

December 31, 2021

Rajasthan Liquors Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	110.00	[ICRA]A-(Stable); assigned
Fund based- Term Loan	27.32	[ICRA]A-(Stable); assigned
Non-fund Based	2.00	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Unallocated	60.68	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Total	200.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably factor in Rajasthan Liquors Limited's (RLL) track record as a contract manufacturer in the Indian Made Foreign Liquor (IMFL) industry for more than two decades. The company has been involved in manufacturing extra neutral alcohol (ENA), IMFL bottling for Pernod Ricard India Private Limited (PRIPL). It is a franchisee and brand owner of certain brands of United Spirits Limited (USL) for the Rajasthan territory. This apart, RLL runs an edible oil refinery and has recently received IMFL distribution rights, for PRIPL, for Thane and Nashik districts in Maharashtra. Thus, in addition to the diversified revenue profile, ICRA takes comfort from the experience of RLL's promoters and its long association with liquor majors such as PRIPL and USL, which together dominate the domestic IMFL market. The ratings note RLL's healthy margin profile, led by the distillery and bottling divisions. The company has also witnessed an improvement in margins for its oil refinery division. ICRA notes the steady progress in the proposed distillery and bottling unit in its subsidiary, Aarti Distilleries Private Limited (ADPL), and healthy revenue visibility due to the stated minimum offtake commitments from PRIPL. Given the limited repayment commitments in the existing divisions and available moratorium in ADPL's project loan, ICRA expects the combined cash flows to be comfortable to service the total debt obligations.

However, the ratings are constrained by the large ongoing debt-funded capex in ADPL, resulting in high leverage in the near to medium term. While ICRA takes comfort from the available funding and offtake tie-ups for the project, the company is yet to demonstrate ramp-up in capacity utilisation, pending the project commencement. Further, RLL's margins remain exposed to volatility in raw material prices, particularly in the distillery division. It also remains exposed to competition across its business segments and regulatory risks particularly in the liquor division.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RLL would continue to benefit from its experienced management, the strong position of its principals in the IMFL industry and the associated healthy demand outlook.

Key rating drivers and their description

Credit strengths

Experienced promoters and established relationship with reputed customers – RLL's promoter and Managing Director, Mr. Tilak Raj Sharma, has an experience of more than 30 years in the liquor industry. Further, it has been associated with PRIPL since 2004 and with USL since 2017. The company has been doing contract manufacturing for the major IMFL brands of PRIPL and has minimum offtake commitment for a substantial capacity. RLL is the franchisee and the brand owner of certain brands

of USL for the Rajasthan territory and operates through three bottling units. With PRIPL and USL having majority of market share in IMFL segment, RLL has a good revenue visibility in its liquor business amid a healthy demand outlook.

Diversified revenue profile in terms of customers and products – RLL’s revenue profile has been steadily diversifying. Majority of ENA produced by its distillery unit in Derabassi (Punjab) and two out of five bottling units (Derabassi and Jaipur) are contracted with PRIPL. The others three bottling units in Rajasthan are used for USL. In Q4 FY2021, the company received distribution rights for PRIPL’s major IMFL brands for the Nashik and Thane districts of Maharashtra, a segment which is likely to contribute to substantial revenue from FY2022 onwards. This apart, the company has an edible oil refinery unit, which was acquired in FY2019. In FY2021, 51% of RLL’s net revenues came from the edible oil division, followed by 44.4% from distillery and bottling¹ divisions and 4.6% from the liquor distribution business. Thus, the revenues are diversified both from customers as well as products.

Offtake arrangements with PRIPL support revenue visibility – RLL is setting up an integrated manufacturing unit in Kanpur, Uttar Pradesh through its subsidiary ADPL. While RLL holds 74%, PRIPL holds the balance 26%. In addition to equity and debt funding participation, PRIPL has given a minimum offtake commitment for a major proportion of the production, which is a rating comfort factor. Moreover, for the existing distillery and bottling units in Derabassi and Jaipur, PRIPL has a minimum offtake arrangement, which lends revenue visibility.

Comfortable financial profile – RLL witnessed a 7.5% revenue growth in FY2021 led by the edible oil division. The revenue contribution from the edible oil segment increased to 51% in FY2021 from 34.5% in FY2020, amid lower revenue contribution from the liquor division due to the Covid-19 pandemic. In 8M FY2022, RLL reported revenues of Rs. 866 crore, on a provisional basis, marking a YoY growth of 133%. The margins in the distillery and bottling divisions remained healthy, given the value addition. Moreover, with moderate repayment commitments and working capital cycle, RLL’s interest coverage and DSCR stood comfortable at 5.9 times and 4.4 times, respectively, in FY2021, improved from 3.2 times and 3.4 times, respectively, in FY2020 owing to the healthy increase in the profitability, driven by stabilisation of operations in the edible oil division. The company’s leverage will increase with debt-funded capex in its subsidiary - ADPL. However, considering the available moratorium till December 2023 for the project loan and healthy cash flows from the existing divisions, ICRA expects RLL’s debt coverage to remain comfortable.

Credit challenges

Project status of subsidiary – The company has incurred ~70% of the project cost till December 8, 2021 and the COD is scheduled for October 2022. While the implementation progress has been steady, RLL remains exposed to completion and ramp-up risks. The ability to attain the required capacity utilisation levels remains to be seen.

