

## Press Release

Radha Marketing

January 25, 2023

## Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	90.00	ACUITE BBB+   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE BBB)** on the Rs.90.00 Cr bank facilities of Radha Marketing (RM). The outlook is **'Stable'**.

### Reason for the rating upgrade

The rating upgrade factors in the significant and sustained improvement noted in the operating performance of the firm, marked by improving operating income, range bound operating margin and moderate financial risk profile. The operating income of the group stood at Rs.497 crore in 9MFY23 i.e. 76% of the firm's total sales in FY2022. The Firm's revenue improved to Rs.283.08 Cr in FY2022 as against Rs.144.96 Cr in FY2021. Further, the total operating income of the group recorded a significant Q-o-Q growth of 86.14 percent in Q3FY23 wherein the operating income stood at Rs.497 Cr till Q3FY23 as against Rs.267 Cr till Q2FY23. This increase is driven by the increase in area of distribution and addition of new products to the existing product profile of the firm. The financial risk profile continues to remain moderate, however, withdrawal of capital by the partners and working capital intensive nature of operations impart a negative bias to the rating.

### About the Company

Mumbai-based, RM was established as a proprietorship firm in 1997 by Mrs. Kamla Kishnani. Subsequently, it was converted into a partnership between Mr. Pratik Kishnani and Ms. Nikita Kishnani in 2013. The firm is an authorized distributor for 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

Operational since 1997, Radha Marketing has an established track record of operations in the business. The partners, Mr. Pratik Kishnani and Ms. Nikita Kishnani possess experience of over two decades in the beer & alcohol industry which has helped the firm to build healthy relationships with its customers and suppliers. The firm during the year has added new products to its existing line of product profile and also increased its distribution area in Mumbai. Acuité believes that the firm will continue to benefit from the partners' established presence in improving its business risk profile over the medium term.

#### Improvement in the operating performance

The Firm's revenue improved to Rs.283.08 crore in FY2022 compared to revenue of Rs.144.96 crore in FY2021 and Rs.179.20 crore in FY2020. The revenue of the firm had declined in FY2021 due to the covid pandemic wherein a lot of shops and restaurants were closed during for a significant period during that year. However, with resumption of economic activities, the operations of the firm witnessed improvement as reflected by revenues registered in FY2022. In H1FY23, the firm's revenue stood at Rs.267 crore. This substantial increase is on the back of addition in area of sale as well as increase in product profile. The operating profit margin of the firm registered a slight decline as it stood at 3.90 percent in FY2022 compared against 4.56 percent in FY2021. The decline is due to the additional sales promotion expenditure incurred to boost its sales in new markets. The PAT margin of the firm stood at 2.80 percent in FY22 compared to 3.00 percent in FY21. Acuité believes that the business risk profile of the firm will continue to improve in medium term on account of the addition in the distribution areas and increase in the product profile.

#### Moderate financial risk profile

Radha Marketing has a moderate financial risk profile marked by tangible net worth of Rs.28.38 crore as on 31 March 2022 as against Rs.23.44 crore as on 31 March 2021. The networth includes the quasi equity of Rs.5.16 crore. The partners have made capital withdrawals of ~Rs.1.45 crore in FY2022. The overall gearing level of the firm stood at 1.89 times as on 31 March 2022 as against 1.96 times as on 31 March 2021. The total debt of the firm comprised of working capital term loan of Rs.7.65 crore and short term debt of Rs.43.37 crore as on 31 March 2022. The coverage ratios of the firm stood moderate with Interest Coverage Ratio (ICR) of 3.55 times for FY2022 against 2.88 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 2.60 times for FY2022 against 2.88 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the firm stood at 2.91 times for FY2022 as against 2.74 times in FY2021. Acuité believes that the financial risk profile of the company is likely to remain moderate over the medium term in the absence of any major debt funded capex plan.

### Weaknesses

#### Working capital intensive operations

The firm's operations are working capital intensive as evident from Gross Current Asset (GCA) of 143 days as on March 31, 2022 as against 215 days as on March 31, 2021. The inventory levels have improved and stood at 58 days for FY2022 compared against 111 days for FY2021. The debtor days stood at 66 days for FY2022 against 78 days for FY2021. Average credit period allowed to the customers is around 60 days. The creditor days of the firm stood at 38 days for FY2022 as against 47 days for FY2021. The firm mostly purchases on advance payment basis. However, at March end some credit period is received from the creditors. The firm has enhanced the cash credit limits to Rs.90 crore from Rs.64 crore during the year. The average utilization of the bank limits of the firm remains high at ~82 percent in last six months ended October 22. Acuité believes that the working capital management of the firm will continue to remain a key rating sensitivity going ahead.

## 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 RM was established as a proprietorship firm in 1997 and converted to partnership firm in 2013. Further, the firm has witnessed withdrawal of Rs.1.45 crore from partner's capital in FY2022. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

## Rating Sensitivities

- > Growth in revenue with sustainability of the profitability margins.
- > Any deterioration of its financial risk profile and liquidity position.
- > Any elongation of the working capital cycle

## Material covenants

None

## Liquidity position: Adequate

The firm has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.8.00 crore in FY2022 compared against the maturing debt obligation of Rs.1.15 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.14.57-20.43 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.1.35-3.23 crore during the same period. The company's reliance on working capital borrowings is on a higher side marked by average utilization of working capital limits of ~82 percent during the last six months period ended October 2022. The firm maintains unencumbered cash and bank balances of Rs.4.00 crore as on March 31, 2022. The current ratio stood at 1.38 times as on March 31, 2022.

## Outlook: Stable

Acuité 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 sustains the growth in its revenues while maintaining its profitability margins and capital structure. 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	283.08	144.96
PAT	Rs. Cr.	7.92	4.35
PAT Margin	(%)	2.80	3.00
Total Debt/Tangible Net Worth	Times	1.89	1.96
PBDIT/Interest	Times	3.55	2.88

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

None

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Dec 2022	Cash Credit	Long Term	64.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	26.00	ACUITE BBB   Stable (Assigned)
03 Nov 2021	Proposed Bank Facility	Long Term	5.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	44.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	20.00	ACUITE BBB   Stable (Reaffirmed)
05 Apr 2021	Proposed Bank Facility	Long Term	5.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Cash Credit	Long Term	44.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	64.00	ACUITE BBB+   Stable   Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BBB+   Stable   Upgraded

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### 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.

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