

## Press Release

Fratelli Wines Private Limited

February 08, 2021



### Rating Downgraded, Assigned and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs.37.82 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Downgraded, Assigned and Withdrawn)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed its 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**'.

#### Reason for downgrade

Rating downgrade follows the deterioration in operating performance of the company, deterioration in the coverage metrics and stretch in liquidity position. Operating margin reduced to 2.66 percent in FY2020 from 8.85 percent in FY2019, this led net loss of Rs.5.28 crore in FY2020. And in FY2020 company had repayment obligation of Rs.1.39 crore, which caused stretch in working capital cycle of the company as the repayments were not met by delaying trade payables. Interest coverage metrics deteriorated as reflected by interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 0.57 times and 0.44 times respectively in FY2020.

#### About the company

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. Gaurav Sekhri, Ms Puja Sekhri, Mr. Mayank Singhal, Mr. Alessio Secci and Mr. Sanjay Banati. FWPL is operating through its four wineries based in Maharashtra and Karnataka. FWPL currently has a production capacity of over 2.43 million litres per annum for all three wineries.

#### Analytical Approach

For arriving at this rating, Acuite has taken a standalone view of the business and financial risk profile of Fratelli Wines Private Limited.

### Key Rating Drivers

#### Strengths

##### • Experienced Management

FWPL is engaged in processing of wines and is promoted by Mr. Gaurav Sekhri, Ms. Puja Sekhri, Mr. Mayank Singhal, Mr. Alessio Secci and Mr. Sanjay Banati. The promoters are seasoned players in the 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 as well. The extensive experience of the promoters is reflected from stable operating income of the company. Operating income of the company stood at Rs.109.12 crore in FY2020 as against Rs.108.58 crore in FY2019.

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

• **Healthy capital structure**

The capital structure of the company remains healthy marked by gearing (debt-equity) level of 0.57 times as on 31 March 2020 as against 0.57 times as on 31 March 2019. However owing to net losses in FY2020, net worth of the company reduced to Rs.66.59 crore as on 31 March 2020 from Rs.70.36 crore as on 31 March 2019. Total debt of Rs.37.94 crore outstanding as on 31 March, 2020 comprises Rs.3.64 crore as a term loan, Rs.1.40 crore as unsecured loans, and Rs.32.90 crore as a working capital limit from the bank. Reduction in profitability led to significant increase in Debt-EBITDA to 12.50 times in FY2020 as against 4.10 times in FY2019.

Acuite believes that the capital structure of the company will continue to remain comfortable however, the ability of FWPL to improve its profitability will be very critical to reduce its financial leverage (Debt-EBITDA).

**Weaknesses**

• **Working Capital intensive nature of Operations**

The company is engaged in processing of wine. Since the processing and storage of wine takes a long gestation period, the company will have to maintain high inventory levels. Inventory holding period stood at 166 days in FY2020 as against 142 days in FY2019. Debtors' collection improved but continue to remain high at 139 days in FY2020 as against 164 days in FY2019. However, current ratio of the company stood moderate at 1.73 times as on 31 March, 2019.

Acuite 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 further decrease its debtor days will remain a key rating sensitivity factor.

• **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.

**Liquidity Profile: Stretched**

The liquidity position of the company is stretched marked by inadequate net cash accruals to its maturing debt obligations. FWPL generated cash accruals of Rs. (2.39) crore in FY2020 against debt obligation of Rs.1.39 crore for the same period. Cash accruals are expected to remain in the range of Rs. (0.50) crore to Rs.4 .00 crore for the period FY2021-23. Company's working operations are intensive marked by gross current assets of 357 days in FY2020. Average fund-based working capital utilization stood high at ~95 percent for the last 6 months ended December, 2020.

Going forward, Acuite believes that the ability of the company to efficiently manage its liquidity position over the medium term will be very critical.

**Rating Sensitivities**

- Lower than expected operating performance
- Significant improvement in profitability margins
- Any further deterioration in working capital cycle and liquidity of the company

**Outlook: Stable**

Acuite 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	FY20 (Actual)	FY19 (Actual)

Operating Income	Rs. Cr.	109.12	108.58
PAT	Rs. Cr.	(5.28)	0.30
PAT Margin	(%)	(4.84)	0.28
Total Debt/Tangible Net Worth	Times	0.57	0.57
PBDIT/Interest	Times	0.57	1.66

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information**

Not Applicable

**Any Material Covenants**

Not Applicable

**Applicable Criteria**

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Up to last three years)**

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
08-Jan-2019	Cash Credit	Long Term	13.80	ACUITE BB+ /Stable (Assigned)
	Cash Credit	Long Term	13.12	ACUITE BB+ /Stable (Assigned)
	Term Loans	Long Term	2.58	ACUITE BB+ /Stable (Assigned)
	Term Loans	Long Term	1.20	ACUITE BB+ /Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	4.90	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	2.22	ACUITE BB+ /Stable (Assigned)

**\*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	12.80	ACUITE BB/Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.12	ACUITE BB (Downgraded- Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.56	ACUITE BB/Stable (Assigned)
Term Loans	Oct-2017	11.05%	Jan-2023	2.24	ACUITE BB/Stable (Downgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BB (Downgraded- Withdrawn)

Term Loans	May-2020	11.00%	Feb-2021	0.32	ACUITE BB/Stable (Assigned)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE A4+ (Reaffirmed)

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### About Acuite Ratings & Research:

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