

September 24, 2024

## Mohan Meakin Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit-Fund Based	65.00	65.00	[ICRA]A (Stable); reaffirmed
Short Term-Others-Non Fund Based	10.00	10.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>75.00</b>	<b>75.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation considers Mohan Meakin Limited's (MML) long track record, established presence in the Indian Made Foreign Liquor (IMFL) segment and strong brand reputation of its flagship product, Old Monk. The rating reaffirmation further factors in MML's sustained increase in the volumes on the back of buoyant demand across the domestic market. However, ICRA notes that the overall volume growth slowed down to 6.4% in FY2024 against volume growth of 29% and 21.1% in FY2022 and FY2023, respectively. Further, price revisions received by the company from several state Excise Departments and Canteen Stores Department (CSD) and efforts towards premiumisation led to improved realisation and helped the company expand its operating profit margin (OPM) to 7.9% in FY2024 from 7.3% in FY2023. The ratings reaffirmation further considers MML's strong financial risk profile, backed by its consistent revenue growth, nil debt and strong liquidity position.

The ratings are, however, constrained by the moderate profitability of MML compared to its peers, as MML operates in the low-margin segment. Also, some part of the company's sales takes place through trading with a Group company, which moderates its margins to some extent. Further, the company is exposed to volatility in prices of raw materials, which are heightened by its reliance on external parties for purchase of spirits Extra Neutral Alcohol (ENA). While the company receives periodic price revisions from state governments, the same happens with a lag and often to a limited extent, resulting in limited price flexibility. The ratings also consider the high regulatory risk inherent in the liquor industry owing to high taxes, stringent Government controls and regulations, and limited pricing power. Also, MML's dependence continues to be high on a single brand, Old Monk, in the dark rum segment. However, ICRA notes the company's efforts to diversify its product portfolio through several launches within the rum segment as well as in other variants such as whiskey, vodka, gin etc. However, any material traction in revenue contribution from other variants except rum is yet to be seen.

The Stable outlook reflects ICRA's expectations that MML will benefit from the established brand reputation and growing franchisee network, resulting in increased penetration of its key product.

### Key rating drivers and their description

#### Credit strengths

**Experienced management and long operating track record** – MML is an established company with a track record of over 150 years in the liquor manufacturing industry. The company operates through its own and franchisee manufacturing networks. The Mohan family took over the company's operations in 1949 and MML has remained a well-known player in the Indian liquor industry ever since. Mr. Hemant Mohan, from the family's third generation, has been at the helm of affairs in the recent years.

**Reputed brand and established market position in the dark rum segment** – MML enjoys strong brand recognition and established position because of its Old Monk brand in the domestic IMFL market. The company has an established pan-India presence and generated ~18% of its total volumes from exports in FY2024, which was slightly lower than ~21% recorded in

FY2023. Healthy brand reputation of Old Monk continues to drive healthy growth (both in value as well as volume terms) across own and franchisee networks.

**Healthy financial risk profile, supported by sustained revenue growth** – A sizeable portion of MML’s volumes comes from franchisee and it receives only the royalty income. Therefore, the top line of the company does not justify its actual scale. Despite the same, the company has managed to grow its revenues significantly in FY2023 and FY2024. In FY2024, MML’s operating income (OI) grew by ~16% to Rs. 1,471 crore, supported by ~6% growth in volumes. While the volume growth in FY2023 stood at 21%, lower volume growth in FY2024 is largely attributed to disruptions caused by the General Elections held in Q1 FY2025. This apart, premiumisation within the IMFL segment is increasing the realisations but is impacting the pace of volume growth. The continued growth in volumes and the overall top line of the company are mainly driven by robust demand witnessed in the domestic dark rum segment. Additionally, recent launches in whiskey, gin and vodka segments are also contributing to the overall volume growth.

MML’s credit metrics are expected to remain strong, characterised by robust revenue and accruals growth, debt-free capital structure and healthy liquidity position. The company witnessed an increase in its profit margins on the back of improving operational efficiencies, and rating leverage amid stable input prices in FY2024. Better margins and higher scale resulted in an improvement in cash accruals and reserve accretion. MML maintained a robust capital structure with nil debt as on March 31, 2024 and had a strong liquidity profile. The coverage indicators remained strong with an interest coverage of ~147 times and TOL/TNW of 0.46 times. ICRA notes that MML is currently setting up a distillery wherein the project is in the land acquisition stage. The total project is expected to be ~Rs. 100 crore, which is likely to be funded through internal accruals.

