

March 18, 2024

ADS Spirits Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	30.00	50.00	[ICRA]A- (Stable); reaffirmed
Long-term Fund-based – Term Loan	-	35.00	[ICRA]A- (Stable); reaffirmed
Long-term – Unallocated	55.00	0.00	-
Total	85.00	85.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in ICRA's expectation that ADS Spirits Private Limited (ADS) will be able to maintain its healthy financial profile, going forward. Consistent volumetric growth of ADS' Indian made foreign liquor (IMFL) brands as well as country liquor (CL) segment is expected to drive earnings with the company also growing its geographical presence in the IMFL segment. The company's revenues grew by ~30% YoY in FY2023, aided by increased brand volumes across its liquor segments, its growth momentum is likely to continue in FY2024 as well. ADS' healthy cash accruals and modest reliance on debt has kept credit metrics comfortable, although an increase in debt levels is expected owing to new office related capex and higher receivable levels. The rating also draws comfort from the extensive experience of the promoters in the alcobev industry.

However, the ratings are constrained by the high business risk inherent in the alcobev industry owing to stringent Government controls and regulations, and the lack of pricing power. Further, the company is also exposed to raw material availability and pricing risks, as reflected by the impact on its margins in FY2023 and H1 FY2024, though the margin profile may be supported by price hikes, going forward. The company's working capital intensity has continued to increase on the back of higher receivables from Government entities, particularly from Delhi, which remains a concern. The rating also factors in ADS' concentration on a few states, since it derives most of its revenue from Haryana and Delhi, as well as its high dependence on a single brand, Royal Green, in the IMFL segment. The concentration is expected to moderate only gradually as the company has been expanding its footprint in various north-eastern and southern states in the last 2-3 years. ICRA also notes the intensely competitive IMFL segment with presence of few reputed and numerous regional players, which limits pricing power.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company will benefit from its track record in the alcobev industry and the healthy demand outlook. Moreover, foray into new states will augur well for its earnings growth.

Key rating drivers and their description

Credit strengths

Over two decades of experience of promoters in the industry – The promoters have been involved in the alcobev business for more than two decades. They have an established presence in Haryana, which provides access to retail outlets for selling ADS' own brands, especially IMFL. The company has a pan India presence through the promoters' own bottling units, units taken on lease and tie-ups with other bottlers, which largely cater to ADS' operations.

Healthy volumetric growth in IMFL and CL – ADS has reported healthy volumetric growth in IMFL brands as well as its CL segment. While the entire CL volume growth comes from Haryana, the company has reported strong volume growth in the IMFL segment mainly on account of increased volumes sold by its franchisees. ADS sold 61.6 lakh cases and 26.3 lakh cases in the CL division during FY2023 and H1 FY2024, respectively, while the company has reported 45.8 lakh cases and 24.2 lakh cases

in FY2023 and H1 FY2024, respectively, of its IMFL brands (including franchisees). Based on own sales growth, which has been primarily led by volumes and to an extent by realisations, the company's revenues grew by ~30% in FY2023. The growth momentum is expected to be led by volume and price hike mix in FY2024. The company has reported ~Rs. 430 crore revenue in H1 FY2024. ADS earns brand surplus income from its franchisees, whose growth has supported its franchisee income and particularly operating profits.

Strong financial profile and healthy net worth; modest reliance on external debt – ADS has a strong financial profile reflected by healthy profitability and modest reliance on external debt. Over the years, the company has built a strong net worth led by healthy accretion to reserves. Consequently, ADS's gearing stood at 0.4 times in H1 FYFY2024, while interest cover and DSCR of 30.9 times and 24.3 times. In the past, the working capital requirement was largely funded by cash generation from the business, advances from customers and interest-free unsecured loans from promoters. Going forward, with growing working capital requirements, the company's reliance on bank limits is expected to increase. The ongoing capex for a corporate office and other capacity addition, which may include a malt manufacturing plant, will be partly debt-funded. Hence, some moderation in credit metrics is expected; however, the same are expected to remain comfortable in the medium term with gearing of less than 0.5 times and Debt/OPBDIT of less than 2.0 times in the near to medium term.

Favourable demand outlook for alcobev industry – The demand outlook for the alcobev industry is favourable, led by increasing consumption on account of rising disposable income, urbanisation and changing consumer preferences. Further, better penetration of the products resulting in improved consumer reach is expected to support consumption.

Credit challenges

Moderate geographical concentration risk in Haryana and Delhi; single brand concentration high – ADS has been deriving most of its sales volume from Haryana and Delhi. The company has a distillery in Haryana and its entire CL production is sold in Haryana and is regulated by the Haryana Excise Policy. There has been a healthy increase in IMFL brand sales in FY2023 and H1 FY2024; however, ~40-50% of its IMFL volume comes from Delhi. Overall, Haryana and Delhi have been driving a sizeable chunk of the company's revenues, which exposes it to geographical concentration risk. In the last 2-3 years, the company has increased its presence in the eastern and southern markets, which should diversify the revenues to some extent in the medium term. This apart, the company also derives ~70-80% of its IMFL sales volume from a single brand.

