August 06, 2020

Mohan Meakin Limited: Ratings upgraded; outlook revised to Stable

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]BBB+ (Stable); upgraded from [ICRA]BBB (Positive)
Short-term: Non-fund Based	10.00	10.00	[ICRA] A2, upgraded from [ICRA] A3+
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade for Mohan Meakin Limited (MML) reflects ICRA's belief that the company will maintain its strong market position over the medium term on the back of its established brand, widening distribution network, and its ongoing efforts to foray into new geographies for exports. The rating upgrade is also driven by ICRA's expectation that MML will sustain its improved financial profile characterised by conservative debt metrics and strong liquidity position. The company has reported a steady rise in accruals, along with declining debt levels, leading to strong debt protection metrics. As a cascading effect of healthy cash accruals, the company's liquidity position has also improved significantly, resulting in reduced working capital utilisation in the 12 months ending in March 2020. While the company's revenues and profitability are expected to moderate in the near term (as April 2020 reported negligible sales and the recovery in demand is expected to be gradual), ICRA expects the company's coverage indicators to remain strong on the back of controlled debt levels. ICRA continues to draw comfort from MML's operating track record of over 150 years in the Indian liquor industry; the established brand presence of its flagship brand—Old Monk—in the rum segment; its strong nationwide presence and favourable long-term volume outlook for the industry. The ratings also factor in MML's large and favourably located land bank, a part of which the company plans to monetise to fund any large capex requirements in the future.

The rating strengths are partially offset by the concentration risks arising out of MML's high dependence on a single brand—Old Monk—for most of its sales, and limited presence of the company in other product categories. Although MML has been diversifying its product portfolio with the launch of brands in other product categories over the last few years, the same is yet to gain significant traction. Its ability to ramp up operations in the newer product categories and sustain the margins at the current levels remains to be seen. In addition, the ratings are constrained by the company's high overheads and limited efficiencies in its manufacturing operations because of its vintage. These factors have resulted in subdued margins for the company compared to its peers in the industry. ICRA also notes the moderation in MML's operating margins in FY2020 due to an increase in ENA[1] prices and additional duties levied by a few states, which the company was not be able to fully pass on to the customers. Further, stiff competition, given the presence of some reputed and numerous regional players, and the vulnerability of the company's margins to volatility in raw material

[1] ENA: Extra Neutral Alcohol

prices remain rating concerns. Additionally, the ratings continue to be constrained by the high business risk inherent in the liquor industry owing to high taxes and stringent Government controls and regulations.

Further, the company's operating performance is likely to be impacted in FY2021 due to the Covid-19-related disruptions. Measures taken by various state governments involve temporary closure of non-critical establishments, including bars and hotels, along with advisories against travel and mass gatherings. These measures could impact MML's business risk profile. Nevertheless, the company's strong liquidity position will support it in meeting its business and financial obligations comfortably, should there be an extended region-specific lockdown and prolonged demand slowdown.

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

Reputed brand name and established market position – MML has a strong brand recognition and an established position with the brand, 'Old Monk' in the domestic IMFL[2] market. The company has a long operational track record and an established pan-India presence in the domestic IMFL market. Nonetheless, Old Monk accounts for ~90% of the total IMFL sales, which exposes it to product-concentration risk.

Experienced management; 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. As a result, it has achieved significant scale aided by steady growth in volumes.

Healthy financial profile – MML maintained its strong capital structure as reflected by gearing of 0.1 times and total debt/OPBDITA of 0.2 times as on March 31, 2020. While the company's profitability moderated in FY2020, the coverage indicators remained strong because of controlled debt levels. It also had a strong liquidity as reflected by cash and bank balances worth Rs. 15.8 crore as on March 31, 2020. Although the Covid-19-induced lockdown is expected to have some impact on MML's performance, in the absence of any major debt-funded capex/acquisition plans, MML's financial profile is likely to remain healthy.

