

Press Release

Radha Wines

November 03, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.90.00 Cr. (Enhanced from 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.90.00 Cr bank facilities of Radha Wines (RW). The outlook is '**Stable**'.

The rating reaffirmation draws comfort from long track record of operations & experienced management, moderate 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 working capital intensive operations and significant increase in debt which has an impact on the financials in FY2021. 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.

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

- 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 moderate debt protection metrics. The gearing stood at 1.98 times as on March 31, 2021 (Provisional) against 1.78 times as on March 31, 2020. TOL/TNW stood at 2.56 times as on March 31, 2021 (Provisional) against 2.16 times as on March 31, 2020. Tangible net worth of the firm stood modest at Rs.37.85 crore (includes quasi equity of Rs.3.36 crore) as on March 31, 2021 (Provisional) against Rs.36.00 crore (includes quasi equity of Rs.4.68 crore) as on March 31, 2020. The firm had faced liquidity issues due the impact of the pandemic. So, urgent payment had to be made to the unsecured creditors, so this was paid out of quasi equity. The total debt of Rs.74.93 crore as on March 31, 2021 (Provisional) mainly consists of long-term debt of Rs.18.17 crore and short-term debt of Rs.56.76 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.07 times and 0.08 times respectively in FY2021 (Provisional); while DSCR stood at 2.04 times in FY2021 (Provisional).

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

Weaknesses

- **Working capital intensive operations**

RW's working capital operations are intensive marked by Gross Current Asset days (GCA) of 129 days in FY2021 (Provisional) against 82 days in FY2020. The inventory days stood at 43 days in FY2021 (Provisional) against 32 days in FY2020. The firm maintains an inventory holding policy of minimum 1 month. The debtors' days stood at 70 days in FY2021 (Provisional) against 40 days in FY2020. The inventory and receivable days went high in FY2021 majorly due to the impact of covid-19 and lockdown scenario. However, the situation is getting better now since hotels, shops, etc. are opening up and the consumption has also improved. However, working capital bank lines remains utilized at ~75.56 percent for last trailing 13 months ended September, 2021. Acuite believes that the firm's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

- **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.16.42 crore as on March 31, 2021 (Provisional) as against Rs.0.17 crore as on March 31, 2020. This has impacted the financial risk profile wherein the gearing levels (debt to equity ratio) and TOL/TNW have deteriorated in FY2021. The debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are also impacted in FY2021.

- **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 last 3 years ended FY2021. 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 was established as a proprietorship firm in 1992 and converted to partnership firm in 2012. 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 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 in the range of Rs.6.04 crore – Rs.10.24 crore during the last four years through FY2018-21 against moderate repayment obligations in the range of Rs.0.10 crore – Rs.1.75 crore during the same period. It is expected to generate cash accruals in the range of Rs.14.38 crore – Rs.23.94 crore over the medium term, against moderate repayment obligations in the range of Rs.3.36 crore – Rs.5.32 crore. Unencumbered cash and bank balances stood at Rs.1.69 crore as on March 31, 2021 (Provisional) with a current ratio of 1.65 times in the same period. The working capital limits remained utilized at ~75.56 percent for last trailing 13 months ended September, 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 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	371.97	493.60
PAT	Rs. Cr.	5.81	10.04
PAT Margin	(%)	1.56	2.03
Total Debt/Tangible Net Worth	Times	1.98	1.78
PBDIT/Interest	Times	2.07	2.41

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
07-Apr-2021	Cash Credit	Long Term	70.00	ACUITE BBB/ Stable (Reaffirmed)
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 from ACUITE BBB-/ Stable)
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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00^	ACUITE BBB/ Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	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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