

Press Release

Amrut Distilleries Private Limited

October 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 20.00 crore bank facilities of Amrut Distilleries Private Limited. The outlook is '**Stable**'.

Amrut Distilleries Private Limited (Amrut) was established in 1948 by late Mr. Radhakrishna Jagdale; it is into manufacture of 'Indian Made Foreign liquor' based out of Bangalore, Karnataka. Currently Amrut is managed by 2nd generation entrepreneur Mr Neelakanta Rao Jagdale, son of Mr Radhakrishna Jagdale along with the support of his son Mr. Rakshit Jagdale; Mr Neelakanta Rao Jagdale is in the distillery industry for more than four decades, and he is further supported by long vintage professional team. Amrut started its operations initially with supply of 'Dark Rum' to Defence stores through Canteen Stores Department (CSD); and over a period, it diversified into other product segments of - malt whisky, brandy, vodka. Amrut pioneered in manufacturing of malt whisky in India in 1980's and it is one of the first player in India manufacturing single-malt whisky started in the year 2004. Amrut has three facilities for processing and bottling - two in Karnataka, and one in Palakkad.

Key Rating Drivers

Strengths

- **Established presence in IMFL business and Capable Management:**

Amrut was established in 1948, and it is one of the oldest distillery unit in India with successful track record of operations for seven decades. Over a period, Amrut diversified from bottling of rum and supplies to CSD since 1960's, to brandy, whisky, vodka, gin. Amrut operates both in Karnataka and Kerala wherein about 80 per cent of its revenues are derived from these two states; and about 10 per cent of revenues from exports and rest through sales to CSD and other states. Amrut markets its products with 44 brands across its product category. Amrut entered into tie-up arrangements with various distillers and bottlers across India for evenly supplies to CSD stores, though majority of its supplies to civil market are from its own processing units. Amrut to move up in the value chain and reducing its geographical concentration, implementing a modest capex to enhance its single-malt whisky bottling capacity by about four fold. With this, Amrut expects the premium category revenues to improve from the current levels of about 35 per cent to 50 per cent over the medium term; while diversifying the geography concentration with increasing portion of revenues from other states and overseas markets. Currently, Amrut is present over 60 countries with revenue contribution of about 10 per cent to total revenues. Acuite believes that, Amrut enjoys the pride player of India in single- malt whisky, while continue to enjoy the diversified revenue and geography profile, though operating in a regulated market.

- **Moderate Financial Risk Profile**

Amrut's financial risk profile is moderate marked by moderate gearing, healthy network, and comfortable debt protection metrics. Amrut's gearing (debt-to-equity) is moderate at 1.41 times as on March 31st, 2018(P) as against 1.90 times as on March 31st, 2017; improvement is owing to increasing revenue contribution from high margin varieties; at operating level, the margins have improved by about 250 basis points (bps) over the past three years through FY2018 and at net level, its about 100 bps. Amrut has unencumbered fixed deposits of about Rs.59.0 crores as of March 31, 2018 with Canara Bank; and on net debt approach, the gearing further improves to about 0.8 times (1.35 times in FY2017). On a net debt-EBIDTA basis, it is about 2.1 times in FY2018. Networth is healthy at Rs. 91.02 cr as on March 31st, 2018(P), as against Rs.83.80 cr as on March 31st, 2017. Debt-protection metrics are comfortable: with Interest coverage ratio and net cash accruals to total debt of 3.35 and 0.15 times in

FY18 (P) as against 3.36 and 0.10 times in FY17. Acuité believes that Amrut's strategy of moving in the value chain is likely to benefit at profitability level though the revenue growth over the medium term is about 10 per cent; and the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

• Working capital intensive operations

Amrut's operations are working capital intensive as reflected by high gross current asset (GCA) days of about 222 as of March 31, 2018 vis-à-vis 270 days in FY2017. GCA comprise of inventory and receivable days of about 92 and 38 in FY2018 (74 and 35 in FY17 and 51 and 34 in FY16); increasing holding levels are due to stocking up of high inventory of malt whisky for ageing and move up in the value proposition segment. The holding levels are expected to increase further to over 120 days, with its on-going capex of about 5000 casks for multi-fold increase in the storage capacity of whisky over the next two years. Further, Amrut has sizeable deposits of about Rs.75.9 crores as of March 31, 2018 (Rs.62.9 crores in FY2017) with the Bank, and of which about Rs.17.0 crores are encumbered; these deposits are primarily to meet any exigency and upfront payment of taxes at year end to the excise department. Placing of accruals over a period in deposits for contingency lead to high dependence on working capital limits; Amrut enjoys fund based working capital limit of Rs.127.0 crores, which have been highly utilised at about 92 per cent over 12 months through July 2018. Acuité believes that with increasing levels of stocking of inventory for ageing purpose, the reliance on working capital continue to increase and any deterioration in net debt / EBITDA is a key rating sensitivity factor over the medium term.

• High regulatory risks

Indian liquor industry is heavily regulated by the governments, with regulations ranging from licensing, production, distribution, inter-state exports, raw material availability and advertisements. There has 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Amrut Distilleries Pvt Ltd to arrive at the rating.

Outlook: Stable

Acuité believes the outlook on Amrut will remain stable over the medium term on account of established market presence and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining its profitability and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its financial risk profile largely driven by high working capital intensive operations, or any adverse change in political and regulatory changes impacting the business risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	255.70	264.03	252.55
EBITDA	Rs. Cr.	33.43	29.23	26.42
PAT	Rs. Cr.	15.07	11.61	12.42
EBITDA Margin	(%)	13.08	11.07	10.46
PAT Margin	(%)	5.89	4.40	4.92
ROCE	(%)	14.90	14.07	16.01
Total Debt/Tangible Net Worth	Times	1.41	1.90	1.73
PBDIT/Interest	Times	3.35	3.36	3.42
Total Debt/PBDIT	Times	3.36	4.62	3.90
Gross Current Assets (Days)	Days	222	270	217

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

India Ratings, vide its press release dated August 27, 2018 had denoted the rating of ADPL as 'IND BBB+/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

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 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- / Stable

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About Acuité Ratings & Research:

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