

March 24, 2023<sup>(Revised)</sup>

## Himalaya Traders: Ratings assigned

### Summary of rating action

| Instrument*                            | Current Rated Amount<br>(Rs. crore) | Rating Action                         |
|--|-------------------------------------|---------------------------------------|
| Long-term Fund-based – Cash Credit     | 22.00                               | [ICRA]BB (Stable); assigned           |
| Long-term Fund-based – Term Loans      | 6.41                                | [ICRA]BB (Stable); assigned           |
| Short-term Non-fund Based              | 25.00                               | [ICRA]A4; assigned                    |
| Long-term and Short-term – Unallocated | 0.59                                | [ICRA]BB (Stable)/ [ICRA]A4; assigned |
| <b>Total</b>                           | <b>54.00</b>                        |                                       |

\*Instrument details are provided in Annexure-I

### Rationale

ICRA's ratings take into account the experience of Himalaya Traders' (Himalaya) promoters in the liquor retail business in Madhya Pradesh. Himalaya owns licenses for liquor shops and sells Indian-made country liquor (IMIL), Indian-made foreign liquor (IMFL) and beer across five districts of Madhya Pradesh. Moreover, a favourable demand outlook for the sector augurs well for the firm.

The ratings, however, are constrained by the intensely competitive nature of the liquor retail industry due to various small players in the field, who bid for retail licence at competitive prices. This, in turn, limits the profitability, which is reflected in Himalaya's moderate and fluctuating profit margins since its inception. This apart, the Indian liquor industry is highly regulated by the state governments, including production, wholesale and retail distribution. Moreover, the firm's limited track record, moderate operating scale and limited revenue visibility as is prevalent in the liquor retailing business also constrains the rating. The firm's working capital requirements remain sizeable given the requirement of upfront payments for procuring inventory and paying associated excise duty. ICRA also notes advances extended by the firm to third parties on a regular basis, timely receipt of the same when needed will remain crucial for smooth cash flow management.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the company would continue to benefit from the partners' experience in the liquor retailing segment and the favorable demand outlook for the sector.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters** – The promoters have been involved in liquor retail and associated business activities for around two decades. The partners, Mr. Ashish Shukla and Mr. Manoj Mishra have more than 20-15 years of experience in the liquor retail industry in Madhya Pradesh.

**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. With the waning impact of the pandemic, the alcobev industry witnessed a healthy revival in FY2022 and the current fiscal, and is poised to report healthy growth in the medium term as well.

## Credit challenges

**Volatile and low profitability due to trading nature of business** – Himalaya’s profitability is modest due to the trading nature of its business. The firm has reported operating profit margin (OPM) in the wide range of ~7-12% during FY2021 to 9M FY2023, depending on the rental, administrative expenses and discount offered to retail consumers to push for additional sales.

**Modest revenue visibility given the tendering nature of business** – Himalaya’s revenue visibility is moderate as its license are supposed to be renewed or retendered on an annual basis. This is reflected in its revenue volatility as well. The firm’s ability to gauge the sales visibility for the shops being bid for remains crucial for successful performance of the business. The firm achieved its license fee targets for FY2023 comfortably. For the next fiscal, the firm has received license for 30 shops, while the tendering process is undergoing for the key districts.

**High working capital intensity** – The working capital intensity is high at ~30-40% mainly due to the high inventory requirement and no credit available from suppliers. The average inventory holding was ~Rs. 32 crore in the last 16-month period ending in December 2022. The firm pays in cash to procure its inventory from the state government, which also includes excise duty payments. The company also pays the basic license fee in advance in March every year, for the next fiscal, which leads to high funding reflected on its balance sheet date. Notably, the firm has extended substantial advances to third parties, and has also received funding support from third parties.

**Intense competition in highly regulated alcohol industry** – The liquor industry is intensely competitive due to numerous small players. It is a highly regulated industry with the state government controlling the sales and distribution, making the firm susceptible to changes in Government policies. Any change in 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 firm.

## Liquidity position: Stretched

Himalaya’s liquidity position is **stretched** due to low cash generation from the business and high utilisation of cash credit limits of ~92% in the 15-month period ending February 2023. The firm has also availed emergency credit line guarantee scheme (ECLGS) term loan in November 2021, which has a yearly repayment of Rs. 2.41 crore starting from November 2023. The firm has extended substantial advances to third-party entities. In case of any weakness in sales volumes, it will be dependent on partners’ funding or receipt of the aforementioned advances to fulfil its license obligations.

