

Press Release

Capricorn Blenders Private Limited (Erstwhile Rhizome Distilleries Private Limited)

July 23, 2021

Rating Assigned



Total Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.20.00 Cr bank facilities of Capricorn Blenders Private Limited (Erstwhile Rhizome Distilleries Private Limited) (Capricorn). The outlook is '**Stable**'.

About the company

Hyderabad-based, Capricorn Blenders Private Limited (Erstwhile Rhizome Distilleries Private Limited) (Capricorn) was incorporated 1993 by Mr. Kuldeep Singh, Mr. Manoj Rupani and his family. Capricorn was taken over by Mr. Nishanth Bezawada and his family member in 2014-15. During January 2021, the name of Rhizome Distilleries Private Limited was changed to Capricorn Blenders Private Limited. The Company is engaged in manufacturing and retailing of the country-made and Indian Made Foreign Liquor (IMFL) and also does the job work. The Capricorn has 3 manufacturing units i.e IMFL plant at Medchal, Telangana with a licensed capacity of 24 lakh cases Per Month, IMFL plant at Vijayawada in Andhra Pradesh with 13 lakh cases production capacity and Grain, based Extra Neutral Alcohol (ENA) Unit at Rajahmundry, Andhra Pradesh as backward integration for manufacturing Liquor with an extra Neutral Alcohol capacity of 60 KLPD with co-generation unit of 2 mega-watt (MW) to meet its power requirement.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Capricorn to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced and resourceful promoters and established and diversified nature of its operations**

Capricorn is managed by Mr. Nishanth Reddy (Managing Director) along with Mr. Shailesh Kumar Reddy. Mr. Nishanth Reddy belongs to a business family which has been in the alcohol industry for over three decades. The promoters are very resourceful and support the company by way of unsecured loans to meet the increasing working capital requirements. The promoters have an experience of more than 3 decades in the liquor industry which has helped Capricorn's to establish its position in the domestic market and generate healthy relation with its suppliers and customers. During FY2020 as a part of geographical diversification and product addition, Capricorn has diversified its operations to Andhra Pradesh and operated an IMFL plant in Vijayawada and Extra Neutral Alcohol (ENA) Unit at Rajahmundry. This led to significant improvement in Capricorn's revenues and showed a Compound annual growth rate (CAGR) of about ~30 per cent over 4 years through FY2021 (Provisional) at Rs. 106.76 Cr from Rs.37.23 Cr in FY2017. Acuite believes that promoters' experience in the liquor industry, their strong understanding of market dynamics, business diversification will continue to support the business risk profile over the medium term.

- Above-average financial risk profile**

Capricorn financial risk profile is above-average marked by moderate gearing (debt to equity) and moderate TOL/TNW, moderate networth and moderate debt protection metrics. The gearing and TOL/TNW stood at 0.88 and 2.00 times as on March 31, 2021 (Prov.) against 0.89 and 3.49 times as on

March 31, 2020. The Adjusted net worth is moderate at Rs.26.43 Cr as on March 31, 2021 (Prov.) as against Rs.19.57 Cr as on March 31, 2020. Acuite has treated the unsecured loans from promoters of Rs.23.05 Cr as quasi-equity in as on March 31, 2020 as against Rs.21.40 Cr as on March 31, 2020. The debt protection metrics are moderate with interest coverage ratio and net cash accruals to total debt at 2.26 times and 0.27 times, respectively in FY2021 (prov.) vis-à-vis 1.81 times and 0.11 times, respectively in FY2020. Capricorn generated cash accruals of Rs.1.45 to 6.95 Cr during the last 3 years through 2019-21, while its maturing debt obligations were in the range of Rs.0.10-1.00 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.4-6 Cr during 2022-24 while their repayment obligations are estimated to be around Rs.0.50-1.25 Cr during the same period. Acuite believes that with moderate accruals to repayment obligations and moderate working capital intensive operations, the financial risk profile is expected to be at similar level over the medium term.

