

Press Release

Pearl Distillery Limited

January 03, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.200.00 Cr bank facilities of Pearl Distillery Limited (PDL). The outlook is '**Stable**'.

Pearl Distillery Limited, established in 1973, is one of the largest distillation and bottling plants in Andhra Pradesh (AP). The company has an installed capacity of bottling of 9.75 lakh cases per month & 65 Kilo Liters per day (KLKD) capacity of distillation. PDL has exclusive franchise of United Spirits Limited for Indian-made foreign liquor (IMFL) & the company has been associated with USL since last 40 years. The company has its manufacturing unit located in Singarayakonda, Ongole, Andhra Pradesh.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established presence in AP**

Mr. Shivkumar Reddy is a third generation entrepreneur and hails from a prominent family who has been involved in business of manufacturing, printing and production of films for the last 60 years in South India.

PDL has an established market presence in the state of Andhra Pradesh IMFL industry with market share of around 30 percent in FY2019. 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 (~63 percent), followed by brandy (~34 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.

- Increase in scale of operations marked by improvement in profitability margins**

The total operating income of the company has been improving y-o-y with a CAGR of 13.76%. The revenue has increased from Rs.746.71 Cr in FY 2018 to Rs.867.08 Cr in FY 2019. The profitability margins have also been improving. The EBITDA margins has also improved and stood at 9.82 percent in FY2019 when compared to 6.52 percent in FY2018 due to increase in the price of alcohol in Andhra Pradesh. The PAT margins also improved and stood at 3.04 percent in FY2019 when compared to 0.43 percent in FY2018. 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.

Weaknesses

- Moderate financial risk profile**

The financial risk profile of the company is moderate marked by a tangible net worth of Rs.87.42 Cr (net of intangible asset to the tune of Rs.24.96 Cr) as on March 31, 2019. The gearing stood high at 2.74 times as on March 31, 2019. The company has a total debt of Rs.239.27 Cr as on 31 March 2019, which includes long term loan of Rs.164.44 Cr, Unsecured loans from promoters of Rs.50.13 Cr and CPLTD of Rs.24.79 Cr as against net cash accruals of Rs.42.80 Cr. The total outside liabilities to tangible net worth of the company stood at 4.88

times as on March 31, 2019. The debt protection metrics of the company were also comfortable marked by interest coverage of 3.11 times as on March 31, 2019. 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.

- **Elongated working capital intensive operations**

PDL's GCA days has been elongated and stood at 159 days in FY2019 as against 127 days in FY2018 due to increase in debtor days which has raised from 45 days in FY2018 to 69 days in FY2019 due to change in state government in Andhra Pradesh where the payments were delayed to PDL. 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. Acuité believes that working capital cycle of PDL will continue to be remained moderately elongated due to delay in payments from the state government and company may need to bring in promoters contribution in order to meet its working capital requirements.

- **Exposure to regulatory risk**

PDL manufacture and sell the goods to Andhra Pradesh Beverages Corporation Limited (APBCL). APBCL acts as a wholesale agency for distribution of alcoholic beverages for the state of AP. The retail segment in Andhra Pradesh is with the private personnel. Based on the sales to retailers, APBCL releases payments on a weekly basis to IMFL Bottlers. But now due to change of government in Andhra Pradesh, the government is acting as a wholesale agency and retailer. So, the retail segment is no longer with private personnel and now the payments will be delayed until the products are sold to end customer.

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.

Rating Sensitivity Factor

- Improvement in the scale of operations while maintaining profitability margins

Material Covenants

None

Liquidity Position: Adequate

The liquidity position is adequate marked by adequate cash accruals to repayment obligations though the operations are working capital intensive. It has reported cash accruals of Rs.16.87 crore in FY2018 and Rs.42.80 crore in FY2019. Its expected cash accruals are in the range of Rs.42-55 crore against the repayment obligations of Rs.25.00 crore. The working capital cycle is intensive with GCA days of 159 days in FY2019 as against 127 days in FY2018; its current ratio stood at 1.94 times as on March 31, 2019. Acuité believes that with moderate accruals and working capital operations, the liquidity profile continues to be adequate over the medium term.

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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	867.08	746.71
PAT	Rs. Cr.	26.32	3.23
PAT Margin	(%)	3.04	0.43
Total Debt/Tangible Net Worth	Times	4.88	4.78
PBDIT/Interest	Times	3.11	1.58

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Oct-2018	Proposed Bank Facility	Long Term	200.00	ACUITE BBB-/Stable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-4929041 aditya.gupta@acuite.in Bhavani Nagidi Rating Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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