

July 30, 2021

PMK Distillations Pvt Ltd.: Long-term rating reaffirmed; short-term rating withdrawn

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Fund-based	5.50	8.50	[ICRA]BB (Stable) reaffirmed
Short-term-Non-fund-based	3.00	0.00	[ICRA]A4+ withdrawn
Total	8.50	8.50	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn the short-term rating assigned to the bank facilities of PMK Distillations Pvt Ltd. (PMK) at the request of the company and based on the No Objection Certificate received from the banker.

The rating considers PMK's small scale of operations in the highly fragmented India-made foreign liquor (IMFL) industry. The rating is also constrained by the high client concentration as the company derives entire revenues from job work to three customers namely Adan Distillery Pvt Ltd (Adan), Radico Khaitan Ltd. (Radico) and Sun Rays Bottling and Beverages Pvt Ltd (Sunrays). While the company had job work contract with Pearl Distillery Ltd (PDL) previously for its entire capacity, the same has been terminated in FY2021 and entered into shorter-term, i.e., one-year contracts with its new clients. The ratings also consider PMK's high geographical concentration as its operations are limited to Andhra Pradesh. Further, the rating considers the susceptibility of PMK's operations to the regulatory risks and the changes in liquor policy.

The ratings, however, favourably factors in the significant experience of the management in the IMFL industry. The rating also considers the near-term revenue visibility, as the company entered into guaranteed off-take contract with Adan, Radico and Sunrays for its entire production capacity till March 2022. Further, the rating derives comfort from the company's comfortable capital structure with a gearing of 0.1 times as on March 31, 2021 and healthy debt protection metrics.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that PMK will continue to maintain its comfortable capital structure and healthy debt coverage indicators.

Key rating drivers and their description

Credit strengths

Extensive experience of the management—The company's CEO, Mr. Manoj Rupani, has experience of over two decades in the IMFL industry, resulting in established relationship with customers.

Guaranteed off-take contract provides revenue visibility over the near term – PMK has entered into a guaranteed off-take contract with the three customers: Adan, Radico and Sunrays for its entire production capacity. While the company had job work contract with Pearl Distillery Ltd (PDL) previously for its entire capacity, the same has been terminated in FY2021 and entered into shorter-term, i.e., one-year contracts with its new clients. The contract with the new customers is valid till March 2022, providing near-term revenue visibility.

Comfortable capital structure and healthy debt protection metrics – The company's gearing has been comfortable and stood at 0.1 times as on March 31, 2021. The debt coverage indicators have also been healthy with an interest coverage of 21.4 times, total Debt/OPBDITA of 0.5 times and DSCR of 20.4 times in FY2021.

Credit challenges

Small scale of operations – PMK’s scale of operations is small with an installed capacity of 1,92,850 cases per month in a highly fragmented IMFL industry, limiting its financial flexibility. Further, the company reported revenues of Rs. 11.1 crore in FY2021.

High geographical concentration and exposure to regulatory changes – The company’s operations are limited to Andhra Pradesh, which expose the company to high geographical concentration. Moreover, the company’s revenues are susceptible to regulatory risks and liquor policy changes in the state.

High customer concentration – The company has only three customers, which results in high customer concentration risk.

Liquidity position: Adequate

The firm’s liquidity position is **adequate** with a cash flow of ~Rs. 3.0-4.0 crore, unutilised working capital limits of ~Rs. 4.0 crore, and cash and bank balance of Rs. 1.0-1.5 crore. Moreover, the company does not have any major capex plans in the near term and does not have any term loan repayment obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if the company records a sustainable improvement in revenues while maintaining its margins.

Negative factors – Negative pressure on the rating could arise if any adverse regulatory developments impact company’s operations leading to decline in revenues or margins, or any stretch in working capital cycle impacts the company’s liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financial profile

About the company

Incorporated in 2015, PMK Distillations Pvt Ltd., has a bottling unit at Kotapadu village in East Godavari district of Andhra Pradesh with a capacity to produce 1,92,850 cases of IMFL per month. The company started operations in 2017 by doing bottling operations for other IMFL manufacturers on job work basis.

Key financial indicators

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	10.6	11.1
PAT (Rs. crore)	0.7	0.8
OPBDIT/OI (%)	8.5%	44.2%
PAT/OI (%)	6.9%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDIT (times)	7.2	0.5
Interest Coverage (times)	4.1	21.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company; FY2021 financials are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in July 30, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Overdraft	Long-term	8.50	-	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Bank Guarantee	Short-term	-	-	[ICRA]A4+ withdrawn	-	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Overdraft	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	-	-	-	8.50	[ICRA]BB (Stable)
NA	Bank Guarantee	-	-	-	-	[ICRA]A4+ withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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