Weaknesses

- **Modest scale of operations and susceptibility of the operating margin to volatility in raw material prices**

Capricorn has a modest scale of operations as reflected in its total operating income of Rs.106.76 Cr in FY2021, Rs. 134.30 Cr in FY2020 and Rs.83.64 Cr in FY2019. Going forward, the operations are expected to gradually improve over the medium term on account of expansion of its operations to other states and product diversification. The prices of raw material, used for manufacturing country liquor, are highly volatile. The operating margin is expected to remain susceptible to volatile raw material prices against fixed product prices. The operating margin has increased significantly from 3.37 percent in FY2020 to 13.26 percent in FY2021 due to significant reduction employees cost and other manufacturing costs. Acuite expects sustainability of profitability along with improving revenues will be key monitorable over the medium term.

- **Moderate working capital operations**

Capricorn's working capital is moderate marked by moderate GCA days of about 178 days in FY2021 (provisional) as against 181 days in FY2020 owing to the moderate debtors and improved inventory days. Its receivable days are at 84 days in FY2021 (provisional) (FY2020: 81 days) and its inventory days are stood at 41 days in FY2021 (provisional) (FY2020: 45 days). Its creditor's days stood at 177 days in FY2021 (Provisional) as against 177 days in FY2020. Capricorn's working capital limits are highly utilised at 97 percent during last 6 months ending June 2021. Acuite expects Capricorn's operations to remain working capital intensive over the medium term

- **Intense competition and highly regulated nature of liquor industry**

Rhizome' revenues will continue to be impacted by increasing competition in the domestic IMFL market from global players as well as regional players. In addition, 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, ban on advertising, raw material availability, varying tax structures in different states pose challenges and restrict the industry's growth. The industry is also administered through a strict license regime. Different licenses are mandated at stages of production and distribution, including separate ones for manufacturers, distributors, and retailers. Any adverse change in the government's license authorisation policy, such as discontinuation or caps on renewal of licenses or sharp hike in license fees, could affect the companies. Capricorn remains exposed to limited pricing power as the prices are governed by the TSBCCL authorities. Acuite believes that Rhizome's profitability continues to remain exposed to the regulatory risk, volatile input prices and limited flexibility in revising the prices.

Liquidity position: Adequate

Capricorn has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations; albeit constrained by working capital management. Capricorn has generated cash accruals of Rs.1.45 to 6.95 Cr during the last 3 years through 2019-21, while its maturing debt obligations were in the range of Rs.0.10-1.00 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.4-6 Cr during 2022-24 while their repayment obligations are estimated to be around Rs.0.50-1.25 Cr during the same period. Its bank lines utilised high at 97 percent over six months through June 2021. The Company maintained unencumbered cash and bank balances of Rs. 0.89 Cr as on 31 March 2021 (Provisional). The current ratio stands at 1.50 times as on 31 March 2021. Acuite believes that the liquidity of Capricorn is likely to remain adequate over the medium term on account of improving cash accruals against its moderate repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins
- Any unforeseen and unfavourable regulatory change
- Significant debt-funded capex

Outlook: Stable

Acuite believes that the Capricorn will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than expected working capital requirements or any unforeseen and unfavourable regulatory changes.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)*	FY20 (Actual)
Operating Income	Rs. Cr.	106.76	134.30
PAT	Rs. Cr.	5.21	0.72
PAT Margin	(%)	4.88	0.53
Total Debt/Tangible Net Worth	Times	0.88	0.89
PBDIT/Interest	Times	2.26	1.81

*Provisional financials are unaudited.

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

Capricorn has not cooperated with Care Ratings which has classified it as non-cooperative vide release dated 05-Feb-2021. The reason provided by Care Ratings is non-furnishing of information for monitoring of ratings.

Any other information

None

Material Covenants

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>
- 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)

Not Applicable

*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	9.50	ACUITE BB+/ Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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