

## Press Release

Radha Wines

January 04, 2023

Rating Reaffirmed



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Total Withdrawn Quantum (Rs.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

## Rating Rationale

Acuite 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**'.

### Reason for the rating reaffirmation

The rating reaffirmation factors in the improvement in operating income, moderate financial risk profile and adequate liquidity position of the firm. The Firm's revenue improved to Rs.467.78 Cr in FY2022 as against Rs.372.06 Cr in FY2021. The Firm has recorded a turnover of Rs.335.47 Cr in H1FY2023. The growth in operating income is driven by the addition of new products to the existing product profile of the firm. The ratings are constrained by the working capital-intensive operations of the firm resulting in the high bank limit utilisation. Along with this the withdrawal of the funds by the partners impart a negative bias to the rating.

## About the Company

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 Palghar, Thane & Raigad for reputed IMFL players such as United Breweries Limited, Bacardi Martini and Radico Khaitan, among others.

## Analytical Approach

Acuite 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 and the partners of the firm are Mr. Vinod Kishnani and Mrs. Pooja V. Kishanani, who possess an experience of over three decades in the beer & alcohol industry. The long track record of operations and the experienced management 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.

### **Improvement in the operating performance**

The firm's revenue stood at Rs.467.78 crore in FY2022 compared to revenue of Rs.372.06 crore in FY2021 as against revenue of Rs.493.60 crore in FY2020. The firm's revenue had declined in FY2021 due to the covid pandemic wherein a lot of shops and restaurants were closed during that period of time. However, with resumption of economic activities, the operations of the firm witnessed improvement in the revenues as reflected by the revenues of FY2022. In H1FY2023, the firm's revenue stood at Rs.335.47 crore. This substantial increase in the revenue is due to the additions in the product profile of the company. The operating profit margin of the firm improved and stood at 3.46 percent in FY2022 compared against 3.07 percent in FY2021. The improvement in the operating profit margin is due to increase in the revenues. The PAT margin of the firm stood at 2.00 percent in FY2022 compared to 1.56 percent in FY2021. Acuité believes that the business risk profile of the firm will continue to improve in medium term on account of increase in the product profile.

### **Moderate financial risk profile**

Radha Wines has a moderate financial risk profile marked by tangible net worth of Rs.38.76 crore as on 31 March 2022 as against Rs.37.85 crore as on 31 March 2021. The networth includes the quasi equity of Rs.3.51 crore. The partners have made capital withdrawals of ~Rs.5.00 crore in FY2022. The gearing level of the firm stood high at 2.42 times as on 31 March 2022 as against 1.98 times as on 31 March 2021. The total debt of the firm comprised of long-term debt of Rs.15.28 crore and short-term debt of Rs.74.45 crore as on 31 March 2022. The firm has taken an additional GECL loan of Rs.6.75 crore in FY2022. The coverage ratios of the firm stood moderate with Interest Coverage Ratio (ICR) of 2.42 times for FY2022 against 2.11 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 1.33 times for FY2022 against 2.07 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the firm stood at 2.98 times for FY2022 as against 2.56 times in FY2021.

### **Weaknesses**

#### **Working capital intensive operations**

The firm's operations are working capital intensive as evident from Gross Current Asset (GCA) of 117 days as on March 31, 2022, as against 130 days as on March 31, 2021. The inventory levels have improved and stood at 38 days for FY2022 compared against 43 days for FY2021. Average inventory holding period of the firm is around 30-40 days. The firm stocks up the inventory in advance according to the requirement for the distribution. The inventory consists of different varieties and brands of the products. The debtor days stood at 69 days for FY22 against 70 days for FY21. Average credit period allowed to the customers is around 65-75 days. The creditor days of the firm stood at 17 days for FY2022 as against 22 days for FY2021. The average utilization of the bank limits of the firm remains high at ~97 percent in last six months ended November 2022. Acuité believes that the firm's ability to maintain its working capital efficiently will remain critical to maintain a stable credit profile.

#### **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.

#### **Risk of capital withdrawal**

RW was established as a proprietorship firm in 1992 and converted to partnership firm in 2012.

Further, the firm has witnessed withdrawal of ~Rs.5.00 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 leading to deterioration in debt protection metrics.

### 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.9.58 crore in FY2022 compared against maturing debt obligations of Rs.5.50 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.11.45-14.92 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.3.94-5.06 crore during the same period. The firm's reliance on working capital borrowings is on a higher side marked by average utilization of working capital limits of ~97 percent during the last six months period ended November 2022. The firm maintains unencumbered cash and bank balances of Rs.1.87 crore as on March 31, 2022. The current ratio stood at 1.52 times as on March 31, 2022. Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	467.78	372.06
PAT	Rs. Cr.	9.34	5.81
PAT Margin	(%)	2.00	1.56
Total Debt/Tangible Net Worth	Times	2.42	1.98
PBDIT/Interest	Times	2.42	2.11

### 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 Entity: <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
03 Nov 2021	Cash Credit	Long Term	70.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	20.00	ACUITE BBB   Stable (Reaffirmed)
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)

## 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	90.00	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

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