



Empee Distilleries Limited (EDL)

SMERA RATINGS LIMITED

February 27, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	60.75*	SMERA D (Assigned)
Term Loan	81.66	SMERA D (Assigned)
Letter of Credit	3.00	SMERA D (Assigned)
Proposed Short Term Bank Loan Facility	3.00	SMERA D (Assigned)

** Interchangeable with Supply Bills Purchase to the extent of Rs.10.00 crore*

SMERA has assigned a rating of '**SMERA D**' (read as **SMERA D**) to the Rs.148.41 crore bank facilities of Empee Distilleries Limited (EDL). The rating primarily reflects the company's delays in servicing debt obligation. The rating also reflects the company's high exposure to its group entities, which have weak financial profiles. The rating is constrained by the company's exposure to customer concentration risk and unfavourable changes in policies governing the Indian Made Foreign Liquor (IMFL) industry.

EDL, incorporated in 1983, is a Chennai-based company engaged in manufacturing of Indian Made Foreign Liquor (IMFL). EDL's term loan statements reflect delays in debt servicing during April 2013 to September 2013. The aforementioned irregularities were primarily on account of time overruns in commissioning of the company's manufacturing unit (in Andhra Pradesh), and the consequent increase in project cost. EDL's net worth stood at Rs.278.62 crore as on September 30, 2013. The company has made significant investments of Rs.279.90 crore in its group entities viz. Empee Sugars & Chemicals Limited (ESCL), Empee Hotels Limited and Appollo Distilleries Limited. Moreover, ESCL has a weak financial profile marked by negative net worth of Rs.58.90 crore (as on March 31, 2013) and net loss of Rs.35.50 crore in FY2012-13.

EDL operates in a highly regulated IMFL industry. The Tamil Nadu State Marketing Corporation (TASMAC, wholly-owned entity of the State Government of Tamil Nadu) governs the statewide production, distribution, retailing and pricing of IMFL. EDL derives its entire revenue (in the IMFL segment) from TASMAC. The company is thus exposed to customer concentration risk. Moreover, EDL has no pricing power and the company's profit margins are adversely affected by increase in operating cost, as TASMAC has not increased prices of IMFL since November 2007.

EDL benefits from its experienced management. Mr. M. P. Purushothaman, Chairman of EDL, has around 30 years of experienced in the IMFL industry.

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About the company

EDL, incorporated in 1983, is a Chennai-based company promoted by Mr. M. P. Purushothaman and is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). EDL is the flagship company of Empee Group. EDL is engaged in manufacturing of IMFL in the states of Tamil Nadu, Kerala and Karnataka. The company also manufactures grain-based alcohol in Andhra Pradesh. EDL is also involved in generating power through a 10MW bio-mass based power plant in Tamil Nadu.

During October 2012 to September 2013, EDL reported net profit of Rs.11.08 crore on operating income of Rs.578.23 crore, as compared with net profit of Rs.22.80 crore on operating income of Rs.997.89 crore during April 2010 to September 2012. EDL's net worth stood at Rs.278.62 crore as on September 30, 2013, as compared with Rs.269.74 crore a year earlier.

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