

Press Release

Pearl Distillery Limited

October 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 200.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) on the Rs. 200.00 crore bank facilities of Pearl Distillery Limited. The outlook is '**Stable**'.

PDL, based out of Andhra Pradesh, was incorporated in 1973. The company is engaged in distillation and bottling for United Spirits Limited (USL). PDL has exclusive franchise of USL for Indian-made foreign liquor (IMFL). The company's manufacturing unit is located in Singarayakonda, Ongole, Andhra Pradesh. The company has an installed capacity of bottling 9.75 cases per month (i.e. about 1.17 crore cases per annum) with bottling capacity of 65 Kilo Liters per day (KLKD). PDL also manufactures Extra Neutral Alcohol (ENA) from grain.

Key Rating Drivers

Strengths

- Established market position in Andhra Pradesh alcohol industry and exclusive dealership with United Spirits Limited**

PDL has an established market presence in the state of Andhra Pradesh IMFL industry with market share of around 30 percent in 2017-18. PDL is an exclusive dealer of USL with whom it has been associated for more than 4 decades. PDL sells its products under the established brands of USL. PDL currently manufactures 13 brands of USL which include McDowell, Bagpiper, Royal Challenge, Signature, Director's Special, among others. The product range of PDL consists of whisky, brandy, vodka, rum, gin & lime, where whisky constitutes a major portion of revenue (~66 percent), followed by brandy (~32 percent). Acuité believes that PDL shall continue to benefit from its long standing presence of more than four decades in the IMFL industry and its long standing relation with USL which is expected to lead to a steady stream of revenues for the company over the medium term.

- Steady growth in revenues and moderate profitability levels**

Subsequent to the division of Telangana and Andhra Pradesh, the company has benefitted on account of very few licenses prevailing in the state of Andhra Pradesh. Accordingly, the revenues of PDL have grown sequentially at a compounded annual growth rate (CAGR) of ~7 percent over the last three years to Rs.1,325 crore in FY2017-18. The revenues are expected to grow sequentially on account of revision in prices of liquor from October 01, 2018. However, the profitability of PDL remains moderate marked by EBITDA margin of 6.52 percent and a thin profit after tax (PAT) margin of 0.43 percent for FY2018. The EBITDA margins are expected to improve on the back of price rise declared by Andhra Pradesh Beverages Corporation Limited (ABPCL) for most of the brands manufactured by PDL. Acuité believes that the company shall be able to leverage for a medium term on the back of healthy demand prospects in the state of Andhra Pradesh and rise in the prices of alcohol, which will lead to improvement in profitability to a certain extent.

- Efficient working capital management**

PDL manages its working capital cycle efficiently which is evident from its working capital cycle of 21 days in FY2018 vis-à-vis 34 days in the previous year. PDL has a Gross Current Assets (GCA) of 127 days in FY2018 as against 132 days in FY2017. This is on account of debtors of 45 days in FY2018 and inventory of 30 days in FY2018 as against 33 days in FY2017. PDL is required to maintain an inventory of two to three weeks with APBCL depot which leads to inventory days in the range of 30-35 days. ABPCL pays off to PDL four times on monthly basis as and when sales are executed from the depot of ABPCL. At present, PDL relies on working capital term loans from an NBFC to manage its working capital

requirements. Acuité believes that PDL will be able to manage its working capital cycle efficiently on the back of systematic payment and receipt terms and inventory holding policy in place. Also, in the absence of any major debt funded capital expenditure, PDL's liquidity will remain comfortable.

- **Experienced management**

Mr. Shivkumar Reddy (Managing Director), is a third generation entrepreneur and hails from a prominent family which has been involved in business of manufacturing, printing and production of films for the last six decades in South India. He joined the business of his father in law, late Mr. Subbarama Reddy, in 1980's and since then he has expanded the business steadily. Acuité believes that PDL will continue to benefit from its experienced management and presence in this industry for more than four decades.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile is moderate marked by a tangible net worth and debt protection measures. The net worth of PDL stood moderate at Rs.66.60 crore (net of intangible asset to the tune of Rs.19.86 crore) as on March 31, 2018. The gearing stood high at 3.04 times with a total debt of Rs.202.63 crore as on 31 March, 2018, which mainly includes term loan for capital expenditure to the tune of Rs.120.00 crore and Rs.80.00 crore towards working capital requirements. The company has a current portion of long term debt of Rs.12.73 crore for FY2018 as against net cash accruals of Rs.16.87 crore. Total Outside Liabilities/Tangible Net Worth (TOL/TNW) of the company stood at 4.78 times as on 31 March, 2018. The debt protection metrics of the company were moderate marked by interest coverage of 1.58 times as on 31 March, 2018 and Net Cash Accruals to Total Debt (NCA/TD) stood at around 8 percent as on March 31, 2018. Acuité believes that the financial risk profile of PDL will continue to remain moderate over the medium term on account of its improving scale of operations and absence of debt funded capital expenditure in the near to medium term.

- **Exposure to regulatory risk**

The Indian alcohol industry is highly regulated at almost every stage in the value chain. Moreover, every state has its set of regulations with respect to distribution and retail channels, registration, taxation, and pricing of alcohol. The industry is expected to remain highly regulated by the government going forward exposing the business risk profile to adverse regulatory changes. Furthermore, players within the industry are susceptible to high excise duties; any adverse change in excise duties can weaken profitability, and consequently, affect its credit risk profile.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Pearl Distillery Limited to arrive at this rating.

Outlook: Stable

Acuité believes the outlook on PDL rated facilities will remain stable over the medium term on account of established market presence in Andhra Pradesh and its experienced management. The outlook may be revised to 'Positive' in case of substantial and sustained improvement in its net cash accruals, most likely as a result of improvement in profitability levels while managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company reports lower than expected growth in operating income and adverse change in political and regulatory changes.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	746.71	670.07	571.90
EBITDA	Rs. Cr.	48.70	27.11	30.43
PAT	Rs. Cr.	3.23	2.17	9.18
EBITDA Margin	(%)	6.52	4.05	5.32
PAT Margin	(%)	0.43	0.32	1.60
ROCE	(%)	13.32	9.35	27.43
Total Debt/Tangible Net Worth	Times	3.04	2.76	1.42
PBDIT/Interest	Times	1.58	1.77	2.95

Total Debt/PBDIT	Times	4.07	5.78	3.05
Gross Current Assets (Days)	Days	127	132	98

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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