

Press Release

Fratelli Wines Private Limited

January 08, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.37.82 Cr.
Long Term Rating	ACUITE BB+/ Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.37.82 crore bank facilities of FRATELLI WINES PRIVATE LIMITED. The outlook is '**Stable**'.

Delhi based Fratelli Wines Private Limited (FWPL) was incorporated in 2007 and commenced its operations in 2011. The company is engaged into processing of wines and is promoted by Mr. Kapil Sekhri, Mr. Gaurav Sekhri, Mr. Mayank Singhal, Mr. Alessio Secci and Mr. Sanjay Banati. FWPL is operating through its three wineries based in Maharashtra and Karnataka. FWPL currently has a production capacity of over 2.13 million liters per annum for all three wineries.

Analytical Approach

Acuité has considered standalone business and financial risk profile of Fratelli Wines Private Limited (FEPL) to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

FWPL is engaged in processing of wines and is promoted by Mr. Kapil Sekhri, Mr. Gaurav Sekhri, Mr. Mayank Singhal, Mr. Alessio Secci and Mr. Sanjay Banati. The promoters have an experience of over xx decades in wine processing industry. Further, Fratelli has been a brand across Karnataka, Maharashtra and Delhi. Moreover, having around a decade of operational track record has helped the company to maintain strong relations with its customers as well as with suppliers. The company has a presence in Hospitality and Airline Industry. The extensive experience of the promoters is also reflected through company's stable revenue growth rate on year-on-year basis. Operating income stood at Rs.108.58 crore in FY2019, Rs.84.18 crore in FY2018 and Rs.67.81 crore in FY2017.

Acuité believes that the promoters' experience and healthy relations with its customers will continue to benefit company over the medium term.

• Healthy Financial Risk Profile

FWPL has healthy financial risk profile marked by healthy net worth, moderate debt protection metrics and low gearing. The net worth of the company stood at Rs.70.36 crore as on 31 March, 2019 as against Rs.42.77 crore as on 31 March, 2017 on account of infusion of capital by the promoters.

The company has followed a conservative financial policy in the past, the same is also reflected through its gearing levels. The gearing levels (debt-equity) reduced and stood at 0.57 times as on 31 March, 2019 as against Rs.0.69 times as on 31 March, 2018. The gearing of the company is expected to remain at same level over the medium term on account of working capital requirements funded through short term debt. The total debt of Rs.39.79 crore as on 31 March, 2019 consists of long term debt of Rs.4.66 crore, unsecured loans of Rs.2.03 crore and working capital facility of Rs.33.10 crore. The increase in revenues coupled with improvement in working capital has led to lower reliance over external borrowing leading to improvement in debt protection and coverage indicators. The interest coverage ratio (ICR) stood at 1.66 times in FY2019 as against 1.53 times in FY2018. DSCR stood at xx times for FY2019 as against xx times in the previous year. Further, the Debt EBITDA stood at 4.10 times for FY2019. TOL/TNW has remained at xx times as on 31 March 2019.

Acuité believes that the financial risk profile of the company is expected to remain healthy backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• High Debtor Period

The company is engaged in processing in wine. Since the processing and storage of wine takes a long gestation period, the company will have to maintain high inventory levels. However, the debtor period has also remained on a higher side. The debtor days stood at 164 days in FY2019 as against 185 days in FY2018. However, current ratio of the company stood moderate at 1.92 times as on 31 March, 2019.

Acuité believes that the working capital operations of the company will continue to remain intensive on account of high level of inventory which is to be maintained by the company. However, company's ability to decrease its debtor days will remain a key rating sensitivity factor.

• Exposure to regulatory risk and reducing profitability

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. Further the company has experienced reduction in its operating margins from 11.20 per cent in FY2017 to 8.85 per cent in FY2019 due in increase in the raw material prices.

Key rating Sensitivity Factors

- Improvement in operating levels and profitability
- Deterioration of working capital.

Material Covenants

Not Applicable

Liquidity Profile: Adequate

FWPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. It generated cash accruals of Rs.3.05 crore in FY2019 against Rs.0.93 crore of debt obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.3.96 crore to Rs.5.66 crore during FY2020-22 against repayment obligations ranging from Rs.0.93 crore to Rs.1.39 crore for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 355 days in FY2019. Company maintains unencumbered cash and bank balances of Rs.0.54 crore as on 31 March 2019. The current ratio stands at 1.92 times as on 31 March 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that FWPL will maintain a 'Stable' outlook over the medium term on account of the management's experience and established brand. The outlook may be revised to 'Positive' in case of substantial and sustained increase in revenues and profitability, while maintaining its efficient working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in profitability or stretch in its working capital operations impacting the liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	108.58	84.18
PAT	Rs. Cr.	0.30	0.05
PAT Margin	(%)	0.28	0.06
Total Debt/Tangible NetWorth	Times	0.57	0.69
PBDIT/Interest	Times	1.66	1.53

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.80	ACUITE BB+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.12	ACUITE BB+ / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.58	ACUITE BB+ / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BB+ / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.22	ACUITE BB+/Stable (Assigned)

Contacts

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About Acuite Ratings & Research:

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