

Khoday India Limited

June 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]B+ (Stable); revised from [ICRA]BB-(Stable)
Total	-	-	

Rating action

ICRA has revised the long-term rating assigned to issuer rating of Khoday India Limited (KIL/ the company) ¹ to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]BB- (pronounced ICRA double B minus)². The outlook on the long-term rating is 'Stable'.

Rationale

The rating revision reflects KIL's weak performance during FY2018. The company's revenues declined by 6.4% in FY2018 on YoY basis due to policy changes by the state governments, local body elections in the vicinity of the distillery and high competition. The relatively low capacity utilization and weak absorption of fixed costs resulted in operating losses. As a result of the subdued performance, the company had stretched coverage indicators – Interest coverage of -0.2 times – for FY2018 and weak liquidity. KIL continues to have high working capital intensity (75.6% in FY2018) because of its high inventory levels.

The ratings also factor in the high competitive intensity in the domestic IMFL industry and company's high geographic concentration with the Karnataka market accounting for 88% sales in FY2018. However, the ratings remain supported by KIL's established presence in the domestic alcoholic beverage industry. Also, the promoters have demonstrated financial support for KIL by way of regular fund infusion over the years; and would continue to support going forward as well.

Outlook: Stable

ICRA believes that Khoday India Limited will continue to benefit from established presence of its products. The outlook may be revised to 'Positive' if the company's revenues and profit margins improve significantly. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity further.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details

Key rating drivers

Credit strengths

Established presence of the company; – ‘Khoday’ is a well-known name in the domestic Indian Made Foreign Liquor (IMFL) industry and has had over 50 years of presence. The company also has several established brands such as Peter Scot Whisky, Khoday’s XXX rum, Red Knight Whisky etc. Flagship brand, ‘Khoday’s XXX’ rum is well-known in the market. KIL has a strong distribution network encompassing almost 35,000 retail touch points across the country.

Financial support from promoters - The promoters and group companies have extensive land parcels. As on date, of the total debt Rs. 238.2 crore, Rs. 188.8 crore is in the form of unsecured debt, with no scheduled repayments. The promoters would continue to support the company for any liquidity and cash flow requirements.

Credit challenges

Stretched financial profile- The company’s FY2018 revenues declined by 6.4% (YoY) because of policy changes by the state governments, local body elections in the vicinity of the distillery and high competition. The relatively low capacity utilization and weaker absorption of fixed costs resulted in operating losses for the company. The weak financial performance has also impacted the company’s coverage metrics and liquidity position. Further, KIL has high working capital intensity of (75.6% in FY2018), because of high inventory levels.

High regional concentration exposes to regulatory risks - The company generates majority of its revenues from the southern markets with Karnataka being the largest state for KIL. Historically the company has generated majority of its revenues from Karnataka - which accounts for over 85% revenues, this exposes the company to risk of any adverse policy changes in the state. However, the company has been focusing on reducing its dependence on Karnataka market by strengthening presence in other regions.

High competitive intensity - The domestic IMFL industry is characterised by high competitive intensity, with presence of large players. This could restrict growth for the company to extent, although KIL’s established brands are a positive for the company and mitigating competitive risks.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Khoday India Limited (KIL), incorporated on September 28, 1965 as Khoday Distilleries Limited is primarily engaged in the manufacturing and marketing of Indian Made Foreign Liquor (IMFL) such as malt whisky, gin, brandy and rum. Some of its alcohol brands include Peter Scot Whiskey, Red Knight Whiskey, Khoday’s XXX Rum, Hercules XXX Rum, Hercules XXX White Rum, Hercules Beer, Sovereign Brandy and Hercules XXX Deluxe Rum, among others. KIL forms part of the Khoday Group—founded in 1906 by Mr. Khoday Eshwarsa and headquartered in Bangalore. The Khoday Group of companies include Khoday Engineering, Khoday Contact Center, Ram Mohan Travels, Khoday Biotech, Khoday Agro, Khoday Technologies, Khoday Glass, Khoday Silks and Khoday LK Power, among others

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	147.7	138.3
PAT (Rs. crore)	(8.6)	(10.7)
OPBDIT/ OI (%)	1.2%	-0.8%
RoCE (%)	-0.5%	-2.0%
Total Debt/ TNW (times)	27.1	-84.8
Total Debt/ OPBDIT (times)	123.5	(227.4)
Interest coverage (times)	0.2	-0.2

Source: Company and ICRA research; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PBIT: Profit before Interest and Taxes; APAT: Adjusted Profit after Tax; DTL: Deferred Tax Liability; CWIP: Capital Work-In-Progress; NCA: Net Cash Accruals; TOL: Total Outside Liabilities; DSCR: Debt Service Coverage Ratio;

Status of non-cooperation with previous CRA:

Brickworks, vide its rationale published in December 2016 has stated that the Khoday India Limited's rating was due for annual review in Sep 2016 and that the rating was not reviewed as the company did not provide the required information for carrying out the review.

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Issuer Rating	Long Term	-	-	June 2018 [ICRA]B+ (Stable)	Jan 2018 [ICRA]BB- (Stable)	Oct 2016 IrBB- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Issuer rating	-	-	-	-	[ICRA]B+ (Stable)
Source: company						

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About ICRA Limited:

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