

Press Release

Malbros International Private Limited

April 26, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	295.25	ACUITE BBB+ Stable Reaffirmed Positive to Stable	-
Bank Loan Ratings	8.09	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	303.34	-	-

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. 303.34 crore bank facilities of Malbros International Private Limited (MIPL). The outlook is revised from 'Positive' to '**Stable**'.

Rationale for Reaffirmation and Revision in Outlook

The rating on OG takes into account the sustained growth in the operating income, stability in operating margins, experienced management, long track record of operations and healthy financial risk profile. The above factors are underpinned by intensive working capital cycle and volatile raw material prices.

The outlook of the group is revised from positive to stable on account of lower than envisaged operating performance of the group and cost overrun in one of the ethanol Plant. The group missed its's projection as Ethanol unit of MIPL remained non-operational due to ongoing protest wherein allegation is levelled against MIPL for contaminating the ground water (Matter is pending with Hon'ble High Court). Further SCOD for MIPL's 2nd Ethanol Unit located in Shahazhan Pur, Uttar Pradesh could not be achieved resulting into cost overrun and an extension in SCOD. The cost overrun was met by the internal sources of the group.

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. Further Capacity of 160 KLPD will be added in FY 24

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 22.10 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 600 retail vends 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), Om Sons Marketing Private Limited (OSMPL) and Oasis Ethanol Industries Private Limited (OEIPL) 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 group added capacity of 1.20 lakh litres per day with further modification in Oasis Overseas Exports Private Limited. The group undertook further capacity expansion from 2021 wherein additional capacity of 1.80 lakh litres per day in MIPL. Group has further added 1.80 lakh litres per day in OSMPL and 3.20 lakh Litres per day in OEIPL resulting in group's total installed ethanol capacity of 11.20 lakh litres per day. Further 1.60 lakh litres per day capacity will be added in FY 24. 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.

Augmentation in Business risk profile

Oasis Group's operation improved which is apparent from growth in consolidated revenue from operations by ~21% in FY2022 to 2134.97 crore as against Rs.1763.77 crore for FY2021. (improved by ~ 31 percent over the last three years FY 20 to FY 22). The increase in revenue is

attributable to growing demand of ethanol, produced by the group in all of its group entities except ODL and VBPL. Furthermore, the group has recorded revenue of Rs ~1747 crore till Dec 2022(including interparty sales). The operating profit margin of the group remains improved and healthy. Operating Profit Margin of group witnessed improvement of 44 bps and stood at 8.80% in FY2022 as against 8.36% in FY2021. Furthermore, the net profit margin of the group improved by 66 bps and stood at 3.84 percent in FY2022 as against 3.18 percent in FY2021.

Operating Profit margin of the group stood at ~10 percent in 9MFY2023. The PAT margin of the group stood at ~4.22 percent in 9MFY2023. Currently, the group has orders in hand of Rs ~1193 crore. ROCE of the group stood at 14.98 times in FY2022.

The product mix of the group has changed over the period. There is significant shift in revenue contribution from ENA/Liquor to Revenue from Ethanol. Revenue from ENA/Liquor was ~78 percent of total Revenue in FY20 which went down to ~54 percent in 10M FY 23. This is substituted by Ethanol which was ~8 percent of total Revenue in FY 20 which rose to ~34 percent in 10M FY 23. Going forward ethanol share in total revenue will increase due to capacity addition of 480 KLPD getting operationalized in FY 24.

Healthy Financial risk profile

The group's financial risk profile is healthy marked by healthy net worth of Rs. 565.53 crore as on 31 March 2022 as against Rs.453.76 crore as on 31 March, 2021. The improvement is majorly on account of accretion of reserves and further capital issuance. The group follows conservative leverage policy visible from the gearing (debt-equity) which stood comfortable at 1.07 times as on 31st March, 2022 as against 0.88 times as on 31 March 2021. Moderation in Gearing in FY 22 is on account of additional debt taken for capacity enhancement in MIPL, OSMPL and fresh capacity in OEIPL. The total debt outstanding of the group is Rs. 605.85 crore as on 31 March, 2022 which consists of long term bank borrowings of Rs.284.91 crore, short term working capital limit of Rs. 295.05 crore and current maturities of long term Debt Rs 25.89 crore. The coverage indicators of the company showed improvement as reflected by the interest coverage ratio which stood comfortable at 5.17 times for FY2022 as against 3.74 times for FY2021. Further, the DSCR stood at 2.71 times for FY2022 as compared to 1.97 times for FY2021. The Net Cash Accruals to Total debt stood at 0.19 times as on FY2022 and 0.22 times for FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 1.55 times in FY2022 as against 1.48 times for FY2021.

