August 12, 2021

Premier Alcobev Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credits	19.00	[ICRA]BBB (Stable); assigned
Fund-based - Term Loan	3.00	[ICRA]BBB (Stable); assigned
Non-fund Based	3.00	[ICRA]A3+; assigned
Total	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action notes Premier Alcobev Private Limited's (PAPL) strong presence in Himachal Pradesh (HP) and Chandigarh, with a diversified product mix. The company's scale of operations has been growing on account of increasing revenue contribution from the ethanol and ethyl alcohol segments. The recently completed capex in the distillery division augurs well for its growth prospects in the Indian Made Foreign Liquor (IMFL) and Indian Made Indian Liquor (IMIL) space, along with the healthy revenue visibility for ethanol and ethyl alcohol. Moreover, the ratings draw comfort from the healthy improvement in the profitability in FY2021, led by better product mix as well as benign raw material prices. Growing cash accruals and no major debt addition plans are expected to keep the debt coverage metrics at a comfortable level.

However, the ratings are constrained by the intensely competitive and highly regulated nature of the alcohol industry, which might impact the company's growth and margins in the future. Confined to a specific region, PAPL thus has a moderate operating scale. Further, it has a working capital-intensive nature of operations due to upfront payment of excise duty and high repayment days with the government agencies. Further, PAPL's margins remain exposed to volatility in raw material prices particularly in the distillery division.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that PAPL will continue to benefit from the diversified revenue sources, its relationship with its key customers and strong presence in the alcohol industry in HP and Chandigarh.

Key rating drivers and their description

Credit strengths

Diversified product mix characterised by ENA, ethanol, ethyl alcohol, IMFL and IMIL – PAPL has a fairly diversified revenue source. The distillery division accounted for 74% (including revenue from by-products) of its income, while the bottling division constituted 26% of its revenues in FY2021. Ethyl alcohol, extra neutral alcohol (ENA) and ethanol contributed to 26.9%, 23.4% and 15.1% of its revenues, respectively, in FY2021, in the distillery division. Under the bottling division, it derived 14.3% revenue from own brands (IMFL and IMIL), with bottling fees (IMFL) of 11.7%. The company sells ethanol to Indian Oil Corporation and Hindustan Petroleum Corporation Limited (HPCL) through government tenders. Being a sizeable player in the state, it is expected to receive healthy demand in this segment. Further, it sells ethyl alcohol to a mix of established FMCG and pharmaceutical players based in the industrial areas in the state.

Dominant position in HP in IMFL segment, associated with global majors – PAPL has a dominant position in HP and Chandigarh with ~30% market share in the IMFL segment. The company also has a long association with liquor majors. PAPL supplies ENA to United Spirits, Pernod Ricard and Allied Blenders & Distillers Limited and undertakes contract manufacturing of IMFL and bottling for United Spirits.

Sustained improvement in revenue and profitability – PAPL has reported sustained improvement in revenue and profitability owing to changes in product mix and favourable movement in input prices. The company has reported Rs. 53-crore revenues in Q1 FY2022 and enjoys healthy revenue visibility in FY2022, driven by growth in ethanol and ethyl alcohol. It has recently completed capacity expansion in the distillery division, which witnessed 100% capacity utilisation in FY2021. Thus, the company is expected to register a growth of 10-15% led by the ethanol and ethyl alcohol segments.

Healthy financial profile and comfortable debt coverage metrics – PAPL has a healthy financial profile with comfortable debt protection metrics owing to strong profitability. The company reported interest coverage and DSCR of 6.6 times and 2.6 times in FY2021, compared to 3 times and 1 times, respectively, in FY2020. There has been a significant improvement in its debt coverage metrics in FY2021 due to a considerable increase in profitability margins. Moreover, with no major debt plans and expected healthy profitability, PAPL's debt coverage is likely to remain comfortable in the medium term.

Credit challenges

Moderate scale of operations in an intensely competitive alcohol industry – PAPL has a moderate scale of operations in an intensely competitive alcohol industry with the presence of a few big players and numerous modest and small players. However, the risk is mitigated to some extent by its diverse product and client mix.

Vulnerability to changes in raw material prices and regulated nature of prices of end-products – PAPL reported a fluctuating operating profit margin during the past three to four years due to volatile raw material prices. The rise in raw material price directly impacts its profit margins due to its inability to pass on the same to the consumers. Moreover, IMIL selling prices are controlled by the state government. Thus, any large changes in input prices could impact PAPL's return metrics, though in such instances typically players do receive some price revisions in IMIL/IMFL prices on a yearly basis.

Highly regulated alcohol industry – The liquor industry is highly regulated 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 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

PAPL's liquidity profile is **adequate,** supported by the healthy cash generation from business. The cash credit utilisation remained high at ~85% for the last 12-month period ending in June 2021. However, there has been a gradual decline in utilisation since February 2021 supported by healthy cash generation from business and completion of capex. This apart, the company would receive a term loan of Rs. 12 crore as reimbursement for capital expenditure incurred in FY2021. The cash flows from business are sufficient to manage its repayment liability and additional working capital requirement, if any. ICRA also notes that the company also maintains Rs. 4.25 crore of DSRA for the term loan and Rs. 2.78 crore as collateral to the cash credit.

Rating sensitivities

Positive factors – ICRA could upgrade PAPL's ratings if there is sustained growth in its revenues while maintaining healthy profitability margins and strong financial profile.

Negative factors – Negative pressure on PAPL's ratings could arise if there is a decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position or DSCR of less than 1.6 times, on a consistent basis, could also trigger a rating downgrade.

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 standalone financial of PAPL

About the company

PAPL is promoted by Ms Shikha Gupta and the Almondz Group (represented by Mr. Navjeet Singh Sobti). It has a grain-based distillery in Himachal Pradesh with an installed capacity of 55 kilo litres per day (KLPD) of ENA and 30 KLPD for ethanol, and a bottling plant with capacity of 18,00,000 cases per annum for IMFL and IMIL. The production capacity in the distillery would increase in 80 KLPD in FY2022 with the recent capital expenditure. The company also has a power generation plant of 1.5 megawatt (MW) to partly meet its power requirement.

Key financial indicators (audited)

PAPL standalone	FY2020	FY2021
Operating Income (Rs. crore) #	201.5	208.2
PAT (Rs. crore)	5.8	27.6
OPBDIT/OI (%)	9.7%	20.3%
PAT/OI (%)	2.9%	13.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.2x	1.2x
Total Debt/OPBDIT (times)	3.1x	1.2x
Interest Coverage (times)	3.0x	6.6x

Source: Company data

#FY2020 OI is including tie-up manufacturing sales (TMS) from USL, FY2021 OI is excluding TMS as PAPL adopted Ind AS 115

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss) /(Interest + Repayments made during the Year)

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 (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 12, 2021	-	-	-
1	Cash Credit	Long Term	19.00	-	[ICRA]BBB (Stable)	-	-	-
2	Term Loan	Long Term	3.00	3.00	[ICRA]BBB (Stable)	-	-	-
3	Bank Guarantee	Short Term	3.00	-	[ICRA]A3+	-	-	-

*Source: Company data; *as on March 31, 2021*

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Short Term- 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
SBI*	Cash Credit	-	-	-	19.00	[ICRA]BBB (Stable)
SBI	Term Loan	July 2016	-	June 2023	3.00	[ICRA]BBB (Stable)
SBI	Bank Guarantee	-	-	-	3.00	[ICRA]A3+

*Source: Company data; *State Bank of India*

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

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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