

Press Release

Capricorn Blenders Private Limited (Erstwhile Rhizome Distilleries Private Limited)

March 13, 2023



Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.50	ACUITE BB Stable Downgraded	-
Bank Loan Ratings	10.50	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	20.00	-	-

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 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) (CBPL). The outlook is '**Stable**'.

Rationale for the downgrading in rating:

The rating downgrade is on account of the deterioration in the operating and financial performance of CBPL marked by declining operating income, profitability and below average financial risk profile. CBPL has reported revenue of Rs.38.50 Cr in 10MFY2023 and is expected to close the year in the range of Rs. 48-50 Cr. The CBPL's operating income stood at Rs. 114.93 Cr in FY22 and 108.02 Cr in FY21. The company from April, 2022 onwards ceased production at its Rajamundry unit, thereby significantly impacting the revenues in FY23. Further, the operating margin declined to 3.71 percent in FY22 as against 4.50 percent in FY21. The financial risk profile is below average marked by moderate gearing and below average debt protection metrics. Going forward, the company's ability to improve its scale of operations and profitability margins while maintaining its financial risk profile will remain a key rating monitorable.

About the Company

Hyderabad-based, Capricorn Blenders Private Limited (Erstwhile Rhizome Distilleries Private Limited) (CBPL) 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 (CBPL). The Company is engaged in manufacturing and retailing of the country-made and Indian Made Foreign Liquor (IMFL) and also does the job work. CBPL as on date has 2 manufacturing units i.e IMFL plant at Medchal, Telangana with a licensed capacity of 24 lakh cases Per Month and IMFL plant at Vijayawada in Andhra Pradesh with 13 lakh cases production capacity.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of CBPL to arrive

at this rating.

Key Rating Drivers

Strengths

Experienced promoters and established track record of operations

CBPL is managed by Mr. Nishanth Reddy (Managing Director) along with Mr. Shailesh Kumar Reddy. The promoters have an experience of more than 3 decades in the liquor industry which has helped CBPL'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, CBPL had diversified its operations to Andhra Pradesh and operated an IMFL plant in Vijayawada . This led to significant improvement in CBPL's operating income.

However, in FY2023 i.e. April 2022 onwards, CBPL ceased production of its grain based, extra neutral alcohol (ENA) at its Rajamundhry unit. The production is shifted to another group company of the promoters.

Acuité 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.

Weaknesses

Susceptibility of the operating margin to volatility in raw material prices

The prices of raw material, used for manufacturing country liquor, are highly volatile. The operating margins remain susceptible to volatile raw material prices against fixed product prices. The operating margin has decreased to 3.71 percent in FY2022 from 4.50 percent in FY2021 due to significant increase in the in the raw material cost i.e Extra Neutral Alcohol (ENA).

Below average financial risk profile

CBPL's financial risk profile is below-average marked by moderate gearing and below average debt protection metrics. The net worth of the group stood at Rs.24.08 Cr as on March 31, 2022 as against Rs.23.24 Cr as on March 31, 2021. The debt-equity ratio deteriorated and stood at 2.56 times as on March 31, 2022 as against 1.62 times as on March 31, 2021. The total debt of Rs.61.65 Cr as on March 31, 2022 consist of long-term debt of Rs.2.63 Cr, USL from Directors/Promoters of Rs.39.03 Cr, Short term debt of Rs.18.63 Cr and maturing portion of long term borrowings of Rs.1.36 Cr. TOL/TNW deteriorated to 3.94 times as on March 31, 2022 from 3.03 times as on March 31, 2021. Debt protection metrics - Interest Coverage Ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.48 times and 1.28 times respectively in FY2022 against 1.74 times and 1.60 times respectively in FY2021. NCA/TD (Net cash accruals to total debt) stood low at 0.03 times as on March 31, 2022 as against 0.05 times in as on March 31, 2021.

Intense competition and highly regulated nature of liquor industry

CBPL's 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 Telangana State Beverages Corporation Ltd (TSBCL) authorities. Acuité believes that CBPL's profitability continues to remain exposed to the regulatory risk, volatile input prices and

limited flexibility in revising the prices.

Rating Sensitivities

- Significant and sustainable improvement in scale of operations while maintaining profitability margins and capital structure.
- Elongation in working capital cycle adversely impacting the liquidity profile of the company

Material covenants

None

Liquidity Position: Adequate

CBPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. CBPL has generated cash accruals of Rs.2.03 Cr against to repayment obligation of Rs.0.51 Cr in the FY2022. CBPL will generate net cash accruals of Rs.1.69 -2.36 Cr during the next three years through 2023-25, while its maturing debt obligations were in the range of Rs.1.36 -1.15 Cr during the same period. Its bank lines were utilized at 88.70 percent during last 12 months ending January 2023 for the fund based facilities and 20.00% for the Non-fund based facilities. CBPL has maintained unencumbered cash and bank balances Rs.1.34 Cr and the current ratio stood at 1.14 times as on March 31, 2022. Acuité believes that the liquidity of CBPL is likely to remain adequate over the medium term on account of improving cash accruals against its moderate repayment obligations.

Outlook: Stable

Acuité believes that the CBPL 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	114.93	108.02
PAT	Rs. Cr.	0.84	0.61
PAT Margin	(%)	0.73	0.56
Total Debt/Tangible Net Worth	Times	2.56	1.62
PBDIT/Interest	Times	1.48	1.74

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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
18 Oct 2022	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	9.50	ACUITE BB+ (Issuer not co-operating*)
	Bills Discounting	Short Term	10.00	ACUITE A4+ (Issuer not co-operating*)
23 Jul 2021	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BB+ Stable (Assigned)
	Bills Discounting	Short Term	10.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A4+ Reaffirmed
Karur Vysya Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A4+ Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE BB Stable Downgraded

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About Acuité Ratings & Research

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