



Press Release
Fratelli Wines Private Limited
October 04, 2023
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.05	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	37.82	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	75.87	-	-

Rating Rationale

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

Acuite has assigned its long-term rating of **'ACUITE BBB-' (read as ACUITE Triple B minus)** on the Rs.38.05 crore bank facilities of Fratelli Wines Private Limited (FWPL). The outlook is **'Stable'**.

Rationale for the rating

The rating upgrade is on account of the improvement in the business risk profile of the company marked by the improvement in the operating performance of the company in FY2023. The revenue of the company increased and stood at Rs.205.06 crore in FY2023 as against the revenue of Rs.143.01 crore in FY2022. The increase in the revenues is driven by the increase in the demand for the products. Further, the operating margins have improved and stood at 12.25 percent in FY2023 as against 5.80 percent in FY2022. The rating also takes into consideration the moderate financial risk profile and the adequate liquidity position of the company. The ratings are however constrained by the working capital intensive operations of the company and exposure to regulatory risk.

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. The directors of the company are Mr. Gaurav Sekhri, Ms Puja Sekhri and Mr. Alessio Secci. FWPL is operating through its five wineries based in Maharashtra and Karnataka. FWPL currently has a production capacity of over 3.5 million litres per annum.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Fratelli Wines Private Limited (FWPL).

Key Rating Drivers

Strengths

Experienced Management

FWPL is engaged in processing of wines and the directors of the company are Mr. Gaurav Sekhri, Ms. Puja Sekhri and Mr. Alessio Secci. 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 as well. 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 company has a moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs.84.09 crore as on March 31, 2023, as against Rs.67.78 crore as on March 31, 2022. The company has infused around ~Rs.6.00 crore in FY23 through rights issue. The gearing of the company stood low at 0.72 times as on March 31, 2023, as against 0.66 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.14.22 crore, unsecured loans of Rs.2.80 crore and short-term debt of Rs.39.52 crore as on March 31, 2023. In FY23, the company has undertaken a capital expenditure of ~Rs.17 crore for addition of wines tanks and bottling machinery. This was funded through a bank loan of Rs.7.00 crore and the promoter's infusion of ~Rs.6.00 crore and remaining through cash accruals. The company is planning to do further addition of wine tanks in FY24 of Rs.10.00-12.00 crore which will be funded by a bank loan of Rs.7.50 crore and further the promoters have already infused funds of ~Rs.2.50 crore for the same. The interest coverage ratio stood at 4.64 times as on March 31, 2023, as against 1.78 times as on March 31, 2022. The DSCR stood at 2.35 times as on March 31, 2023, as against 1.01 times as on March 31, 2022. Acuité believes that the financial risk profile of the company is likely to remain moderate over the medium term.

Weaknesses

Improved albeit intensive working capital operations

The company's working capital operations have improved but are however intensive as evident from the GCA days of 277 days as on March 31, 2023, as against GCA days of 307 days as on March 31, 2022. The inventory days stood at 114 days for FY23 as against 122 days for FY22. The company needs to do ageing of the wine due to which the inventory levels are high. The average inventory holding period is around 2-3 months. The debtors' days stood at 117 days for FY23 as against 129 days for FY22. Since the company's brand recognition is increasing in the market, hence the company is in the position of negotiating the terms with the customers. Hence the company is able to reduce the credit period offered to its customers. The average credit period allowed to the customers is around 120 days. The creditors days stood at 172 days for FY23 against 187 days for FY22. The average credit period received from the supplier is around 60-90 days. The average utilization of the bank limits is high at around 89 percent for six months ending July '2023. Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

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

Significant growth in revenues along with improvement in profitability margins.

Deterioration in the financial risk profile and the liquidity position.
Elongation of the working capital cycle.

All Covenants

Not applicable

Liquidity position: Adequate

The company has an adequate liquidity position as reflected by the adequate net cash accruals as against the maturing debt obligations. The company generated cash accruals of Rs.13.07 crore in FY23 as against maturing debt obligations of Rs.2.35 crore over the same period. The company is estimated to generate cash accruals of Rs.18.02-20.18 crore over the period 2024-2025 against maturing debt obligations of Rs.4.28-5.36 crore over the same period. The company maintains unencumbered cash and bank balance of Rs.0.03 crore as on March 31, 2023. The current ratio stood at 1.70 times as on March 31, 2023.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	205.06	143.01
PAT	Rs. Cr.	9.85	0.57
PAT Margin	(%)	4.80	0.40
Total Debt/Tangible Net Worth	Times	0.72	0.66
PBDIT/Interest	Times	4.64	1.78

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

CRISIL vide its press release dated 26th Apr 2023, had rated the company to CRISIL B/stable/A4; Issuer Not Cooperating.

India Ratings vide its press release dated 24th July 2023, had rated the company to IND-RA BB-/A4+; Issuer Not Cooperating.

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Jul 2022	Proposed Working Capital Term Loan	Long Term	3.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	0.32	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	2.24	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	16.56	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	13.80	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Bank Facility	Long Term	1.40	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
08 Feb 2021	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)
	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.04	ACUITE BBB- Stable Upgraded
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.56	ACUITE BBB- Stable Upgraded
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.44	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.26	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.40	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.10	ACUITE BBB- Stable Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.32	ACUITE BBB- Stable Upgraded
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.68	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.50	ACUITE BBB- Stable Upgraded
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	5.07	ACUITE BBB- Stable Assigned

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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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