

June 28, 2024

## Rajasthan Liquors Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	135.00	155.00	[ICRA]A- (Stable); Reaffirmed
Long-term Fund-based – Term Loans	31.78	23.13	[ICRA]A- (Stable); Reaffirmed
Long-term/Short-term – Non-fund Based – Bank Guarantees	15.00	15.00	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
Long-term/Short-term Fund-based – Standby Line of Credit	18.00	18.00	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
Long-term/ Short-term – Unallocated	25.22	13.87	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
<b>Total</b>	<b>225.00</b>	<b>225.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmed ratings of Rajasthan Liquors Limited's (RLL) reflect ICRA's expectation that the company's credit profile at the consolidated level will remain stable over the near to medium term. This stability is likely to be driven by the expected improvement in RLL's profit margins following the divestment of its loss-making edible oil business (~20% of revenues in FY2023, reduced to ~2% in FY2024 of RLL's revenue) and the healthy ramp-up of operations in its subsidiary, Aarti Distilleries Private Limited (ADPL), which represents ~23% of the consolidated revenues in FY2024.

The ratings also factor in the healthy revenue visibility due to minimum off-take commitments from Pernod Ricard India Private Limited (PRIPL), which will support RLL's consolidated cash flows going forward. The extensive experience of RLL's promoters in the contract manufacturing space in the alcobev sector and their long association with liquor majors such as PRIPL, United Spirits Limited (USL) and Inbrew Beverages Private Limited (Inbrew) augur well for the company. Notably, the liquor majors such as PRIPL, USL and Inbrew, together dominate the domestic Indian-made foreign liquor (IMFL) market along with the favourable demand outlook for the sector. Given RLL's limited repayment commitments on a standalone basis and the healthy ramp-up in ADPL's cash flows, ICRA expects the combined cash flows to remain comfortable going forward.

However, the ratings are constrained by the increasing revenue contribution from low-margin liquor distribution business. It also remains exposed to competition across its business segments and regulatory risks. Further, renewal of contracts with key customers remains crucial, although its association and track record with them act as a source of comfort. ICRA also notes that RLL has plans for a large capex in the medium term. However, the exact funding plans and concrete details of the capex are yet to be finalised, which will also depend on the firm offtake arrangement with customers. ICRA will continue to monitor the developments closely.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RLL at consolidated level will maintain healthy earnings growth with the ramp-up in ADPL's operations. Its overall business will be supported by the healthy demand outlook for the liquor industry in the domestic market.

## Key rating drivers and their description

### Credit strengths

**Experienced promoters and established relationships 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, the company has been associated with PRIPL since 2004, USL since 2017 and Inbrew since 2022. The company has been undertaking 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 market share in the IMFL segment, RLL is poised to benefit from a robust demand outlook of the alcobev sector.

**Increase in profitability projected in RLL and supported by healthy profitability in ADPL** – RLL standalone has reported low OPM in FY2023 and FY2024 due to substantial operating loss in the edible oil division; however, it is expected to improve from FY2025 due to the closure of loss-making edible oil division and cost-plus margin method of pricing with PRIPL. ADPL has been reporting healthy profitability due to the cost-plus margin method of pricing with PRIPL.

**Diversified revenue profile in terms of customers and products; renewal of contracts with customers crucial** – RLL’s revenue profile is diversified. The majority of extra natural alcohol (ENA) is produced by its distillery unit in Derabassi, Punjab, and two out of five bottling units (Derabassi and Jaipur) are contracted with PRIPL. The other three bottling units in Rajasthan are used for USL and Inbrew. RLL has also reported healthy revenue in the liquor distribution segment since FY2022, which it had started in Q4 FY2021. The renewal of contracts with these reputed players remains crucial; however, long association with customers and a track record of operations largely reduce the risk. Thus, the revenues are diversified both from customers as well as products.

**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.

### Credit challenges

**Vulnerability to changes in raw material prices** – RLL’s margins remain exposed to volatile raw material prices, particularly for broken rice used in the distillery, especially for the capacity not contracted with PRIPL. Moreover, in its franchisee business with USL, IMFL’s selling prices are controlled by state governments. Thus, significant changes in input prices could impact RLL’s return metrics, although players in the industry typically receive some price revisions in IMFL prices under such circumstances.

