November 02, 2022

Mohan Meakin Limited: Ratings reaffirmed; outlook revised to Positive

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- (Positive); Reaffirmed, outlook revised from Stable to Positive
Short-term Non-fund Based Limits	10.00	10.00	[ICRA]A2+; reaffirmed
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision from Stable to Positive takes into account the significant improvement in scale of Mohan Meakin Limited (MML), which is expected to continue in the near to medium term, supported by buoyant demand in the domestic market. In addition to the sustained improvement in its operational performance, the company's efforts to further diversify its product basket are expected to support its sales volumes. ICRA will monitor the company's ability to improve its margin profile, which is vulnerable to fluctuation in prices of key raw material such as Extra Neutral Alcohol (ENA) and glass. While the company receives price revisions on an annual basis from state governments, the same happens with a lag and often to a limited extent. The ratings further consider MML's long track record, strong nation-wide presence in the Indian made foreign liquor (IMFL) segment and established brand reputation of its flagship product, Old Monk. The ratings also factor in MML's healthy financial risk profile characterised by healthy revenue growth, debt-free capital structure and healthy liquidity position.

The ratings, however, are constrained by the concentration risks from MML's high dependence on a single brand, Old Monk, for its sales, and its current limited presence in other product categories. Further, the ratings are constrained by the moderate profitability of MML compared to its peers, which is largely because it operates in the low-margin segment. Further, the company is exposed to raw material availability and pricing risks, which are heightened by its reliance on external parties for purchase of spirits (ENA). Additionally, the ratings are constrained by the high business risk inherent in the liquor industry owing to high taxes, stringent Government controls and regulations, and limited pricing power.

Key rating drivers and their description

Credit strengths

Experienced management and long operating track record – MML is an established company with a track record of over 150 years in the liquor manufacturing industry. The company operates through its own as well as franchisee manufacturing models. The Mohan family took over the company's operations in 1949 and has remained well-known players in the Indian liquor industry ever since. Mr. Hemant Mohan, from the family's second generation, has been at the helm of affairs in recent years.

Reputed brand and established market position – MML enjoys a strong brand recognition and established position because of its Old Monk brand in the domestic IMFL market. The company has an established pan India presence in this domestic segment and also generates ~17% of its revenues from exports, as per FY2022 numbers. This healthy brand reputation has enabled the company to post growth (both in value as well as volume terms) in FY2021 as well as FY2022, despite the macro-economic headwinds and operational challenges pursuant to the Covid-19 pandemic. The volumetric growth has further continued in the current fiscal.

Healthy growth in scale in FY2022 and current fiscal owing to buoyant domestic demand – In FY2022, MML's operating income (OI) grew by ~34% to Rs. 1,023.9 crore from Rs. 762.6 crore in the previous fiscal, supported by ~29% growth in volumes. Further, it has already booked sales of Rs. 211 crore in Q1 FY2023 against Rs. 104.6 crore in Q1 FY2022 depicting a growth of more than 100%. The significant growth in volumes and the overall top line of the company is mainly driven by the robust demand witnessed after the second wave of the pandemic. ICRA expects the company to continue to register healthy growth in FY2023, with winters being the peak season for its flagship product, supported by a healthy demand outlook.

Healthy credit metrics led by negligible debt – The company posted ~24% growth in cash accruals in FY2022, mostly led by volume growth across its product segments. In addition, it maintained a robust capital structure with almost negligible debt levels as on March 31, 2022. The coverage indicators continued to remain strong with interest coverage of ~46.0 times and TOL/TNW of 0.64 time because of a near debt-free capital structure. MML has plans to set up a distillery in the medium term; however, the scope and funding plans are yet to be finalised. Thus, in absence of any major debt raising plans, MML's debt coverage is likely to remain comfortable in the medium term.

Credit challenges

Moderate scale and margins over other large players in the industry – While the company's operating scale witnessed a CAGR of 22% during the previous five fiscals, this remains significantly lower than the scale of other established industry peers. However, ICRA notes that 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. This is because, while the key revenue contributor—Old Monk—is a strong brand, it remains a lower priced product than the portfolio of other players operating in the premium segment. Nevertheless, ICRA notes that various measures taken by the management, such as replacing the ageing machinery and active management of bottlers/franchisee, have been successful in improving its operational efficiency in recent years.

