

Press Release

Vintage Distillers Limited

February 02, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded from ACUITE BB-)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.20.00 crore bank facilities of Vintage Distillers Limited (VDL). The outlook is '**Stable**'.

Reason for rating upgrade

The upgrade is on account of improvement in the business and financial risk profile of the company. The operating profitability has increased in FY2020 due to diversification of products and price hike received from the government as indicated by EBITDA margins of 3.00 percent in FY2020 as compared to 2.41 percent in FY2019, and is likely to rise in the medium term. The company was not impacted significantly by the Covid-19 pandemic and the revenue collection is likely to increase in FY2021 due to introduction of new products. With the improved operating profit along with gradual decline in depreciation and interest cost, the company's PAT margins improved to 0.24 percent in FY2020 vis-à-vis (0.84) percent in FY2019.

The gearing ratio improved to 0.92 times in FY2020 as compared to 1.62 times in FY2020 due to decrease in working capital requirements. The TOL/TNW ratio improved to 2.43 times in FY2020 as compared to 3.52 times in FY2019. The financial risk profile is likely to continue to improve in the near to medium term.

The liquidity remains adequate as the net cash accruals are sufficient to meet the debt repayment obligations. The rating also continues to draw comfort from the long standing experience of the management.

About the Company

Rajasthan based, Vintage Distillers Ltd was incorporated in 1988. The company is engaged in manufacturing of country liquor and has diversified into manufacturing of whisky, vodka and rum in the past year. Its manufacturing facility is located at Alwar, Rajasthan. The manufacturing capacity for liquor is 56KL per day and bottling capacity is 20,000 cases per day. The company is promoted by Mr. Mohak Jain and Mr. Vinay Kumar Jain.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of VDL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The promoters of VDL have been in the business of manufacturing of country liquor for more than a decade, which gives them extensive experience in the said industry. Further having around two decades of operational track record has helped the company to maintain strong relations with its customers as well as with its suppliers.

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

- **Above average financial risk profile**

The company has above average financial risk profile marked by moderate net worth, low gearing and above average debt protection metrics. The net worth stood at Rs.11.23 crore as on 31 March, 2020 as against Rs.10.68 crore on 31 March, 2019.

The company has followed a moderately aggressive financial policy in the past; the same is reflected through its gearing levels of 1.62 times as on March 31, 2019. The gearing improved to 0.92 times as on March 31, 2020 due to reduction in working capital requirements. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.43 times as on 31 March 2020 as against 3.52 times as on 31 March 2019.

The company on the other hand generated cash accruals of Rs.4.44 crore in FY2020 as against Rs.3.11 crore in FY2019. The profitability levels coupled with debt levels has led to above average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were healthy at 0.43 times and 2.35 times, respectively.

Acuité believes that the financial risk profile of the company is likely to remain above average over the medium term, on account of low gearing and above average debt protection metrics.

- **Efficient working capital management**

The company's working capital management is efficient marked by its gross current asset (GCA) days of around 44 days in FY2020 as against 57 days in FY2019. The company has maintained an inventory holding period of 20 days as on 31 March, 2020 as against 24 days as on 31 March, 2019. The debtor days remained around 18 in FY2020 as against 27 days in FY2019. Acuité expects the working capital management of the company to remain efficient over the medium term on account of its debt collection period.

Weaknesses

- **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.

- **Highly competitive and fragmented nature of industry**

The company operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company. However, the risk is mitigated to an extent due to long track record of operations.

Rating Sensitivities

- Scaling up of operations
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

None

Liquidity Position: Adequate

VDL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.44 crore for FY2020, with no significant debt repayment obligations for the same period. The cash accruals the company are estimated to remain in the range of around Rs.4.34 crore to Rs.5.63 crore during FY2021-23 against debt repayment obligations of Rs.0.33 crore-Rs.0.93 crore every year in the same period. The company's working capital operations are efficient, marked by GCA of 44 days for FY2019. The average bank limit utilization over the past twelve months ended November 2020 remained low at around ~84.28 percent. The current ratio stood at 0.96 times as on 31 March, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against its debt repayments over the medium term.

Outlook: Stable

Acuité believes that VDL will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	231.05	224.39
PAT	Rs. Cr.	0.55	(1.88)
PAT Margin	(%)	0.24	(0.84)
Total Debt/Tangible Net Worth	Times	0.92	1.62
PBDIT/Interest	Times	2.35	1.83

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Sector Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Jan-2020	Cash Credit	Long Term	14.00	ACUITE BB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Assigned)
	Proposed Term Loans	Long Term	2.00	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB/ Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/ Stable (Upgraded)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB/ Stable (Upgraded)

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About Acuité Ratings & Research:

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