Press Release
Candy Spirits Private Limited
August 09, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.00	ACUITE BBB+ | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	36.00	-	-

Rating Rationale
Acuité has assigned the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B Plus)** on the Rs.36.00 Cr bank facilities of Candy Spirits Private Limited (CSPL). The outlook is **'Stable'.**

Rationale for Rating

The rating notably takes into account the group's established position in the liquor distribution business in Mumbai, Goa and few region of West Bengal, supported by experienced promoters; the rating also considers the efficient working capital management of the company with a GCA days of 68 days in FY 2023 (Prov) and above-average financial risk profile of the company with a debt equity of 1.12 times as on March 31 st , 2023 (Prov). The rating also factors in the comfortable liquidity position of the group with low reliance on short term bank borrowings with an average utilization of 53 percent for six months ended June, 2023. These strengths are however, partially offset by lower profitability, vulnerability to the regulatory framework governing the liquor industry and supplier concentration risk.

About the Company
Established in 2005, Candy Spirits Private Limited (CSPL) trades in Indian-made foreign liquor (IMFL), beer, and wines. The Mumbai-based company is one of the prime distributor for all brands of Pernod, Seagram Distilleries Private Limited (part of the Pernod Ricard group), and Privilege Industries Limited, among other liquor companies, in western Mumbai. The directors of the firm are Mr. Deepak Awatramani, Mr. Kishin Awatramani and Mr. Suraj Awatramani

About the Group
Candy Enterprises Private Limited (CEPL) was established in 2005, trades in and distributes Indian-made foreign liquor (IMFL), beer, and wines. The Mumbai based company is one of the prime distributor for all brands of Pernod Ricard India Private Limited, Seagram Distilleries Private Limited (part of the Pernod Ricard group), and Privilege Industries Ltd, among other liquor companies, in Goa, for hotel sector for some parts of central Mumbai and some districts of West Bengal. The directors of the firm are Mr. Deepak Awatramani, Mr. Kishin Awatramani and Mr. Suraj Awatramani.

Analytical Approach
Acuité has considered the consolidated business and financial risk profiles of CEPL and CSPL, together known as Candy Group, to arrive at this rating. The consolidation is on account of similar line of business, common management and significant operational linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

Experienced management and long track record of operations

The promoters have developed a strong market position in Mumbai and Goa courtesy to their two decades of experience in the liquor distribution industry. In the western and some central line areas of Mumbai and Goa, the Candy group is one of Pernod Ricard India Pvt Ltd's (Pernod) major distributors. More than 5,000 hotels, restaurants, and permit rooms are served by the organization. The revenue of the group stood at Rs. 1734.46 Cr in FY2023 (Prov) vis à-vis Rs. 1271.52 Cr in FY22, registering a Y-o-Y growth of 36 percent. For Pernod Ricard India Pvt Ltd, the group has recently marked its presence into four districts of West Bengal, which has supported the rise in revenue. Moreover, improvement in the topline is backed by recovery of demand post-pandemic. The EBITDA Margin stood at 2.37 percent in FY23 (Prov) vis-à-vis 1.45 percent in FY22. The thin margins are mainly due to trading nature of business and are expected to be at the same level going forward. Acuité believes that the group will continue to benefit from its established track record of operations and experienced management.

Above average financial risk profile

The group's above average financial risk profile is marked by high net worth, moderate gearing and comfortable debt protection metrics. The tangible networth of the group improved to Rs. 116.82 Cr as on March 31, 2023 (Prov) from Rs. 84.73 Cr as on March 31, 2022 due to accretion of profits to the reserves. Gearing of the group stood moderate at 1.12 times as on March 31, 2023 (Prov) as against 0.95 times as on March 31, 2022. However, going forward the gearing is expected to improve at 0.85 times as on March 31, 2024 (Est) in the absence of any major debt funded capex plans. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.05 times as on March 31, 2023 (Prov) as against 2.34 times as on March 31, 2022. The comfortable debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) which stood at 3.63 times as on March 31, 2023 (Prov) and Debt Service Coverage Ratio (DSCR) at 3.60 times as on March 31, 2023 (Prov). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times as on March 31, 2023 (Prov). Acuite believes that going forward the financial risk profile of the group may continue to remain at the same level backed by steady accruals and no major debt funded capex plans.

Working Capital Efficient Operations

The working capital management of the group is efficient marked by GCA days of 68 days in FY23 (Prov) as against 72 days in FY22. The company maintains inventory levels of around 29 days in FY23 (Pov) as against 26 days for FY22. Generally, the inventory holding period that the company follows is ~30 days. Subsequently, the debtor's collection period stood at 38 days in FY23 (Prov) as against 43 days for FY22. Furthermore, the creditor days stood at 21 in FY23 (Prov) as against 30 days in FY22. Acuité expects the working capital management to remain efficient over the medium term considering the nature of business

Weaknesses

Supplier concentration risk

Candy group relies heavily on its primary principle Pernod Ricard India Pvt Ltd (Pernod) for 70% of its revenue, exposing the business to supplier concentration risk. Despite its two-decade partnership with Pernod, any changes in the essential supplier's policy can have an impact on Candy Group's operations. Pernod hired a new distributor in July 2021 to cover the center line of Mumbai city from Sion to Mulund. However, the firm has expanded into West Bengal, which has helped to sustain profits.

Vulnerability to regulatory changes

The liquor industry is administered through a strict license regime for liquor production and distribution. Any adverse change in the government's license authorization policy, such as discontinuing or limiting the renewal of licenses or substantially increasing license fees, could affect the profile of players such as Candy group.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.

Material covenants

None

Liquidity Position

Adequate

The group's liquidity position is comfortable marked by net cash accruals of Rs.30.56 Cr in FY2023 (prov) as against long term debt repayment of only Rs.0.02 Cr over the same period. Further, the group is expected to generate sufficient cash accruals in near to medium term to repay its debt obligation. The current ratio stood at 2.04 times as on 31st March, 2023 (Prov) as compared to 1.92 times as on 31st March, 2022. The cash and bank balances of the company stood at Rs.2.99 Cr in FY2023 (Prov). The consolidated fund based utilisation stood at 53 percent for six months ended June, 2023. Moreover, the company's working capital cycle is efficient in nature as reflected from Gross Current Assets (GCA) of 68 days in FY2023 (Prov) as compared to 72 days in FY2022.

Acuité believes that going forward the liquidity position of the group is likely to be sustained backed by healthy cash accruals.

Outlook: Stable

Acuité believes that CEPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations along with efficient working capital management. The outlook may be revised to 'Positive' if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins and improving debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case it registers lower than expected growth in revenues and profitability or deterioration in its working capital management coupled with deterioration in its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1734.46	1271.52
PAT	Rs. Cr.	29.54	6.68
PAT Margin	(%)	1.70	0.53
Total Debt/Tangible Net Worth	Times	1.12	0.95
PBDIT/Interest	Times	3.63	2.16

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
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB+ | Stable | Assigned
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB+ | Stable | Assigned
Standard Chartered Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	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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