

Press Release

Radha Marketing

January 31, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 44.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.44.00 crore bank facilities of RADHA MARKETING (RM). The outlook is '**Stable**'.

Radha Marketing (RM) was incorporated in 1997 as proprietorship concern by Mrs. Kamla Kishnani. Later on, the constitution was converted to partnership between Mr. Pratik Kishnani and Ms. Nikita Kishnani in 2013. The firm is an authorised distributor for SAB Miller India Limited, Bakardi Martin, Radico Khaitan and among others. The distribution region is central and western Mumbai.

Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of RM to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

RM is operating since 1997. The partners possess experience of over two decades in the beer & alcohol industry. The promoters' experience has enabled the firm to establish healthy relations with suppliers and customers. Acuite believes that the firm continues to benefit from the partners' established presence in improving its business risk profile over the medium term.

• Growth in profitability margins albeit declined revenues

The operating margins as well as net profitability margins have registered an upward trend for the period FY2017-19, marked by 4.06 percent and 1.93 percent in FY2019 as against 2.91 percent and 1.52 in FY2018, respectively. Further, it stood at 2.93 percent and 1.25 percent in FY2017, respectively. However, the revenue declined to Rs.145.90 crore in FY2019 from Rs.165.18 crore in FY2018. Acuite believes that the firm would register the growth in revenue while maintaining profitability margins due to the new contract signed with Tonino Lamborghini for Energy drink and Vodka.

• Moderate financial risk profile

RM has moderate financial risk profile marked by tangible net worth of Rs.16.21 crore (includes unsecured loan of Rs.5.68 crore) as on 31 March, 2019 as against Rs.16.93 crore (includes unsecured loan of Rs.5.41 crore) as on 31 March, 2018. The adjusted gearing stood at 1.74 times as on 31 March, 2019 as against 1.24 times as on 31 March, 2018. The total debt of Rs.28.20 crore as on 31 March, 2019, mainly consists of working capital borrowings. Debt protection metrics stood moderate marked by Interest Coverage Ratio (ICR) stood at 1.83 times in FY2019 as against 2.15 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.91 times for FY2019 as against 2.39 times for FY2018. Acuite believes that the financial risk profile is expected to be at similar levels over the medium term as the company is not planning any significant debt-funded capital expenditure programme over the medium term.

Weaknesses

• Working capital intensive operations

RM's working capital cycle is intensive in nature marked by Gross Current Assets (GCA) days of 157 in FY2019 as compared to 126 days in FY2018. This is majorly due to the stock holding period of 99 days in FY2019 as against 65 days in FY2018. The collection period stood at 44 days in FY2019 as against 40 days in FY2018. The firm enjoys credit period of 49 days in FY2019 as against 44 days in FY2018. The average utilisation of cash credit stood at ~80 per cent for past eight months through November, 2019. Acuite

believes that efficient working capital management will be the key rating sensitivity.

• **Highly regulated business**

The alcohol industry in India is highly regulated. Movement of liquor between various states in India is subject to multiple tax laws and many regulations making sales between states difficult.

• **Risk of capital withdrawal**

RW is exposed to risk of capital withdrawal considering its partnership constitution. Further, the firm has witnessed withdrawal of Rs.0.72 from partner's capital as on 31 March, 2019. Any further withdrawal from the partner's capital will be the key rating sensitivity.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Any withdrawal from partner's capital leading to weakening of credit metrics.

Material Covenants

None

Liquidity Position: Adequate

The RM has adequate liquidity profile marked by net cash accruals against no maturing debt obligations. The firm generated cash accruals of Rs.2-3 crore during the last two years through FY2019, while no maturing debt obligations. The cash accruals of the firm are estimated to remain around Rs.3-5 crore during 2020-22. The working capital operations of RM are intensive marked by gross current asset (GCA) days of 157 in FY2019. The cash credit limit remains utilised at 80 percent during the last 8 months ended November, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.47 crore as on 31 March, 2019. The current ratio stands at 1.33 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of no debt obligations over the medium term.

Outlook: Stable

Acuite believes that the outlook on RM will remain 'Stable' over the medium term on account of its long track record of operations as well as experience of promoters in beer & alcohol industry. The outlook may be revised to 'Positive' if the firm registers significant and sustainable growth in revenue and profitability while maintaining working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	145.90	349.29
PAT	Rs. Cr.	2.82	2.50
PAT Margin	(%)	1.93	1.52
Total Debt/Tangible Net Worth	Times	1.74	1.24
PBDIT/Interest	Times	1.83	2.15

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Jan-2019	Cash Credit	Long Term	44.00	ACUITE BBB- / Stable (Reaffirmed)
07-Jan-2019	Cash Credit	Long Term	36.00	ACUITE BBB- / Stable (Upgraded)
16-Oct-2017	Cash Credit	Long Term	36.00	ACUITE BB+ / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Analyst - Rating Operations Tel: 02249294052 simranjeet.kaur@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 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. Acuité ratings 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. Acuité ratings 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.