Concentrated product portfolio – MML's product portfolio remains concentrated towards the rum segment. In volume terms, this segment drove nearly 85% of the total IMFL cases sold by MML in FY2022. However, it has been diversifying its product portfolio by introducing brands in other product categories over the last few years. The company has added some premium brands in its gin and whiskey segments in the current fiscal. In addition, MML has witnessed growth in its beer sales by adding craft beers to its overall brewery portfolio. Sharpened focus on exports, along with its diversification initiatives, including in its non-alcoholic segments, augur well for the company's long-term growth and diversification prospects.

Profitability vulnerable to increase in raw material prices – MML's profitability is prone to fluctuations in raw material prices, particularly ENA, whose prices have been following an increasing trend since H2 FY2022 and have continued till September 2022. MML procures ENA from third parties; and the price increase has been steeper in the current fiscal, resulting in contraction in profitability in Q1 FY2023. ICRA notes that the company typically faces price escalation from state governments with a lag, and the extent of escalation could vary. The same may result in better profitability, going forward. Apart from ENA, the company has also been dealing with higher glass and packaging costs. MML's ability to improve its profitability is, thus, a rating monitorable.

Exposure to regulatory changes; intense competition – The liquor industry is highly regulated, with state governments typically controlling the sales and distribution, making the company susceptible to changes in 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 it in partly mitigating the competition-related risks in these sub-segments.

Environmental and Social Risks

Environmental considerations: MML is one of the oldest distillery and brewing companies in India, which operates through several manufacturing units and franchisees. Environmental risks for industry players include discharge of hazardous and pollutant waste. All units of MML are equipped with wastewater treatment facilities. The company has also taken up various activities to recycle water. Further, the company uses boilers to reduce its dependence on coal and wood.

Social considerations: MML is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, as well as to evolving regulatory and societal attitudes towards alcohol-containing products, which can affect demand. Further, MMLL faces high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations.

Liquidity position: Strong

MML's liquidity position is **strong** backed by positive fund flows from operations (FFO), minimal long-term debt repayment obligations, and 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. As on March 31, 2022, the company had Rs. 67 crore of free cash, which was further supported by availability of Rs. 65 crore of working capital limits, for which utilisation for the last 18-months ending September 2022 stood at ~2.0%.

Rating sensitivities

Positive factors – The ratings may be revised upwards if the company demonstrates sustained improvement in its profitability, while maintaining healthy debt coverage indicators and liquidity profile. Material diversification in product profile will also be considered positively for a rating upgrade.

Negative factors – Downward pressure on MML's ratings could arise if there is a substantial decline in revenues and/or operating margins, resulting in subdued cash accruals or increased leverage on a sustained basis. Any adverse regulatory action impacting the company's credit profile 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 March 31, 2022, the Mohan family-owned majority stake in the company. MML owns popular brands such as Old Monk in the rum segment, as well as Meakin 10000, Asia 72, and Golden Eagle in the beer segment. It has two manufacturing facilities for beer, spirits and food products (largely grain flakes) at Mohan Nagar, Uttar Pradesh, and at Kasauli/Solan in Himachal Pradesh. In addition, it has bottling plants at Mohangram (Punjab) and Solan.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022	Q1FY2023
Operating income	762.6	1,023.9	211.9
PAT (Rs. crore)	40.3	51.5	5.1
OPBDIT/OI (%)	7.5%	7.0%	3.6%
PAT/OI (%)	5.3%	5.0%	2.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.6	-
Total Debt/OPBDIT (times)	0.02	0.00	-
Interest coverage (times)	19.7	45.9	24.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 02, 2022	**Aug 26, 2021**	**Aug 6, 2020**	**Aug 19, 2019**
1	Cash credit	Long-term	65.00	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2.	Non-fund Based	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Short-term Non Fund Based Limits	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, are available on ICRA's website: www.icra.in

Annexure I: 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-(Positive)
NA	Non-fund Based Limit	-	-	-	10.00	[ICRA]A2+

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

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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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