.53	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	24.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	0.98	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	4.67	ACUITE BBB- (Withdrawn)
10 Dec 2018	Cash Credit	Long Term	24.00	ACUITE BBB- Stable (Reaffirmed)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.67	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	2.53	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.53	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.98	ACUITE BBB- Stable (Reaffirmed)
13 Sep 2017	Proposed Long Term Loan	Long Term	0.43	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.75	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.53	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	24.00	ACUITE BBB- Stable (Reaffirmed)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Reaffirmed)
21 Jan 2017	Term Loan	Long Term	3.75	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.53	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	24.00	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A3 (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.43	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	8.09	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	135.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	5.25	ACUITE BBB+ Stable Reaffirmed

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