**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.

**Exposed to project execution risk, given large capex on cards** – RLL is contemplating a large capex in the medium term. The capex would be either for backward integration initiatives or geographical diversification in the distillery. However, the exact funding plans and concrete details of the capex are yet to be finalized, which will also be dependent on the firm’s offtake arrangement with the potential customers. ICRA, hence, will continue to monitor the developments in this regard closely.

### Liquidity position: Adequate

RLL’s liquidity profile is adequate, supported by the healthy cash generation from business, satisfactory buffer (~Rs. 25-30 crore) in the cash credit limit and the company’s policy to maintain ~Rs. 10 crore of free cash. RLL had an average utilisation of ~83% of cash credit limit in the 12-month period ending in March 2024. The liquidity is also supported by unsecured loans in business, which is expected to continue in business. The company, on a consolidated level, has long-term repayments of

~Rs. 43 crore in FY2025 and Rs. 41 crore in FY2026. The cash flows from the existing business are expected to be sufficient to manage the additional working capital requirement and repayment, if any.

### Rating sensitivities

**Positive factors** – A rating upgrade would be driven by sustained growth in earnings, a comfortable liquidity position, along with healthy debt coverage indicators. In terms of specific credit metrics, External Debt (total debt less unsecured loans from the promoters)/ OPBDITA less than 2.0 times, on a sustained basis, will be a positive trigger for the ratings.

**Negative factors** – Any sharp decline in revenue and profit margins or any large, debt-funded capex weakening RLL's liquidity and credit metrics on a sustained basis may trigger a rating downgrade. Adverse dilution of terms with key customers 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 rating trigger.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 manufacture ENA and contract manufacturing of IMFL. It was subsequently converted into a public limited company in 2010. RLL has a grain-based distillery unit in Derabassi (Punjab) with an installed manufacturing capacity of 90-110 kilo litre per day (KLPD) of ENA. The company also has a bottling capacity of 123 lakh cases per annum (LCPA) across five bottling units. The Derabassi and Jaipur (Rajasthan) bottling units, with capacities of 84 LCPA, are used for PRIPL and the other three bottling units (Alwal, Kishangarh and Reengus) in Rajasthan, with capacities of 39 LCPA, are used for USL/Inbrew. RLL is the contract manufacturer for PRIPL's major IMFL brands. It is the franchisee and the brand owner of certain brands of USL and Inbrew for the Rajasthan territory.

RLL's subsidiary ADPL is involved in manufacturing grain-based ENA and downstream products, including IMFL, along with a co-generation power plant. The 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 have invested preference shares in ADPL, in addition to extending secured and unsecured loans. ADP's integrated manufacturing capacity has 150 KLPD of ENA, 100 LCPA of bottling and 4.5 MW of co-generated power. The plant's distillery commenced commercial production in July 2022 and its bottling unit began in October 2022.

### Key financial indicators (audited/ Provisional)

	RLL and ADPL Consolidated		RLL Standalone	
	FY2023	FY2024*	FY2023	FY2024*
Operating income	1,723.0	1,790.8	1525.7	1385.7
PAT	35.0	77.9	19.7	23.2
OPBDIT/OI	5.6%	9.9%	3.7%	4.8%
PAT/OI	2.0%	4.3%	1.3%	1.7%
Total outside liabilities/Tangible net worth (times)	2.0	1.5	1.2	1.0
Total debt/OPBDIT (times)	4.8	2.4	3.7	2.7
Interest coverage (times)	3.1	3.6	3.0	3.1

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 Cash Credit	Long term	155.00	--	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Term Loans	Long term	23.13	23.13	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Bank Guarantee	Long term/ Short term	15.00	--	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
4 Standby line of credit	Long term/ Short term	18.00	--	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	-
5 Unallocated	Long term/ Short term	13.87	--	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

\*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 – Non-fund Based – Bank Guarantees	Very 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	Cash Credit	NA	NA	NA	155.00	[ICRA]A- (Stable)
NA	Term Loans	Apr 2020/ FY2021	NA	March 2025/ FY2025	23.13	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	15.00	[ICRA]A- (Stable)/[ICRA]A2+
NA	Standby line of credit	NA	NA	NA	18.00	[ICRA]A- (Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	13.87	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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#### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajasthan Liquors Limited	NA*	Full Consolidation
Aarti Distilleries Private Limited	74%	Full Consolidation

Source: Company, \*parent company

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