High working capital intensity led by elevated receivable cycle – In line with the increase in scale of business, the working capital requirements of the company have increased. The change in liquor retail policy in Delhi from private to Government control, resulted in a sharp rise in debtors' days in FY2023. The trend has continued in the current fiscal, but may not increase further, going forward. The same remains a rating monitorable. The receivable build-up beyond six months also remains a concern and typically the working capital limit utilisation is high in the last 8-10 months. ADS' ability to stabilise its working capital cycle, thus remains crucial.

Vulnerability to changes in raw material prices – ADS' margins remain exposed to volatile raw material prices, particularly for broken rice for the distillery, glass bottles for IMFL and coal/husk prices for its captive power plant. The grain price has increased significantly in the current year; however, moderation in packaging material cost has kept the margin stable in the current year. The operating profit margin (OPM), which had declined to 15.2% in FY2023 from 20.1% in FY2022, is stable at ~1.5% in H1 FY2024. The ability of the company to receive commensurate price increase approvals and support its margins, thus remains crucial.

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 state governments controlling 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.

Liquidity position: Adequate

ADS' liquidity is **adequate**, aided by healthy cash flow from operations and moderate cushion (Rs. 6-7 crore) in the cash credit limit. The company generates ~Rs. 80-90 crore net cash accruals, which is sufficient to take care of the planned capital expenditure of Rs. 65-70 crore for FY2025 and FY2026, and additional working capital requirements. The company plans to avail term debt of ~Rs. 30 crore for FY2025 to fund the ongoing and proposed capex and is also expected to avail limit enhancements, as and when required. The company has long-term repayments of Rs. 5-10 over each fiscal till FY2026. The promoters have also been providing funding support by way of interest free unsecured loans, as and when needed. The company has not maintained any sizeable free cash at present.

Rating sensitivities

Positive factors – The ratings may be revised upwards if the company reports sustained scale-up in operations through greater diversification of its product profile and geographical spread, while maintaining healthy profitability and debt metrics.

Negative factors – Downward pressure on the rating will emerge if there is a high reliance on external borrowings, resulting in deterioration in debt metrics, or if lack of commensurate and timely returns from capacity expansion impacts the coverage metrics and causes any weakening in the overall liquidity position on a sustained basis. Additionally, total debt/OPBDITA of more than 2.3 times, on a sustained basis, would be a negative rating factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

ADS Spirits Private Limited was incorporated in 2010. The company operates a 60-KLPD grain-based distillery in Jhajjar, Haryana, for manufacturing extra neutral alcohol (ENA), which is the main ingredient for manufacturing CL and IMFL. The company commenced operations from March 2013. It also manufactures and bottles CL and IMFL. In addition, the company has a 2.5-MW captive coal/husk-based power plant, which alongside meeting the entire power requirement of the manufacturing unit, supplies steam for the manufacturing process. While CL is only sold in Haryana, its IMFL is sold in Haryana, Delhi and other states as well. The company has franchisee arrangements across the other states wherein the IMFL brands are manufactured and bottled, against which it reports franchisee income.

Key financial indicators (audited/ provisional)

ADS Standalone	FY2022	FY2023	H1 FY2024*
Operating income	576.3	750.7	430.4
PAT	78.1	76.4	44.3
OPBDIT/OI	20.1%	15.2%	15.5%
PAT/OI	13.6%	10.2%	10.3%
Total outside liabilities/Tangible net worth (times)	0.6x	0.7x	0.6x
Total debt/OPBDIT (times)	0.7x	1.2x	1.1x
Interest coverage (times)	188.7x	97.7x	30.9x

Source: Company, *provisional financial submitted by management

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				Mar 18, 2024	Mar 21, 2023	Feb 14, 2022	Sep 30, 2021	June 29, 2020
1 Cash Credit	Long Term	50.00	-	[ICRA A- (Stable)]	[ICRA A- (Stable)]	[ICRA A- (Stable)] Removed from ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)
2 Term Loan	Long Term	35.00	21.00	[ICRA A- (Stable)]	-	-	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)
3 Unallocated	Long Term	0.00	-	-	[ICRA A- (Stable)]	[ICRA A- (Stable)] Removed from ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)

Source: Company, *as on Feb 29, 2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund-based – Cash Credit	Simple
Long term Fund-based – Term Loan	Simple

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]A- (Stable)
NA	Term Loans	Apr 2024	NA	Mar 2030	35.00	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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Branches



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