

Press Release

Seth Girijacharan Harnarayan Jaiswal

February 14, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4** (**read as ACUITE A four**) on the Rs.10.00 crore bank facilities of Seth Girijacharan Harnarayan Jaiswal (SGHJ). The outlook is '**Stable**'.

SGHJ was established in 2016 by Mr. Rahul Jaiswal and family. It is Indore-based firm engaged in operating government regulated outlets of country and foreign liquor. This is the family business of Jaiswal family since last four generation.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SGHJ to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

SGHJ was established in 2016 by Mr. Rahul Jaiswal having more than two decade of experience in the liquor industry through its other sister concerns which is in the same line of business. The active participation of partners 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 firm presently has 19 shops in three districts namely Harda, Hoshangabad and Narsinghpur.

- **Efficient Working Capital Cycle**

SGHJ's working capital cycle improved as reflected by Gross Current Assets (GCA) of 17 days in FY2019 as against 23 days in FY2018. The firm deals on cash basis resulting in nil debtors' days as on March, 2019 and March, 2018. The inventory holding period is minimal as the government allocates the stock every month on basis of license fees paid to the firm. The average cash credit utilisation stood low at 20 per cent for the eight months ended January, 2020.

- **Moderate Financial Risk Profile**

The financial risk profile of the firm is moderate marked by moderate networth, high gearing and modest debt protection metrics. The net worth levels of the firm stood at Rs. 1.83 crore as on 31 March, 2019 compared to Rs. 3.63 crore as on 31 March, 2018. The gearing stood at 2.33 times as on 31 March, 2019 as against 1.00 times as on 31 March, 2018. The total debt of Rs. 4.26 crore comprises term loan of Rs. 0.53 crore and working capital borrowing of Rs.3.73 crore as on 31 March, 2019. The interest coverage ratio (ICR) stood at 3.01 times in FY2019 as against 2.50 times in FY2018. The debt service coverage ratio (DSCR) stood at 3.01 times in FY2019 as against 2.09 times in FY2018. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.42 times in FY2019 and 1.09 times in FY2018.

Weaknesses

- **Partnership Constitution**

SGHJ being a partnership firm has no restriction on withdrawal of capital. The partners have withdrawn capital marked by partner's capital of Rs. 1.83 crore as on March, 2019 as against Rs.3.63 crore as on

March, 2018. Further, the firm has reported capital of Rs. 3.46 crore for the period under study from April to December, 2019. Thus, the firm is exposed to the risk associated in terms of capital withdrawal.

- **Thin profitability and competition from other brands**

The firm's profit margins stood at 1.21 percent in FY2019 as compared to 0.83 per cent in FY2018. The low profit margins are usually on account of limited pricing flexibility with prices being dictated by IMFL manufacturers. Changes in customer preferences or prices may impact the business profile.

- **Highly regulated and competitive industry**

The alcohol industry in India is highly regulated with each state having a unique taxation policy and varying regulations. The distribution channel of the industry is also regulated by the state government. Besides, movement of liquor between states is subject to multiple tax laws.

Liquidity Position

SGHJ has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.77-0.93 crore during the last three years through 2017-19, while its maturing debt obligations were around Rs.0.01 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.1.10-1.67 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.01 crore. The firm's working capital cycle is managed efficiently as marked by Gross Current Assets (GCA) of 17 days in FY 2019. The working capital borrowings remains utilised around 20 percent during the last 8 month period ended January 2020. The current ratio of the firm stood healthy at 1.31 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivities

- Improving revenues and profitability which will impact the overall financial risk profile
- Significant Partner's Capital Withdrawal

Material Covenants

None

Outlook: Stable

Acuité believes that SGHJ will maintain a 'Stable' outlook and continue to benefit over the medium term on account of the extensive experience of its partners in the industry. The outlook may be revised to 'Positive' if the firm registers substantial increase in profitability supported by healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or significant deterioration in the financial risk profile due to significant partner's capital withdrawal.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	68.99	77.49
PAT	Rs. Cr.	0.83	0.65
PAT Margin	(%)	1.21	0.83
Total Debt/Tangible Net Worth	Times	2.33	1.00
PBDIT/Interest	Times	3.01	2.50

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
8-Aug-2019	Secured Overdraft	Long Term	3.71	ACUITE BB- (Indicative)
	Proposed Bank Facility	Long Term	1.79	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	1.30	ACUITE A4 (Indicative)
	Proposed Bank Guarantee	Short Term	3.20	ACUITE A4 (Indicative)
28-May-2018	Secured Overdraft	Long Term	3.71	ACUITE BB- /Stable (Assigned)
	Proposed Bank Facility	Long Term	1.79	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short Term	1.30	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	3.20	ACUITE A4 (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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.71	ACUITE BB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.79	ACUITE BB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head – Corporate and Infrastructure Sector Ratings Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Disha Parmar Analyst - Rating Operations Tel: 022-49294054 disha.parmar@acuite.in	

About Acuité Ratings & Research:

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