

## Press Release

Fratelli Wines Private Limited

July 29, 2022



## Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.82	ACUITE BB+   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	37.82	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has upgraded the long term rating to **'ACUITE BB+' (read as ACUITE double B Plus)** from **'ACUITE BB' (read as ACUITE double B)** on the Rs.37.82 crore bank facilities of Fratelli Wines Private Limited (FWPL). The outlook is **'Stable'**.

### Rationale for Upgrade

The rating has been upgraded on account of positive trend in revenue, profitability and stable financial risk profile of the company despite sustaining losses in the last two fiscals due to impact of covid 19 pandemic. Company has improved its performance in the current year and has earned profit after sustaining losses in FY 2021 and FY 2020. Due to strong net worth the company was able to sustain its financial risk profile with comfortable leverage position. Going forward Acuite believes that the company will improve its liquidity on the back of year on year growth in revenues and growth in margins which it will be able to achieve with increasing brand recognition in the market.

### 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.111.68 crore in FY 2021 as against Rs.109.12 crore in FY 2020. Acuité believes that the promoters' experience and healthy relations with its customers will continue to benefit company over the medium term.

### **Moderate Financial Risk Profile**

The financial risk profile of the company is moderate marked by strong net worth, comfortable gearing and weak coverage indicators. Total tangible net worth of the company stood at Rs. 67.31 Cr as on 31<sup>st</sup> December 2021 (9M FY 2022 Provisional) as against Rs. 62.99 Cr as on 31<sup>st</sup> March 2021. Net worth declined in FY 2021 since the company made losses in the year. Debt to Equity ratio has improved to 0.68 times in FY 2022 (9M Provisional) as against 0.72 times in FY 2021. Total debt of Rs. 45.53 Cr consists of Rs. 7.79 Cr of long-term debt, Rs. 34.59 Cr of working capital borrowings and Rs. 3.15 Cr of CPLTD. Interest coverage Ratio remained weak at 1.72 times in FY 2022 (9M Provisional) as against 0.66 times in FY 2021 while DSCR stood at 0.93 times in FY 2022 (9M Provisional) as against 0.53 times in FY 2021.

### **Weaknesses**

#### **Working Capital intensive nature of Operations**

The Company's operations are working capital intensive marked by GCA days of 405 in FY 2022 (9M Provisional). GCA days have stretched in FY 2022 (9M Provisional) which in FY 2021 stood at 356 days. The stretch in GCA days was result of decline in inventory holding period and stretch in Debtor realization period. Inventory holding period has declined from 166 days in FY 2020 to 153 days in FY 2021 and further dropped down to 101 days in FY 2022 (9M Provisional). However, the debtor realization period has fluctuated from 139 days in FY 2020 to 143 days in FY 2021 and then stood at 257 days in FY 2022 (9M Provisional). Creditor days have dipped from 176 days in FY 2021 to 117 days in FY 2022 (9M Provisional). As a result, the average bank limit utilization between April 2021 to March 2022 stood at 94.46%.

### **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.

### **Rating Sensitivities**

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

### **Material covenants**

None.

### **Liquidity Position**

#### **Stretched**

Company's liquidity is stretched marked by its net cash accruals vs its maturing debt obligations. The company has generated cash accrual of Rs. 2.84 Cr in FY 2022 (9M Provisional) against CPLTD of Rs. 3.15 Cr in the same period. Going forward the company is

expected to generate net cash accruals of Rs. 6.76 Cr and Rs. 8.64 Cr against CPLTD of Rs. 2.72 Cr and Rs. 4.20 Cr in each respective years. Because the company made losses in FY 2020 and FY 2021 the cash accruals were insufficient to meet the debt obligations hence to correct the liquidity mismatch company availed 6 months moratorium on principal payments and availed GECL loans from Bank of Baroda to meet the maturing debt obligations. Average bank limit utilization between April 2021 to March 2022 remained high and stood at 94.46%. The cash and bank position for FY 2022 (9M Provisional) stood at Rs. 0.28 Cr while current ratio for the period stood at 1.63 times.

### 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

**\*The financials for FY22 is for 9 months only and is not a full year number.**

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	109.82	111.68
PAT	Rs. Cr.	0.37	(4.88)
PAT Margin	(%)	0.34	(4.37)
Total Debt/Tangible Net Worth	Times	0.68	0.72
PBDIT/Interest	Times	1.72	0.66

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

CRISIL vide its press release dated 23 February 2022, has mentioned the rating of FWPL to '[CRISIL]B/Stable/A4' Issuer Not Cooperating as on 23 February 2022.

India Ratings vide its press release dated 09 July 2021, has mentioned the rating of FWPL to '[IND]BB- /A4+' Issuer Not Cooperating as on 09 July 2021.

### Any other information

None.

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Term Loan	Long Term	0.32	ACUITE BB   Stable (Assigned)
	Cash Credit	Long Term	12.80	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
	Cash Credit	Long Term	16.56	ACUITE BB   Stable (Assigned)

08 Feb 2021	Term Loan	Long Term	1.20	ACUITE BB (Downgraded and Withdrawn)
	Bank Guarantee	Short Term	4.90	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	13.12	ACUITE BB (Downgraded and Withdrawn)
	Term Loan	Long Term	2.24	ACUITE BB   Stable (Downgraded from ACUITE BB+   Stable)
08 Jan 2020	Proposed Bank Facility	Long Term	2.22	ACUITE BB+   Stable (Assigned)
	Cash Credit	Long Term	13.80	ACUITE BB+   Stable (Assigned)
	Bank Guarantee	Short Term	4.90	ACUITE A4+ (Assigned)
	Term Loan	Long Term	2.58	ACUITE BB+   Stable (Assigned)
	Cash Credit	Long Term	13.12	ACUITE BB+   Stable (Assigned)
	Term Loan	Long Term	1.20	ACUITE BB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.80	ACUITE BB+   Stable   Upgraded
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.56	ACUITE BB+   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BB+   Stable   Upgraded
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	0.32	ACUITE BB+   Stable   Upgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	2.24	ACUITE BB+   Stable   Upgraded
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.50	ACUITE BB+   Stable   Upgraded

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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