Weaknesses

Working capital management

The group's working capital operations are improved yet intensive in nature as reflected by its gross current asset (GCA) days of around 134 days as on March 31, 2022 as against 145 days as on March 31, 2021. Inventory days improved and stood at 40 days in FY 22 as against 48 Days in FY 21. Furthermore, the debtor days improved and stood at 49 days as on March 31 FY2022 as against 51 days as on March 31 FY2021. The creditor days stood moderated and stood at 39 days as on March 31, 2022 as against 45 days as on March 31, 2021. The group has availed the working capital banking facilities. Despite working capital intensive nature of operations, the utilization of working capital limits remains moderate at ~80% in last Eight months ended January 2023.

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.

Protest Against MIPL and cost over run in Unit located in UP

Ethanol unit of MIPL remained non-operational due to ongoing protest wherein allegation is levelled against MIPL for contaminating the ground water. This has resulted in revenue loss of Rs ~60 crore per month. In preliminary finding of high court contamination is not due to MIPL

unit and final verdict is awaited.

Further SCOD for MIPL's 2nd Ethanol Unit located in Shahazhan Pur, Uttar Pradesh could not be achieved resulting into cost overrun (Rs~20 crore) and an extension in SCOD. The cost overrun was met by the internal sources of the group.

Rating Sensitivities

Growth in operating performance with improvement in profitability and financial risk profile
Slowdown in industry leading to inventory pile up.

Group's ability to run the plant on defined capacity and generate revenue
Resumption of Operations in MIPL ethanol unit located in Punjab

Material Covenants

None

Liquidity Position

Adequate

The group's liquidity profile remained adequate marked by adequate net cash accruals against its maturing debt obligations. The group generated cash accruals of Rs. 115.40 Cr in FY2022 as against its maturing debt obligation of 19.31 Cr in the same period. The adequate liquidity position is also supported by the moderate utilization of working capital limits of ~80% in last eight months ended January 2023 providing additional cushion to meet contingencies. The group maintains unencumbered cash and bank balances of Rs. 30.21 crore as on March 31, 2022. The current ratio of the group stood healthy at 1.45 times as on March 31, 2022.

Outlook:

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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2134.97	1763.77
PAT	Rs. Cr.	81.92	56.17
PAT Margin	(%)	3.84	3.18
Total Debt/Tangible Net Worth	Times	1.07	0.88
PBDIT/Interest	Times	5.17	3.74

Key Financials (Consolidated)

PS: FY 22 and 21 adjusted for Interparty transactions

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

Not Applicable

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

Acuité Ratings & Research Limited

www.acuite.in

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Jul 2022	Term Loan	Long Term	102.00	ACUITE BBB+ Positive (Assigned)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB+ Positive (Reaffirmed)
	Term Loan	Long Term	135.00	ACUITE BBB+ Positive (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Positive (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB+ Positive (Reaffirmed)
	Bank Guarantee	Short Term	8.09	ACUITE A2 (Reaffirmed)
	Working Capital Demand Loan	Long Term	5.25	ACUITE BBB+ Positive (Reaffirmed)
14 Feb 2022	Working Capital Demand Loan	Long Term	5.25	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.09	ACUITE A2 (Reaffirmed)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	135.00	ACUITE BBB+ Stable (Reaffirmed)
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	Bank Guarantee	Short Term	8.00	ACUITE A2 (Upgraded from ACUITE A3+)
	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)

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)
		Long		
07 Jul 2020	Term Loan	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	8.09	ACUITE A2 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+ Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB+ Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB+ Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	123.00	ACUITE BBB+ Stable Reaffirmed Positive to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	102.00	ACUITE BBB+ Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	5.25	ACUITE BBB+ Stable Reaffirmed Positive to Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Himanshu . Senior Analyst-Rating Operations Tel: 022-49294065 himanshu.mehta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.