June 28, 2024

Aarti Distilleries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based –Term Loans	234.11	221.78	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Fund-based – Cash Credit	-	25.00	[ICRA]BBB+ (Stable); Reaffirmed
Long-term/Short-term Fund-based – Standby Line of Credit	-	3.75	[ICRA]BBB+ (Stable)/[ICRA]A2; Reaffirmed
Long-term/ Short-term – Unallocated	25.89	9.47	[ICRA]BBB+ (Stable)/[ICRA]A2; Reaffirmed
Total	**260.00**	**260.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings factor in the healthy ramp-up of production and sales volume for Aarti Distilleries Private Limited (ADPL) in FY2024, with continued growth in the near-to-medium term. This growth is driven by a favourable demand outlook for the alcobev sector and ADPL's secured margin profile with firm offtake arrangements with Pernod Ricard India Private Limited (PRIPL).

The ratings also consider the funding support from its parent companies, namely Rajasthan Liquors Limited (RLL, 74% equity stake in ADPL) and PRIPL (26% equity stake in ADPL), evidenced by loans extended and the stated intent of support. In addition to an established track record of integrated distillery and bottling operations in Rajasthan and Punjab, RLL has a long-term relationship with PRIPL, a leading player in the liquor industry.

However, the ratings are constrained by ADPL's moderate credit profile due to its high debt dependence at present, following a recent substantial debt-funded capex undertaken. Thus, the coverage metrics are expected to improve over the medium term as debt repayments progress. The company will also remain exposed to competition among brands in the sector and the prevalent regulatory risks, although these are partially mitigated by the proven track record of its promoter.

The Stable outlook on the [ICRA] BBB+ rating reflects ICRA's opinion that ADPL would benefit from the strong position of PRIPL, which utilises ADPL's production to address the growing demand in Uttar Pradesh and surrounding states amid the healthy demand outlook for the sector.

Key rating drivers and their description

Credit strengths

Successful project completion and healthy ramp-up – ADPL has successfully set up and commercialised an integrated manufacturing unit comprising a distillery, bottling unit and captive power plant in Kanpur, Uttar Pradesh. While the distillery commenced production in July 2022, three months ahead of the scheduled commercial operation date, the bottling unit commenced operations as scheduled, in October 2022. ADPL has reported a healthy ramp-up in distillery production, operating at ~90% of operational capacity and the bottling division is at ~65% of operating capacity in FY2024, which is likely to increase further in the near term.

Strong offtake arrangement with PRIPL with favourable pricing formula – ADPL's operations are important to PRIPL to address the growing demand in Uttar Pradesh and its nearby areas, including Delhi. ADPL has a strong operational agreement with PRIPL for offtake from its distillery and bottling plants. PRIPL buys the entire extra neutral alcohol (ENA) production from the distillery and the bottling plant. This apart, ADPL's profit margin is highly secured as the selling price is decided on the cost-plus margin method with PRIPL. In addition to the operational support, there is a track record of funding support from both JV partners through loans, in addition to initial equity infusion.

Experienced promoters and established relationships with reputed customers – RLL's and ADPL's promoter and Managing Director, Mr. Tilak Raj Sharma, has an experience of more than 30 years in the liquor industry. Further, the company has been associated with PRIPL since 2004 and with USL since 2017. It has been performing contract manufacturing for the major IMFL brands of PRIPL and has minimum offtake commitment for a substantial capacity. RLL is the franchisee and brand owner of certain brands of USL for the Rajasthan territory and operates through three bottling units. With PRIPL and USL having the majority market share in the IMFL segment, RLL is poised to benefit from the robust demand outlook for the alcobev sector.

Credit challenges

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 the 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.