### Credit challenges

**Moderate margins compared to other large players in the industry** – MML’s operating margins are lower than other established market players despite its strong brand. This is largely on account of Old Monk, its key revenue contributor, which is priced lower than other players operating in the premium segment. Further, the company’s ability to increase franchisee fee or royalty income also determines its margin profile. Nevertheless, ICRA notes that various measures taken by the management, such as replacing the ageing machinery and active management of bottlers/franchisee arrangements, have been successful in improving its operational efficiency in the recent years.

**Concentrated product portfolio** – MML’s product portfolio remains concentrated towards the rum segment. In volume terms, rum accounted for ~87% of the total IMFL cases sold by MML in FY2024. However, it has been diversifying its portfolio by introducing brands in other product categories over the last few years. The company has added some premium brands in its gin, vodka and whiskey segments in the current as well as the previous fiscal.

**Profitability vulnerable to fluctuations in raw material prices** – MML’s profitability is prone to fluctuations in raw material prices, particularly ENA, prices of which increased significantly in FY2022 and H1 FY2023. Thereafter, ENA prices have stabilised and remain rangebound till date. Apart from ENA, the company had also been dealing with higher glass and packaging costs, which also stabilised in FY2024. The company receives price revisions from state governments with a lag, and the extent of escalation can vary.

**Exposure to regulatory changes and intense competition** – The liquor industry is highly regulated, with state governments controlling sales and distribution, making the company susceptible to changes in Government policies. The Government levies various duties such as excise duty, sales tax, licence fee, state-level import and export duties, bottling fee, surcharge, etc., which varies from state to state. Any change in these Government policies may impact the liquor industry and, subsequently, MML. Further, there is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. Also, the organised alcohol industry is characterised by intense competition, given the presence of large players. While this could restrict the company’s growth to an extent, MML’s established brands are a positive and help it in partly mitigating the competition-related risks in these sub-segments.

## Environmental and Social Risks

**Environmental considerations:** Environmental risks for industry players include discharge of hazardous and pollutant waste. All units of MML are equipped with wastewater treatment facilities. The company has also taken up various measures to recycle water. Further, the company uses boilers to reduce dependence on coal and wood.

**Social considerations:** MML is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, as well as to evolving regulatory and societal attitude towards alcohol-containing products, which can affect demand. Further, MML faces moderate dependence on human capital. Retaining human capital, maintaining healthy relationships with employees and a safe work environment remain essential for disruption-free operations.

## Liquidity position: Strong

MML's liquidity position is strong, backed by positive fund flows from operations (FFO), nil repayment obligations, and healthy unencumbered cash and liquid balances. As on March 31, 2024, the company had Rs. 143 crore of free cash, which was further supported by undrawn working capital limits of Rs. 65 crore, utilisation of which remained almost nil over the 11 months ending in June 2024.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company demonstrates any significant improvement in its revenues and profitability, while maintaining healthy debt coverage indicators and liquidity profile.

**Negative factors** – Pressure on MML's ratings could arise, if there is any substantial decline in revenues and/or the operating margins, resulting in subdued cash accruals or increased leverage on a sustained basis. Any adverse regulatory action impacting the company's credit profile could also result in a downward rating action. Further, TD/OPBIDTA higher than 2 times on a sustained basis, may also result in ratings downgrade.

## 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 considered the standalone financials of the entity.

## About the company

Mohan Meakin Limited (MML) was set up in 1855 by Mr. Edward Dyer, who established the entity as the first brewery in India. In 1949, Late Narendra N. Mohan took over its operations and as on March 31, 2022, the Mohan family owned the majority stake in the company. MML owns popular brands such as Old Monk in the rum segment, as well as Meakin 10000, Asia 72, and Golden Eagle in the beer segment. It has two manufacturing facilities for beer, spirits and food products (mainly grain flakes) at Mohan Nagar, Uttar Pradesh, and at Kasauli/Solan in Himachal Pradesh. In addition, it has bottling plants at Mohangram (Punjab) and Solan.

## Key financial indicators (audited)

MML	FY2023	FY2024
Operating income	1270.8	1471.0
PAT	68.4	84.7
OPBDIT/OI	7.3%	7.9%
PAT/OI	5.4%	5.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	97.2	146.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore, 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

Current (FY2025)					Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	65.00	24-Sep-2024	[ICRA]A (Stable)	07-JUL-2023	[ICRA]A (Stable)	02-NOV-2022	[ICRA]A- (Positive)	26-AUG-2021	[ICRA]A- (Stable)
Short term-others-non fund based	Short Term	10.00	24-Sep-2024	[ICRA]A1	07-JUL-2023	[ICRA]A1	02-NOV-2022	[ICRA]A2+	26-AUG-2021	[ICRA]A 2+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Cash Credit	Simple
Short-term/ Non-fund Based Limits	Very 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	65.00	[ICRA]A (Stable)
NA	Non-fund Based Limits	NA	NA	NA	10.00	[ICRA]A1

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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