Vulnerability to changes in raw material prices – RLL’s margins remain exposed to volatile raw material prices particularly for broken rice for the distillery. Moreover, IMFL selling prices are controlled by the Rajasthan Government. Thus, any large changes in input prices could impact RLL’s return metrics, though in such instances typically players do receive some price revisions in IMFL prices.

Intense competition in highly regulated alcohol industry – The liquor industry is intensely competitive due to numerous small players. It is a highly regulated industry with the state government controlling the sales and distribution, making the company susceptible to changes in government policies. Any change in government policies with respect to production and distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and subsequently, the company. RLL also faces competition in the oil refinery division.

¹ RLL’s revenues include only bottling fee in case of its bottling units.

Liquidity position: Adequate

RLL's liquidity profile is **adequate**, supported by the healthy cash generation from business and moderate buffer in the cash credit limit utilisation. The company has a healthy cash generation from business to repay the term loan instalments. Moreover, the repayment of ADPL's term loan would commence in December 2023. The cash flows from the existing business are sufficient to manage the additional working capital requirement. However, the company plans to avail limit enhancements to build further cushion.

Rating sensitivities

Positive factors – A rating upgrade would be driven by the sustained improvement in scale, while maintaining the profitability, comfortable liquidity position, along with healthy debt coverage indicators. The timely commencement of operations in ADPL and achieving the desired operational parameters would be a credit positive for the company. In terms of specific credit metrics, External Debt²/ OPBDITA less than 2 times, on a sustained basis, will be a positive trigger for the ratings.

Negative factors – Sharp decline in revenue and profitability margins and any major delay in the commencement of operations (in ADPL) weakening RLL's liquidity and credit metrics may trigger a rating downgrade. Adverse dilution of key terms with PRIPL will also be a credit negative. In terms of specific credit metrics, DSCR less than 1.8 times, on a sustained basis, will be a negative trigger for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the financial risk profiles of RLL and its subsidiary ADPL.

About the company

RLL was incorporated in 1998 as a private limited company to carry out manufacturing of ENA/bottling. It was subsequently converted into a public limited company in 2010. RLL has a grain-based distillery unit in Derabassi (Punjab) with an installed capacity to manufacture 90-110 KLPD of ENA. The company also has 123 LCPA of bottling capacity spread across five bottling units. The Derabassi and Jaipur (Rajasthan) bottling units having capacities of 84 LCPA are used for PRIPL and other three bottling units (Alwal, Kishangarh and Reengus) in Rajasthan, having capacities of 39 LCPA, are used for USL. RLL is the contract manufacturer for PRIPL's major brands. It is the franchisee and the brand owner of certain brands of USL for the Rajasthan territory. RLL has acquired an edible oil manufacturing unit in 2019 having a refinery of 150 tonnes per day capacity and a non-operational oil extraction plant.

RLL's subsidiary ADPL is establishing an integrated unit for manufacturing grain-based ENA and downstream products, including IMFL, along with a co-generation power plant. The proposed manufacturing facility is in village Chiruara and Mubarakpurlata, Akbarpur, Kanpur Dehat (Uttar Pradesh). ADPL is promoted by RLL and PRIPL with a shareholding in the proportion of 74:26. This apart, RLL and PRIPL has invested preference share in ADPL, in addition to secured loan invested by PRIPL. The installed capacity of the proposed integrated manufacturing unit within the units will have 125 KLPD of ENA, 100 LCPA of bottling and 4.5-MW co-generation power plant. The plant, which is being set up at a cost Rs. 355 crore, is part funded by a bank debt of Rs. 160 crore. The bank debt is backed by RLL's corporate guarantee and the plant is expected to start operations earlier than the expected COD of October 2022.

² Defined as total debt adjusted for unsecured loans from promoters

Key financial indicators (audited)

RLL and ADPL – Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	680.0	730.8
PAT (Rs. crore)	24.6	70.6
OPBDIT/OI (%)	8.3%	11.1%
PAT/OI (%)	3.6%	9.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.3x	1.1x
Total Debt/OPBDIT (times)	1.9x	2.0x
Interest Coverage (times)	3.2x	5.9x

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 31, 2021	-	-	-
1	Cash Credit	Long Term	110.00	-	[ICRA]A- (Stable)	-	-	-
2	Term Loans	Long Term	27.32	27.32	[ICRA]A- (Stable)	-	-	-
3	Bank Guarantee	Long/ Short Term	2.00	-	[ICRA]A- (Stable)/ [ICRA]A2+			
3	Unallocated	Long/ Short Term	60.68	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Source: Company, as on December 28, 2021

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Term Loan	Simple
Long Term – Cash Credit	Simple
Long/ Short Term – Bank Guarantee	Very Simple
Long/ Short Term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Cash Credit	NA	NA	NA	110.00	[ICRA]A- (Stable)
State Bank of India	Term Loans	April 2020	NA	March 2026	27.32	[ICRA]A- (Stable)
State Bank of India	Bank Guarantee	NA	NA	NA	2.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Unallocated	NA	NA	NA	60.68	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajasthan Liquors Limited	100%	Full consolidation
Aarti Distilleries Private Limited	74%	Full consolidation

Source: Company

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Branches



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