Leveraged capital structure and moderate coverage indicators – ADPL has recently commercialised a large, debt-funded capex of ~Rs. 410 crore, funded by equity capital of Rs. 80.3 crore and term debt of Rs. 160 crore from the bank. The balance funding of ~Rs. 170 crore are through secured loans, preference shares and unsecured loans from PRIPL and RLL. Hence, leverage is expected to remain high for the company during the initial phase of operations, which would improve gradually going forward, as returns increase. The company has a moderate DSCR due to sizeable repayments in FY2025 and FY2026. While ADPL's cash generation from the business is sufficient to manage its repayments, expected funding support when needed from its parent, RLL, lends comfort. ADPL has also planned an increase in distillery capacity by 75 kilolitres per day (KLPD) in FY2026 from existing 165 KLPD with a term debt of Rs. 50 crore, which is unlikely to have any major impact on the company's credit profile.

Liquidity position: Adequate

ADPL's liquidity profile is adequate. The company has been generating strong cash flow for its term loan repayments and working capital requirements. ADPL has repayments of Rs. 32 crore in FY2025 and Rs. 33 crore in FY2026. The company also maintains three months of DSRA (principal and interest) with the bank. It has more than Rs. 50 crore of free cash/FD, other than healthy cash generated from business. Moreover, the stated intent of promoters to support its for working capital needs, as also mentioned in the offtake agreement with PRIPL, lends comfort. There has also been a track record of timely funding support from the promoters at the project stage.

Rating sensitivities

Positive factors – Substantial ramp-up in scale and cash accruals, resulting in sustained improvement in credit metrics, will be positive for the ratings. Improvement in the credit profile of the parent, RLL, would also be a credit positive.

Negative factors – A sustained decline in earnings, resulting in weakening of liquidity and credit metrics would lead to ratings downgrade. Adverse dilution of key terms with PRIPL will also be a credit negative. This apart, a weakening in the credit profile of the parent, or weakening of linkages with the parent company will also be negative for the ratings. Specific credit metrics including DSCR less than 1.4 times on a sustained basis would trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ADPL is a 74% subsidiary of RLL. ICRA expects RLL, rated [ICRA]A- (Stable)/ [ICRA]A2+, to extend financial support to ADPL, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ADPL.

About the company

ADPL is involved in manufacturing grain-based ENA and downstream products, including IMFL, along with a co-generation power plant. Its manufacturing facility is at 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 shares in ADPL, in addition to extending secured and unsecured loans. ADPL's integrated manufacturing capacity has 165 kilolitres per day (KLPD) of ENA, 100 lakh cases per annum (LCPA) of bottling and 4.5-megawatt (MW) of co-generated power. The plant's distillery commenced commercial production in July 2022 and its bottling unit began operations in October 2022. ADPL's 74% equity stake is held by RLL and the balance 26% is held by PRIPL.

Key financial indicators (audited/ Provisional)

ADPL Standalone	FY2023	FY2024*
Operating income	197.3	405.1
PAT	15.2	54.6
OPBDIT/OI	20.1%	27.2%
PAT/OI	7.7%	13.5%
Total outside liabilities/Tangible net worth (times)	3.8	2.5
Total debt/OPBDIT (times)	7.8	2.8
Interest coverage (times)	3.3	4.0

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * provisional*
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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	Mar 13, 2023	Dec 31, 2021
1	**Term Loans**	Long term	221.78	221.78	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	**Cash Credit**	Long term	25.00	--	[ICRA]BBB+ (Stable)	-	-	-
4	**Standby line of credit**	Long term/ Short term	3.75	--	[ICRA]BBB+ (Stable)/	-	-	-

					[ICRA]A2			
5	**Unallocated**	Long term/ Short term	9.47	--	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+

*outstanding as on May 31, 2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loans	Simple
Long-term/Short-term Fund-based – Standby Line of Credit	Simple
Long-term/ Short-term – Unallocated	Not Applicable

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	**Term Loans**	Oct 2021/ FY2022	NA	Sep 2030/ FY2031	221.78	[ICRA]BBB+ (Stable)
NA	**Cash Credit**	NA	NA	NA	25.00	[ICRA]BBB+ (Stable)
NA	**Standby line of credit**	NA	NA	NA	3.75	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	**Unallocated**	NA	NA	NA	9.47	[ICRA]BBB+ (Stable)/ [ICRA]A2

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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