

September 30, 2024

Artisan Spirits Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	11.70	6.95	[ICRA]A+ (CE) (Stable); reaffirmed
Long-term – Fund-based facilities	15.00	40.00	[ICRA]A+ (CE) (Stable); reaffirmed & assigned for enhanced amount
Long-term-Non-fund based – Bank guarantee	0.00	(6.00)	[ICRA]A+ (CE) (Stable); assigned
Total	26.70	46.95	

Rating Without Explicit Credit Enhancement

[ICRA]BBB-

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating of Artisan Spirits Private Limited (ASPL/company) is based on the strength of the corporate guarantee provided by Sula Vineyards Limited (Sula; rated [ICRA]A+ (Stable)/[ICRA]A1) for the rated bank facilities. The Stable outlook on the rating reflects ICRA's outlook on the rating of the guarantor, i.e., Sula.

Adequacy of credit enhancement

The rating of the above instruments is based on the credit substitution approach, whereby the rating of the guarantor has been translated into the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by Sula is adequately strong to lead to an enhancement in the rating of the said instrument to [ICRA]A+ (CE) against the rating of [ICRA]BBB- without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument.

Salient covenants of the rated facility

State Bank of Mauritius (SBM)

The guarantor has provided an unconditional and irrevocable continuing guarantee to the bank for repayment of dues, whereby if the borrower defaults in funding the required loan account one working day before their respective due dates, the guarantee would be deemed to be invoked and the guarantor shall be responsible to fund the loan account directly in order to ensure that the respective dues are paid and there is no default on the due date.

The borrower agrees that any indebtedness of the borrower now or hereafter is hereby subordinated to the indebtedness of the borrower to the State Bank of Mauritius (SBM).

The borrower has to seek prior approval from the lender before any amalgamation/ merger/ demerger/ dissolution/ re-organisation/ compromise/ takeover.

HDFC Bank

The guarantor has provided an unconditional and irrevocable continuing guarantee to the bank for repayment of dues, whereby if the borrower defaults in funding the required loan account one working day before their respective due dates, the guarantee would be deemed to be invoked and the guarantor shall be responsible to fund the loan account directly in order to ensure that the respective dues are paid and there is no default on the due date.

The borrower agrees that any indebtedness of the borrower now or hereafter is hereby subordinated to the indebtedness of the borrower to the HDFC Bank.

Kotak Mahindra Bank

The guarantor has provided an unconditional and irrevocable continuing guarantee to the bank for repayment of dues, whereby if the borrower defaults in funding the required loan account one working day before their respective due dates, the guarantee would be deemed to be invoked and the guarantor shall be responsible to fund the loan account directly in order to ensure that the respective dues are paid and there is no default on the due date.

Key rating drivers and their description

Credit strengths

Explicit support from parent , Sula – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by the guarantor, Sula.

Financial support from the parent – ASPL is a wholly-owned subsidiary of Sula. ASPL has received regular fund infusions in the form of unsecured loans from Sula to support its operations, including recently towards funding the acquisition for York Winery. Sula is expected to continue to support ASPL, whenever needed.

Credit challenges

Modest scale of operations – Although the company has been operational since 2011, its scale of operations remains small with total revenues of Rs. 66.7 crore in FY2024. However, the acquisition of York Winery providing diversification into wine manufacturing, along with transfer of license to operate and provide hospitality services at Beyond by Sula, supported the healthy revenue growth of 46.6% in FY2024. Hence, the company's operating margins also increased to 15.5% in FY2024 from 7.4% in FY2023.

Financial profile characterised by elevated debt levels – The company's financial profile is characterised by high debt levels owing to the term loan of Rs. 6.2 crore in FY2022 to fund the acquisition of York Winery, lease liabilities of Rs. 16.7 crore, along with unsecured loans from the parent. ASPL had a total debt of Rs. 57.0 crore and overall gearing of 22.3x as of March 31, 2024.

Exposure to regulatory risks – The company is susceptible to regulatory risks inherent in the liquor industry. Unfavourable policy changes will remain a significant risk factor for the company and the industry. Further, extensive Government controls on advertising and taxes restrict the wine industry's growth to an extent. However, the same creates entry barriers for new players, thereby favouring the incumbents.

Liquidity position

For the support provider, Sula: Adequate

Sula's liquidity position is adequate, primarily supported by expectations of healthy cash accruals for FY2025 and unutilised fund-based working capital limits (against sanctioned limits) of ~Rs. 25.0 crore as of June 30, 2024, along with free cash and liquid investments of Rs. 6.3 crore as on June 30, 2024. The average working capital utilisation remained high at ~78% over the 12 months ending July 2024. Against the same, the company has debt repayments of Rs. 31.2 crore in FY2025 and expects to

incur capex of ~Rs. 65 crore in FY2025 towards capacity expansion across segments in addition to maintenance capex, which would be funded through internal accruals and incremental term debt of ~Rs. 45 crore.

For the rated entity, ASPL: Stretched

ASPL's liquidity position is stretched, with cash flows expected to remain weak during FY2025. The company had free cash and cash equivalents of Rs. 2.4 crore as of March 31, 2024. While the company had a buffer of Rs. 3.0 crore (against drawing power) of unutilised working capital lines as of July 31, 2024, it has debt repayments of Rs. 2.9 crore for FY2025 and Rs. 2.8 crore for FY2026.

Rating sensitivities

Positive factors: The rating would remain sensitive to any movement in the credit profile of the guarantor, Sula Vineyards Ltd.

Negative factors: The rating would remain sensitive to any movement in the credit profile of the guarantor, Sula Vineyards Ltd.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The assigned rating is based on the unconditional and irrevocable corporate guarantee extended by Sula Vineyards Ltd.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Artisan Spirits Private Limited (ASPL) is involved in trading of wine and liquor. In FY2022, the company acquired York Winery, located at Nashik, Maharashtra. In Q1 FY2024, the license to operate and provide hospitality services at 'Beyond by Sula' was also transferred to ASPL from SVL, which is expected to support the company's revenues from the hospitality segment.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	45.5	66.7
PAT	-4.2	-0.7
OPBDIT/OI	7.4%	15.1%
PAT/OI	-9.3%	-1.1%
Total outside liabilities/Tangible net worth (times)	13.9	28.2
Total debt/OPBDIT (times)	12.0	5.7
Interest coverage (times)	0.9	1.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	30-Sep-2024	Date	Rating	Date	Rating	Date	Rating
Long-term - bank guarantee-interchangeable	Long-term	(6.00)	[ICRA]A+(CE) (Stable)	-	-	-	-	-	-
Long term-term loan-fund based	Long-term	6.95	[ICRA]A+(CE) (Stable)	07-JUN-2023	[ICRA]A+(CE) (Stable)	-	-	-	-
Long term-others-fund based	Long-term	40.00	[ICRA]A+(CE) (Stable)	07-JUN-2023	[ICRA]A+(CE) (Stable)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term– Fund Based facilities	Simple
Long-term-Non-fund based – Bank Guarantee	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 No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	June 2022	8.95%	September 2026	6.95	[ICRA]A+ (CE) (Stable)
NA	Fund Based facilities	NA	NA	NA	40.00	[ICRA]A+ (CE) (Stable)
NA	Overdraft limit	NA	NA	NA	(6.00)	[ICRA]A+ (CE) (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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About ICRA Limited:

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