August 26, 2021

Mohan Meakin Limited: [ICRA]A- (Stable)/A2+ upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	65.00	65.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-term – Non-fund-based limits	10.00	10.00	[ICRA]A2+; upgraded from [ICRA]A2
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade notes the continuous improvement in Mohan Meakin Limited's (MML) financial risk profile characterised by increasing profitability, debt-free capital structure and healthy liquidity position. The ratings reflect the sustained improvement in its operational performance, supported by healthy volumetric growth led by its flagship product, despite the industry-wide operational challenges posed by the pandemic. The ratings take into account MML's strong nation-wide presence in the Indian made foreign liquor (IMFL) segment and established brand reputation of Old Monk in the rum segment.

The ratings, however, are constrained by the concentration risks due to high dependence on a single brand – Old Monk – for most of its sales, and MML's limited presence in other product categories. ICRA, however, notes the initiatives taken by the company towards new product launches across alcoholic and non-alcoholic segments, which could augur well for its revenue diversity in the long run. Further, the company is exposed to raw material availability and pricing risk, which is heightened considering MML's reliance on external parties for purchase of spirits, as well as its relatively lower scale and margins. Additionally, the ratings are also constrained by the high business risk inherent in the liquor industry owing to high taxes, stringent Government controls and regulations, and limited pricing power.

The Stable outlook on the rating reflects ICRA's opinion that MML would continue to benefit from its strong market position, established brand name and track record in the industry.

Key rating drivers and their description

Credit strengths

Experienced management and strong reputation in industry – MML is an established company with a proven track record of over 150 years in the liquor manufacturing industry. The Mohan family took over the company's operations in 1949 and has been one of the well-known players in the Indian liquor industry since then. Mr. Hemant Mohan, who belongs to the family's second generation, has been at the helm of affairs since the last few years.

Continued growth supported by reputed brand and established market position – MML has a strong brand recognition and an established position with Old Monk in the domestic IMFL market, particularly in the rum segment. It enjoys a long operational track record and an established pan-India presence in the domestic IMFL market. This has enabled the company to post growth (both in value as well as volume terms) in FY2021, despite the macro-economic headwinds and operational challenges pursuant to the Covid-19 pandemic. In FY2021, MML's operating income (OI) grew by 7% to Rs. 761.60 crore from Rs. 709.59 crore in the previous fiscal, supported by an 8.7% growth in volumes. Further, it has already booked sales of Rs. 104.63 crore in Q1 FY2022 against Rs. 73.85 crore in Q1 FY2021 and posted an improvement in its bottom line, supported by one-time income. The above does not include sizeable volumes produced by the bottlers associated with the company for sales in various parts of the country, wherein too the brand has witnessed good growth. MML earns royalty from these bottlers for selling the raw materials of the final produce and for using its brand name.

Healthy financial profile – The company posted a 26.23% growth in cash accruals in FY2021, with volume and margin improvements across its segments. It maintained a robust capital structure as reflected by gearing of 0.11 times and total debt/OPBDITA of 0.02 times as on March 31, 2021. The coverage indicators continued to remain strong with interest coverage of 19.36 times and TOL/TNW of 0.82 times on account of debt-free capital structure. Further, with no major debt under consideration, MML's debt coverage is likely to remain comfortable in the medium term.

Credit challenges

Moderate scale and margins as compared to other large players in the industry – While the company's operating scale witnessed a CAGR of 13% during the last four fiscals, it remains significantly lower than the scale of other established industry peers. However, MML books only the royalty income in its top line for nearly 65% of its sales volume. Further, its operating margins, which have been in the range of 6%-7.5% over the last three fiscals, are lower than other established market players despite its strong brand. Nevertheless, various measures taken by the management, like replacing the ageing machinery and active management of bottlers/franchisee, have been successful in improving its operational efficiency. MML has also maintained a healthy ROCE over the last few years.

Concentrated product portfolio – MML's product portfolio remains concentrated towards the rum segment. In volume terms, the rum segment contributed to nearly 85% of the total IMFL cases sold by MML in FY2021. However, it has been diversifying the product portfolio by introducing brands in other product categories over the last few years. Further, the company has undertaken capex in the brewery segment, which is expected to result in an increase sales volume from this segment. Focus on exports, along with the diversification initiatives, augur well for the company's long-term growth prospects.

Exposure to regulatory changes; intense competition – The liquor industry is highly regulated, with the state government controlling the sales and distribution, making the company susceptible to changes in the Government policies. The Government levies various duties such as excise duty, sales tax, license fee, state-level import and export duty, 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 in partly mitigating the competition-related risks.

Liquidity position: Strong

MML's liquidity position is **strong** backed by positive funds flow from operations (FFO), minimal long-term debt repayment obligations, healthy unencumbered cash and liquid balances. Its liquidity profile is further supported by the availability of sufficient undrawn bank limits for its working capital requirements. The average utilisation for sanctioned working capital limit stood at 18% over the last twelve months period ending in July 2021.

Rating sensitivities

Positive factors – The ratings may be revised upwards if the company demonstrates sizeable scale-up in operations through greater diversification of its product profile, along with a sustained improvement in its profitability while maintaining healthy debt coverage and liquidity.

Negative factors – Downward pressure on MML's ratings could arise if there is a substantial decline in revenues and operating margins, resulting in subdued cash accruals or increased leverage. Any adverse regulatory action could also lead to a downward rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the entity

About the company

MML was established in 1855 by Mr. Edward Dyer, who established the entity as the first brewery in India. In 1949, the Late Narendra N. Mohan took over its operations and as on June 30, 2021, the Mohan family owns majority stake in the company. MML owns brands such as Old Monk in the rum segment and Meakin 10000, Asia 72, and Golden Eagle in the beer segment. It has two manufacturing facilities to manufacture beer, spirit, and food products (largely grain flakes) at Mohan Nagar in UP and Kasauli/Solan in Himachal Pradesh (HP). In addition, it has bottling plants at Mohangram in Punjab and Solan in HP.

Key financial indicators (audited)

MML Standalone	FY2020 (A)	FY2021 (A)
Operating Income (Rs. crore)	709.59	761.60
PAT (Rs. crore)	26.41	40.31
OPBDIT/OI (%)	6.02%	7.41%
PAT/OI (%)	3.7%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.15	0.82
Total Debt/OPBDIT (times)	0.21	0.02
Interest Coverage (times)	15.97	19.36

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 (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	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 26, 2021	Aug 6, 2020	Aug 19, 2019	Sep 27, 2018
1	Cash credit	Long-term	65.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2.	Non-fund Based	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Short-term Non Fund Based Limits	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: Click Here

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	Cash credit	-	NA	-	65.00	[ICRA]A- (Stable)
NA	Non-fund based limits	-	NA	-	10.00	[ICRA]A2+

Source: *Company*

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.

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