Favourable demand outlook – India's liquor industry is expected to record the second fastest growth globally. The company's growth prospects are supported by favourable demographics and increasing urbanisation. In addition, the company has an established and growing pan-India distribution network, ensuring a wide reach that has helped it maintain its brand presence and boost revenue growth. However, ICRA believes that demand for the products may dip in the short term on account of the economic fallout following the spread of Covid-19.

[2] Indian-made foreign liquor

High entry barriers and strong hold in defence segment – While the highly regulated nature of the industry with substantial Government controls on advertising and taxes restricts growth to a certain extent, the same creates entry barriers for new players, thereby favouring incumbents. Further, MML is one of the suppliers of branded IMFL to the Canteen Stores Department (CSD), which provides significant business barriers to entry.

Credit challenges

Concentrated product portfolio – The company's product portfolio remains concentrated towards rum. Although MML has been diversifying its product portfolio with the launch of brands in other product categories over the last few years, the same is yet to gain significant traction. MML's ability to ramp up operations in the newer product categories and sustain the margins would be a credit positive.

Limited operational efficiencies result in modest profitability – The company's operational profile remains modest as reflected by low capacity utilisation due to plants of relatively older vintage, resulting in higher production costs. This, along with high overheads, has resulted in relatively lower profit margins. Further, the company's profitability remains exposed to volatility in raw material prices, primarily ENA, the price of which has fluctuated in the past. The risk is further intensified by the fact that the product prices for a particular financial year are decided at the beginning of the year itself by the respective state government. Hence, the company's ability to pass on any raw material price increase during the year remains limited.

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 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. Also, the domestic IMFL 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 for the company and help partly mitigate the competition related risks.

Project risks associated with large capital expenditure plans in Hathras – The company had been allotted land on lease at Hathras, UP from UPSIDC[3]. However, proper possession of the same has not been received. ICRA will continue to monitor the progress on the possession of the land, and any further capex on it and its impact on the company's financial profile.

Liquidity position: Strong

MML's liquidity position is **strong** backed by positive funds flow 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 bank limits for its working capital requirements. ICRA expects the company's liquidity to remain strong, despite ongoing operational challenges because of the Covid-19 impact.

[3] Uttar Pradesh State Industrial Development Corporation

Rating sensitivities

Positive triggers – The rating may be revised upwards if the company demonstrates scale-up in operations through greater diversification of its product profile, along with a sustained improvement in its profitability.

Negative triggers – Downward pressure on MML's rating could arise if the impact of the Covid-19 pandemic results in prolonged weakness in operating metrics. Moreover, substantial decline in revenues and operating margins, resulting in subdued cash accruals, may result in a rating downgrade. Any adverse regulatory action could also lead to a downward rating action.

Analytical approach

	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

MML was established in 1855 by Mr. Edward Dyer, who established the first brewery in India. In 1949, Late Narendra N. Mohan took over the operations of the company and as on June 30, 2019, the Mohan family owns the 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. MML 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)

	FY2019	FY2020
Operating Income (Rs. crore)	659.9	709.6
PAT (Rs. crore)	34.9	26.4
OPBDIT/OI (%)	7.7%	6.0%
RoCE (%)	62.5%	42.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.1
Total Debt/OPBDITA (times)	0.2	0.2
Interest Coverage (times)	17.0	16.0

Source: Financial statements of MML; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the Past 3 years		
			Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in		
						FY2020	FY2019	FY2018
			(Rs. crore)		August 6, 2020	August 19, 2019	September 27, 2018	July 20, 2017
1	Cash Credit	Long Term	65.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long Term	-	-	-	-	-	[ICRA]BB (Stable)
3	Non-fund Based	Short Term	10.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA] A4+
4	Unallocated	Long Term/Short Term	-	-	-	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB (Stable)/ [ICRA] A4+

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 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
-	Cash Credit	-	-	-	65.00	[ICRA]BBB+ (Stable)
-	Non-fund based	-	-	-	10.00	[ICRA]A2

Source: MML

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

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Vipin Jindal
+91 124 4545 355
vipin.jindal@icraindia.com

Manish Ballabh
+91 124 4545 812
manish.ballabh@icraindia.com

Sugandha Arora
+91 124 4545 398
sugandha.arora@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999