March 28, 2025

ADS Spirits Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term- Fund based- Term loan	35.00	5.04	[ICRA]A- (Stable); reaffirmed
Long-term- Fund based- Cash credit	50.00	85.00	[ICRA]A- (Stable); reaffirmed/assigned for enhanced amount
Short-term- Interchangeable - Non-fund based	-	(2.00)	[ICRA]A2+; assigned
Long-term/short-term – Unallocated	-	14.96	[ICRA]A- (Stable)/ [ICRA]A2+; assigned
Total	**85.00**	**105.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in ADS Spirits Private Limited's (ADS) established operational track record and extensive experience of its promoters of over two decades in the alcobev industry. ADS' revenues grew by ~22% YoY in FY2024, aided by increased brand volumes across its liquor segments. While ADS is estimated to report modest degrowth in revenue in FY2025 due to weak demand from Andhra Pradesh, recovery in growth is expected to be driven by increased geographical penetration of ADS' Indian made foreign liquor (IMFL) brands as well as healthy demand outlook for the industry. ADS' healthy cash accruals and comfortable capital structure continue to support its financial profile. Despite some moderation over the near term due to marginal increase in debt levels, the credit metrics are expected to remain adequate.

However, the ratings are constrained by the limited pricing flexibility owing to high competitive intensity and business risks inherent in the alcobev industry due to stringent Government controls and regulations. ADS is also exposed to raw material availability and pricing risks, as reflected in the moderation in its margins in FY2024 and 9M FY2025, though the margin profile may be supported by price hikes, going forward. The company's working capital intensity has increased on the back of higher receivables from Government entities, particularly from Delhi and Telangana, resulting in increased reliance on working capital debt. The ratings also factor in ADS' concentration on a few states, as 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 northeastern and southern states in the last few years. ICRA also notes the intensely competitive IMFL segment with the presence of a 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, supporting growth in its revenues and accrual generation.

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. ADS 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 financial profile – ADS has a healthy financial profile on account of steady increase in revenue and earnings in the past and moderate reliance on external debt. Over the years, the company has built a healthy net worth led by healthy accretion to reserves. Consequently, ADS's gearing stood at 0.4 times, while interest cover and DSCR of 35.1 times and 27.4 times, respectively in FY2024. 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. However, in the last two fiscals, elevated working capital requirements have led to increased reliance on debt. This, coupled with ongoing partly debt-funded capex for enhancing bottling capacity, is expected to result in some moderation in debt protection metrics. Nonetheless, the same are expected to remain comfortable with gearing of less than 0.5 times and Debt/OPBDITA of 2.0-2.5 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 leading to improved consumer reach is expected to support consumption.

Credit challenges

Moderate geographical concentration risk in Haryana and Delhi; single-brand concentration is 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. About 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 derives 70-80% of its IMFL sales volume from a single brand Royal Green, hence, any notable impact in the demand will impact its revenue.

High working capital intensity led by elevated receivable cycle – In line with the increase in scale of business and change in policy in the key states such as Delhi, the working capital requirements of the company have increased considerably. Receivable levels have increased in the current fiscal due to some delays in receipt of payments from Delhi and Telangana, which are expected to reduce gradually and the same remains a key monitorable.

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 in the last two to three fiscals; however, price hike in all the key states in the current fiscal is expected to keep the margin largely stable in the current year compared to FY2024. The operating profit margin (OPM), which had declined to 12.1% in FY2024 from 15.2% in FY2023 mainly due to rise in input cost and discount offered to push the sales, to remain at 11-12% in FY2025 with the support of price hike. The company's ability to receive commensurate price increase approvals and support its margins, thus, remains crucial.

Intense competition in the highly regulated alcohol industry – The liquor industry is intensely competitive due to numerous small players and few organised players. The industry 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 modest cushion (Rs. 3-5 crore) in the cash credit limit. The company generates Rs. 70-80-crore net cash accruals, which along with proposed term loan, is sufficient to fund the planned capital expenditure of Rs. 50-60 crore each for FY2026 and FY2027, and additional working capital requirements, if any. ADS plans to avail term debt of ~Rs. 35 crore for FY2026 and FY2027 to fund the ongoing capex (new manufacturing unit) and is also expected to avail limit enhancements, as and when required. The company has long-term repayments of Rs. 5-7 crore each fiscal over FY2025-FY2027. 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 – Pressure on the ratings will emerge, if there is a high reliance on external borrowings or a prolonged delay in realisation of elevated debtors results in deterioration in debt metrics and weakening of 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 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 in 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 along with 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, Punjab, Telangana, Andhra Pradesh and other states as well. The company has franchisee arrangements across other states, wherein the IMFL brands are manufactured and bottled, against which it reports franchisee income.

Key financial indicators (Audited)

ADS - Standalone	FY2023	FY2024	9M FY2025*
Operating income	750.7	917.7	655.6
PAT	76.4	74.9	46.1
OPBDIT/OI	15.2%	12.1%	11.1%
PAT/OI	10.2%	8.2%	7.0%
Total outside liabilities/Tangible net worth (times)	0.7x	0.7x	-
Total debt/OPBDIT (times)	1.2x	1.7x	-
Interest coverage (times)	97.7x	35.1x	13.8x

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; * provisional financial submitted by management*
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)	28-Mar-2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	85.00	[ICRA]A-(Stable)	-	-	18-Mar-2024	[ICRA]A-(Stable)	21-Mar-2023	[ICRA]A-(Stable)	14-Feb-2022	[ICRA A- (Stable) Removed from ISSUER NOT COOPERATING
				-	-	-	-	-	-	30-Sep-2021	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING
Term Loans	Long term	5.04	[ICRA]A-(Stable)	-	-	18-Mar-2024	[ICRA]A-(Stable)	-	-	30-Sep-2021	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING
Interchangeable – Non Fund Based	Short Term	(2.00)	[ICRA]A2+	-	-	-	-	-	-	-	-
Unallocated	Long term/ Short Term	14.96	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-	-	-	-	-	-
Unallocated	Long term	-	-	-	-	-	-	21-Mar-2023	[ICRA]A-(Stable)	14-Feb-2022	[ICRA A- (Stable) Removed from ISSUER NOT COOPERATING
				-	-	-	-	-	-	30-Sep-2021	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term- Fund Based- Term Loan	Simple
Long Term- Fund Based- Cash Credit	Simple
Short Term- Interchangeable - Non-Fund Based	Very 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**	Apr 2024	NA	Sep 2025	5.04	[ICRA]A- (Stable)
NA	**Cash Credit**	NA	NA	NA	85.00	[ICRA]A- (Stable)
NA	**Interchangeable – Non Fund Based**	NA	NA	NA	(2.00)	[ICRA]A2+
NA	**Unallocated**	NA	NA	NA	14.96	[ICRA]A- (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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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.

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