

Press Release

Radha Wines

April 07, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The rating reaffirmation draws comfort from long track record of operations and experienced management, efficiently managed working capital operations, comfortable financial risk profile and adequate liquidity position marked by judicious utilization of the working capital facilities. The rating, however, continues to remain constrained on account of significant increase in debt which is expected to have an impact on the financials. The operations of the firm have also been impacted in FY2021 due to global outbreak of COVID-19.

About the Firm

Mumbai-based, 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. The firm 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 business and financial risk profile of RW to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

RW is operating since 1992. The partners, Mr. Vinod Kishnani and Mrs. Pooja V. Kishanani possess experience of over two decades in the beer & alcohol industry which has helped RW build healthy relationship with its customers and suppliers. The operating income of RW has been experiencing an upward trend on year-on-year basis. The revenues of the firm improved to Rs.493.60 crore in FY2020 as against Rs.465.54 crore in FY2019 and Rs.349.29 crore in FY2018. The growth is purely driven by increasing demand. The firm has achieved a turnover of Rs.334.13 crore for 10MFY2021. So, it is expected to achieve turnover of around Rs.350.00 crore in FY2021 on account of disruption caused by coronavirus outbreak resulted in nationwide lockdown. The net profitability margins are also maintained at the same level during the period FY2018-20 marked by 2.03 percent in FY2020 as against 1.96 percent in FY2019 and 1.90 percent in FY2018.

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

- **Efficiently managed working capital operations**

RW's working capital operations are efficiently managed as evident from Gross Current Asset days (GCA) of 82 days in FY2020 against 94 days in FY2019 which is influenced by prudent inventory and receivable management. The inventory days were recorded at 32 days in FY2020 against 36 days in FY2019. Further, the inventory holding policy followed by the firm is generally 1 month to cater to spot orders. The debtors' days were recorded at 40 days in FY2020 against 46 days in FY2019 which is corresponding to normal terms with customers. However, working capital bank lines remains moderately utilized at ~78.83 percent for last trailing 12 months ended January, 2021.

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 financial risk profile of RW is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The firm has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 2.09 times as on March 31, 2018. This has improved and stood at 1.78 times as on March 31, 2020. TOL/TNW stood at 2.16 times as on March 31, 2020 against 2.73 times as on March 31, 2019. Tangible net worth of the firm stood modest at Rs.36.00 crore as on March 31, 2020 (includes quasi equity of Rs.4.68 crore) against Rs.33.08 crore as on March 31, 2019 (includes quasi equity of Rs.4.45 crore). The total debt of Rs.64.16 crore as on March 31, 2020 mainly consists of long-term debt (vehicle loans) of Rs.0.27 crore and short-term debt (working capital borrowings) of Rs.63.89 crore. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood comfortable at 2.41 times and 0.16 times respectively in FY2020, while DSCR stood at 2.36 times in FY2020. The firm reported cash accruals of Rs.10.24 crore in FY2020 against moderate repayment obligations of Rs.0.10 crore. Further, annual cash accruals are expected to be in the range of about Rs.2.83 crore-Rs.16.07 crore in the medium term against moderate repayment obligations in the range of Rs.1.75 crore-Rs.5.32 crore.

The firm has availed covid loan i.e. Demand loan (CECF- PNB Covid 19 Emergency Credit Facility) of Rs.5.85 crore in the month of May, 2020. The repayment is expected to be completed by May, 2022. The firm has also availed GECL (Guaranteed Emergency Credit Line) 2.0 of Rs.13.50 crore in December, 2020. The repayment is expected to be completed by December, 2025.

Acuité believes that the financial risk profile of the firm is expected to remain moderate on account of modest net worth backed by healthy cash accruals vis- à-vis moderate debt repayment obligations and comfortable debt protection metrics.

Weaknesses

- **Highly regulated business**

Indian liquor industry is heavily regulated by the government, 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.

- **High supplier concentration risk**

The firm is exposed to supplier concentration risk since the firm has done around 60-70 percent of its total purchases from United Breweries / Iced Desserts / H. Parson Pvt. Ltd. for FY2019, FY2020 and 9MFY2021. Hence, the firm is exposed to supplier concentration risk and the ability of the firm to increase the supplier base would be the key rating sensitivity in the near to medium term.

- **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.

- **Significant increase in debt in FY2021**

The firm has availed two covid loans, i.e. Demand loan (CECF- PNB Covid 19 Emergency Credit Facility) of Rs.5.85 crore in May, 2020 and GECL (Guaranteed Emergency Credit Line) 2.0 of Rs.13.50 crore in December, 2020. Therefore, the long-term debt has significantly increased to Rs.19.35 crore as on January 31, 2021 as against Rs.0.17 crore as on March 31, 2020. This is expected to impact the financial risk profile wherein the gearing levels (debt to equity ratio) and TOL/TNW are expected to deteriorate in FY2021. The debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are also expected to be impacted in FY2021.

Acuité believes that the ability of the firm to improve its financial risk profile by reducing debt will be a key rating sensitivity factor in the near to medium term.

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

RW has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals of Rs.6.75 crore – Rs.10.24 crore during the last three

years through 2018-20 against moderate repayment obligations in the range of Rs.0.10 crore – Rs.0.15 crore. It is expected to generate cash accrals in the range of Rs.2.83 crore – Rs.16.07 crore over the medium term, against moderate repayment obligations in the range of Rs.1.75 crore – Rs.5.32 crore. Unencumbered cash and bank balances stood at Rs.1.21 crore as on March 31, 2020 with a current ratio of 1.45 times in the same period. The working capital limits remained moderately utilized at ~78.83 percent for last trailing 12 months ended January, 2021.

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

Outlook: Stable

Acuité believes that RW 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.	493.60	465.54
PAT	Rs. Cr.	10.04	9.13
PAT Margin	(%)	2.03	1.96
Total Debt/Tangible Net Worth	Times	1.78	2.09
PBDIT/Interest	Times	2.41	2.36

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
12-Jun-2020	Cash Credit	Long Term	70.00	ACUITE BBB/ Stable (Reaffirmed)
17-Feb-2020	Cash Credit	Long Term	70.00	ACUITE BBB/ Stable (Reaffirmed)
31-Jan-2020	Cash Credit	Long Term	65.00	ACUITE BBB/ Stable (Upgraded)
07-Jan-2019	Cash Credit	Long Term	65.00	ACUITE BBB-/ Stable (Reaffirmed)
16-Oct-2017	Cash Credit	Long Term	65.00	ACUITE BBB-/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Bank Name	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit#	PNB	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB/ Stable (Reaffirmed)

#Advance against cheque clearing is sublimit to the extent of Rs. 1.80 crore.

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About Acuité Ratings & Research:

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