

Press Release

Radha Marketing

April 05, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.49.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Upgraded from ACUITE BBB-/ Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.49.00 Cr bank facilities of Radha Marketing (RM). The outlook is '**Stable**'.

The upgrade in the rating reflects the improvement in the revenues and margins in FY2020, moderate financial risk profile, adequate liquidity position marked by judicious utilization of the working capital facilities and negotiations for addition of new areas to do the business, which is expected to have a positive impact on revenues and margins.

About the Firm

Mumbai-based, RM was established as a proprietorship firm in 1997 by Mrs. Kamla Kishnani. Subsequently, the constitution was converted to partnership between Mr. Pratik Kishnani and Ms. Nikita Kishnani in 2013. The firm is an authorized distributor for SABMiller India Ltd., (which has recently been taken over by AB-InBev), Radico Khaitan Ltd., Bacardi India Pvt. Ltd., among others for their various brands of beer and spirit products. The distribution region is central and western Mumbai.

Analytical Approach

Acuité has taken a standalone view of the business and financial 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, Mr. Pratik Kishnani and Ms. Nikita Kishnani possess experience of over two decades in the beer & alcohol industry which has helped RM build healthy relationships with its customers and suppliers.

Acuité believes that the firm will continue to benefit from the partners' established presence in improving its business risk profile over the medium term.

- **Growth in revenues and margins**

The revenue stood at Rs.179.20 crore in FY2020 as against Rs.145.39 crore in FY2019. This growth is on account of increased demand and intensive promotional activities. The firm has already achieved a turnover of Rs.156.61 crore for 10MFY2021. So, it is expected to achieve maximum turnover of Rs.170.00 crore in FY2021. The operating margins of the firm stood at 4.27 percent in FY2020 as against 3.72 percent in FY2019. The profitability margins stood at 3.08 percent in FY2020 as against 1.94 percent in FY2019. The improvement in margins is due to low costs and good realizations from customers.

- **Moderate financial risk profile**

Financial risk profile of RM is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 1.96 times as on March 31, 2020 against 1.74 times as on March 31, 2019. TOL/TNW stood at 2.53 times as on March 31, 2020 against 2.91 times as on March 31, 2019. Tangible net worth of the firm stood modest at Rs.22.10 crore as on March 31, 2020 (includes quasi equity of Rs.5.80 crore) against Rs.16.21 crore as on March 31, 2019 (includes quasi equity of Rs.5.68 crore). The total debt of Rs.43.33 crore as on March 31, 2020 mainly consists of short-term debt of Rs.43.33 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.31 times and 0.13 times respectively in FY2020. DSCR stood moderate at 2.31 times

in FY2020 against 1.83 times in FY2019.

The firm has availed covid loan, i.e. demand loan (CECF- PNB Covid-19 Emergency Credit Facility) of Rs.4.11 crore in May, 2020. The repayment is expected to be completed by May, 2022.

Acuite believes that the financial risk profile is expected to remain moderate over the medium term.

Weaknesses

• Working capital intensive operations

RM's working capital operations continues to be intensive marked by Gross Current Asset days (GCA) of 158 days in FY2020 against 158 days in FY2019. The debtors' days were recorded at 48 days in FY2020 against 44 days in FY2019; which is corresponding to normal terms with customers. The inventory days were recorded at 80 days in FY2020 against 99 days in FY2019. Further, the average inventory holding policy followed by the firm is generally 2.5-3 months to cater to spot orders. However, working capital bank lines remained moderately utilized at ~61.94 percent for last trailing 12 months ended January, 2021.

Acuite believes that RM's working capital intensive operations would be mitigated by the availability of adequate liquidity over the medium term.

• 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 crore from partner's capital as on March 31, 2019. Any further withdrawal from the partner's capital will be the key rating sensitivity.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

RM has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals of Rs.2.57 crore – Rs.5.57 crore during the last three years through 2018-20 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.5.89 crore – Rs.17.59 crore over the medium term, against moderate repayment obligations in the range of Rs.0.46 crore – Rs.2.76 crore. Unencumbered cash and bank balances stood at Rs.10.66 crore as on March 31, 2020 with a current ratio of 1.39 times in the same period. The working capital limits remained moderately utilized at ~61.94 percent for last trailing 12 months ended January, 2021.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuite believes that RM will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins and improving debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	179.20	145.39
PAT	Rs. Cr.	5.52	2.82
PAT Margin	(%)	3.08	1.94
Total Debt/Tangible Net Worth	Times	1.96	1.74
PBDIT/Interest	Times	2.31	1.83

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Feb-2020	Cash Credit	Long Term	44.00	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
31-Jan-2020	Cash Credit	Long Term	44.00	ACUITE BBB-/ Stable (Reaffirmed)
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 (Upgraded from ACUITE BBB-/ Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)

#Advance against cheque clearing is sublimit to the extent of Rs.1.00 crore.

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About Acuite Ratings & Research:

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