## Rating sensitivities

**Positive factors** – The ratings can be upgraded in case there is a sustained improvement in earnings and liquidity profile. Specific credit metrics of TOL/TNW less than 2.5 times on a sustained basis would be considered for a rating upgrade.

**Negative factors** – ICRA could downgrade the ratings in case there is a sharp decline in scale and profitability resulting in deterioration in credit metrics and liquidity of the company. Any sizeable withdrawals or advances extended to third parties leading to liquidity pressures will also be a key rating factor. Specific credit metrics of interest coverage less than 2.3 times on a sustained basis would be considered for a rating downgrade.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a> |
| Parent/Group support            | Not applicable                                      |
| Consolidation/Standalone        | Standalone financial profile of Himalaya            |

## About the company

Himalaya is involved in the liquor retail business in Madhya Pradesh. The company commenced its operations from FY2021 with three districts of Madhya Pradesh, which increased to five districts by FY2023. The business is managed by Mr. Ashish Shukla and Mr. Manoj Mishra, who have more than two decades of experience in liquor retailing.

### Key financial indicators (audited)

| Himalaya standalone                                  | FY2021 | FY2022 | 9M FY2023* |
|--|--------|--------|------------|
| Operating income                                     | 129.2  | 113.8  | 125.8      |
| PAT  | 10.4   | 10.1   | 6.5        |
| OPBDIT/OI  | 9.3%   | 11.6%  | 7.2%       |
| PAT/OI   | 8.1%   | 8.9%   | 5.2%       |
| Total outside liabilities/Tangible net worth (times) | 2.7x   | 2.8x   | 1.8x       |
| Total debt/OPBDIT (times)                            | 1.5x   | 2.1x   | 2.3x       |
| Interest coverage (times)                            | 6.2x   | 3.9x   | 3.6x       |

Source: Company, \*provisional financial submitted by management

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

| Instrument       | Type                     | Current rating (FY2023)  |                                  | Chronology of rating history for the past 3 years |                         |                         |                         |
|------------------|--------------------------|--------------------------|----------------------------------|---|-------------------------|-------------------------|-------------------------|
|                  |                          | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) * | Date & rating in FY2023                           | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
|                  |                          |                          |                                  | Mar 24, 2023                                      | -                       | -                       | -                       |
| 1 Cash Credit    | Long Term                | 22.00                    | -                                | [ICRA]BB (Stable)                                 | -                       | -                       | -                       |
| 2 Term Loan      | Long Term                | 6.41                     | 6.41                             | [ICRA]BB (Stable)                                 | -                       | -                       | -                       |
| 3 Bank Guarantee | Short Term               | 25.00                    | -                                | [ICRA]A4  | -                       | -                       | -                       |
| 4 Unallocated    | Long Term/<br>Short Term | 0.59                     | -                                | [ICRA]BB (Stable)<br>/ [ICRA]A4                   | -                       | -                       | -                       |

Source: Company, \*as on February 28, 2023

### Complexity level of the rated instruments

| Instrument                                 | Complexity Indicator |
|--|----------------------|
| Long term Fund-based – Cash Credit         | Simple               |
| Long term Fund-based – Term Loan           | Simple               |
| Short term Non Fund-based – Bank Guarantee | Very Simple          |
| Long term and Short term – Unallocated     | NA                   |

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   | Cash Credit     | NA               | NA          | NA       | 22.00                    | [ICRA]BB (Stable)            |
| NA   | Term Loan       | Nov 2021         | NA          | Nov 2026 | 6.41                     | [ICRA]BB (Stable)            |
| NA   | Bank Guarantee  | NA               | NA          | NA       | 25.00                    | [ICRA]A4                     |
| NA   | Unallocated     | NA               | NA          | NA       | 0.59                     | [ICRA]BB (Stable) / [ICRA]A4 |

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**
**Corrigendum**

Rationale dated March 24, 2023, has been corrected with revision as detailed below:

Summary table Unallocated instrument has been corrected as “Long-term and Short-term – Unallocated” from “Long-term – Unallocated”.

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