Acuite
RATINGS & RESEARCH

Press Release

Radha Wines

June 12, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.70.00 Cr. (Enhanced from Rs.65.00 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)

** Refer Annexure for details*

Erratum: In the original PR dated 17 February 2020, there was an error in the Key Financial Indicator table, which has been rectified in this version

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** on the Rs.70.00 crore bank facilities of Radha Wines. The outlook is **'Stable'**.

Radha Wines (RW) was established as a proprietorship firm in 1992. Subsequently, the constitution was converted to partnership between Mr. Vinod Kishnani and Mrs. Pooja V. Kishanani in 2012. RW is into trading business of Indian Made Foreign Liquor (IMFL). The firm is sole distributor, in the region of Thane & Raigad (Maharashtra) for reputed IMFL players such as United Breweries Limited, Bacardi Martini and Radico Khaitan, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operation coupled with improving business risk profile**

  RW is operating since 1992. The partners possess experience of over two decades in the beer & alcohol industry. The active participation of promoters have helped the firm to establish its position in the domestic market and have been able to established healthy relations with suppliers and customers.
  The operating income of RW has been experiencing upward trend on year-on-year basis. The revenues of the firm improved to Rs.465.54 crore in FY2019 as compared Rs.349.29 crore in FY2018 as against Rs.323.71 crore in FY2017. The growth is purely driven by increasing demand. The net profitability margins are also maintained at the same level during the period FY2017-19, marked by 1.96 percent in FY2019 as against 1.90 percent in FY2018 and 1.99 percent in FY2017.
  Acuité believes that RW will continue to benefit from its established presence in the market and improving business risk profile over the medium term.

- **Improved working capital cycle**

  RW's working capital cycle improved as reflected in Gross Current Assets (GCA) of 95 days in FY2019 as against 120 days in FY2018. The firm maintains inventory of 36 days in FY2019 as against 50 days in FY2018 while the debtors stood at 46 days in FY2019 as against 50 days in FY2018. The average utilisation of working capital is ~90 per cent for past eight months ended November 2019. Acuité believes that the firm's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

- **Moderate financial risk profile**

  The firm has moderate financial risk profile marked by tangible net worth of Rs.33.08 crore as on 31 March 2019 as against Rs.26.61 crore as on 31 March 2018. This includes unsecured loan of Rs.4.45 crore as on 31 March 2019, which is considered as quasi equity. The adjusted gearing stood at 2.09 times as on 31 March 2019 as against 2.20 times as on 31 March 2018. The debt of Rs.69.14 crore mainly consists of working capital borrowings of Rs.68.52 crore and term loan of Rs.0.62 crore. Interest Coverage Ratio (ICR) stood at 2.36 times in FY2019 as against 2.19 times in FY2018. Total outside Liabilities/Tangible Net

Worth (TOL/TNW) stood at 2.73 times as on 31 March 2019 as against 3.38 times as on 31 March 2018. Acuité expects the firm to maintain its financial risk profile on similar levels over the medium term as the firm is not planning any significant debt-funded capital expenditure.

Weaknesses

- **Highly regulated business**

Indian liquor industry is heavily regulated by the governments, with regulations ranging from licensing, production, distribution, inter-state exports, raw material availability and advertisements. There have been continuous regulatory changes in terms of state government's policies towards liquor consumption. Any government regulation can have significant impact on their operating income and profitability.

- **Risk of capital withdrawal**

RW is exposed to risk of capital withdrawal considering its partnership constitution. However there were no significant withdrawals observed during the period under study.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.
- Decline in profitability margins leading to weakening of credit metrics.

Material Covenants

None

Liquidity Position: Adequate

The RW has adequate liquidity profile marked by sufficient net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.6-9 crore during the last two years through FY2019, while its maturing debt obligations were in the range of Rs.0.17-0.47 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.10-12 crore during 2020-22, while its repayment obligation are estimated to be around Rs.0.15-.17 crore over the same period. The working capital operations of RW are moderate marked by gross current asset (GCA) days of 95 in FY2019. The cash credit limit remains utilised at 90 percent during the last eight months ended in November, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.84 crore as on 31 March, 2019. The current ratio stands at 1.36 times as on 31 March 2019. Acuité believes that the liquidity of the firm is likely to remain strong over the medium term on account of strong cash accrual against repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook on RW will remain 'Stable' over the medium term on account of its long track of operations in beer & alcohol industry as well as improving business risk profile. The outlook may be revised to 'Positive' if the firm registers significant and sustainable growth in revenue while maintaining its profitability. 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.	465.54	349.29
PAT	Rs. Cr.	9.13	6.65
PAT Margin	(%)	1.96	1.90
Total Debt/Tangible Net Worth	Times	2.09	2.20
PBDIT/Interest	Times	2.36	2.19

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/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Jan-2020	Cash Credit	Long Term	INR 65	ACUITE BBB / Stable (Upgraded)
07-Jan-2019	Cash Credit	Long Term	INR 65	ACUITE BBB- / Stable (Reaffirmed)
16-Oct-2017	Cash Credit	Long Term	INR 65	ACUITE BBB- / 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	70.00 (Enhanced from Rs.65.00 Cr.)	ACUITE BBB / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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