Press Release

Rajasthan Liquors Limited

November 19th, 2020

Ratings

Instrument/Facility	Amount (Rs.in Crore)	Ratings	Rating Action
Long term Bank Facilities – Fund Based – Cash Credit	110.00 (enhanced from INR 90.00 Cr)	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	**Reaffirmed**
Long term Bank Facilities – Fund Based – Term Loan	14.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	**Reaffirmed**
Short term Bank Facilities – Non Fund Based – Bank Guarantee	0.50	IVR A2+ (IVR Single A Two Plus)	**Reaffirmed**
Long term Bank Facilities – Fund Based – CCECL	11.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	**Assigned**
Proposed Long term Bank Facilities – Fund Based – Term Loan	25.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	**Assigned**
Total	**160.50**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the rating assigned to the bank facilities of Rajasthan Liquors Limited (RLL) takes into account improvement in scale, operating and profitability margins in FY20 with sustained performance in 7M FY21 (Provisional). Further, the ratings continues to derive comfort from experienced promoters, healthy relationship with liquor manufacturers, improvement in financial performance in FY19 & FY20 albeit moderation in profit margin, continuing association with reputed clientele to expand business & strategic acquisition of oil processing unit, comfortable capital structure and asset light expansion by lease of bottling plants. These rating strengths continues to remain partially offset by vulnerability to regulatory changes in the liquor industry, competition of unorganised players, volatility in input prices and Increase in working capital.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and improvement in profitability
- Sustenance of the capital structure and improvement in debt protection metrics
- Geographical diversification in sales

Downward factor:

- Dip in scale of operation with moderation in profitability impacting the debt protection metrics on a sustained basis
- Any negative Government regulations
- Moderation in the capital structure with TOL/TNW moderated above 3x and overall gearing above 1.50x

List of Key Rating Drivers with Detailed Description
Key Rating Strengths

- **Experienced promoters**

The promoter, Mr. Tilak Raj Sharma, has over three decades experience in the liquor industry and has been engaged in manufacturing, trading and retailing of liquor. Mr Tilak Raj Sharma has presence in several states and union territories, including Delhi, Uttar Pradesh, Rajasthan, Punjab and Maharashtra. The company is likely to benefit from the extensive experience of its promoters over the medium term.

- **Healthy relationship with liquor manufacturers**

RLL undertakes bottling for Pernod Ricard India Private Limited at both its bottling units situated at Derabassi (Punjab) and Jaipur (Rajasthan). In January 2017 the company has also entered into a franchisee agreement with United Spirits Ltd (USL) for manufacturing and marketing of some of their renowned brands such as Bagpiper Whisky, Mcdowell's etc. in Rajasthan.

- **Improvement in financial performance in FY19 & FY20, albeit moderation in profit margin**

RLL registered CAGR of ~31.56% in its total operating income over the past four years through FY20. This increase is driven by commencing of franchise agreement with USL during FY18. According to this agreement RLL has entered into a franchisee agreement with United Spirits Ltd (USL) for manufacturing and marketing of certain brands in the Rajasthan territory. The company has further entered into agreement with three bottlers for the manufacturing and packaging of the said brands. In FY18, the business arrangement with 2 out of 3 bottlers were as per principal to principal model basis instead of sublease model hence the revenue growth was on a lower side relatively as all the sales and purchases were getting reported in the books of bottlers and the entire profits were being transferred to RLL as brand owner's surplus at year end. During FY19, however, the agreement with another bottler had been changed to follow the sublease model and the company was able to recognise the entire sales by the said two bottlers in its own books. Thus, revenue has shown significant growth in FY19 which increased from INR 285.06 Cr in FY18 to INR 533.73 Cr in FY19. The revenue further increased to INR 677.35 Cr in FY20 and registered YOY growth of 26.91% as against FY19 which was driven by an increase in the volumes of liquor sold. Revenue growth in FY 19 and FY 20 is also due to the acquisition of the edible oil processing unit. Apart from this, increase in prices of ENA has also contributed to the increase in operating income.

The EBIDTA margin of the company declined from 13.84% in FY18 to 6.82% in FY19. This was mainly on account of change in business arrangements (adoption of sub-lease model in FY19) with USL where entire expenses had come under the books of RLL in FY19 onwards, earlier only profit was getting booked as part of the principal to principal agreement. However, the EBITDA margin picked up in FY20 to 8.22% from 6.82% in FY19 majorly due to increase in ENA prices.

- **Continuing association with reputed clientele to expand business & Strategic acquisition of Oil processing unit**

The Company has recently in FY20, entered into exclusive rights of distribution for brands of Sula, Amrut and Bira in Rajasthan. The Company has already entered into the agreements with these companies. The diversification with these distribution brands may show its real financial impact in future. Further, this will also restrict the dependence on revenue from USL and Pernod at present. Under a strategic move and towards diversification, RLL executed a merger with an edible oils group company and named it as Aarti Oils (a Unit of Rajasthan Liquors Limited). Aarti Oils is one of the names among the manufacturers of vegetable oil, crude oil, producer of raw material to vegetable oil and other by-products through its high capacity plant and machinery of Solvent and Refinery Plant situated at Rania, Kanpur Dehat. The main objective of this edible oil division is to carry on the business as Manufacturers, Producers, Processors, Refiners or otherwise deal in vegetable Oil, crude vegetable oil, mustered oil, DOC cakes of various agricultural feeds related to extraction of vegetable oil etc.

- **Comfortable capital structure**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 0.78x as on March 31, 2020 and improved from 1.22x as on March 31, 2019 due to repayment of long term debt in FY20 along with improvement in net worth. Further, total indebtedness of the company as reflected by TOL/TNW remained stable and comfortable at 1.32x (TOL/ANW at 1.47x) as on March 31, 2020 as against TOL/TNW at 1.95x (TOL/ANW at 2.01x) in FY19. The debt protection metrics remained strong, with interest coverage ratio at 3.23x in FY20.

- **Asset light expansion by lease of bottling plants**

In Jan 2017, RLL entered into a Franchise Agreement with United Spirits Limited for manufacturing and marketing of some of their renowned brands (as specified in the agreement) in the state of Rajasthan. For getting the manufacturing of IMFL done under the aforesaid arrangement, RLL has entered into complete sub- lease agreement with two bottlers namely, Alwar Malt and Agro Foods Manufacturers Company Limited (AMAF), Alwar and Rajawada Breweries and Bottling Private Limited (RBBPL), Kishangarh. The Company has also entered into principal to principal arrangement with Radico Khaitan Limited (RKL), Reengus.

Key Rating Weaknesses

- **Vulnerability to regulatory changes in the liquor industry**

The liquor industry in India is governed by strict government regulations and license regime that differ from state to state. India’s states each have their own regulatory controls on the production, marketing and distribution, and even pricing of alcohol. Further, high taxation and duties also make the industry dynamics complex. The business risk profile thus remains vulnerable to any changes in the license authorisation policy, taxes and duty structure.

- **Competition of unorganised players**

Alcohol industry is susceptible to low entry barriers and adulteration is common in the small set-ups of country liquor. Hence that poses a threat as those are cheaper options.

- **Volatility in input prices**

The price of ENA may vary as major raw material for ENA is grains (Broken rice) and price of same may vary depending on the production, since grains are seasonal products being susceptible to vagaries of nature.

- **Increase in working capital**

The operating cycle of the company remained moderate at 48 days in FY20 majorly due to high inventory at 37 days and receivable days at 39 in FY20.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

RLL is expected to generate healthy cash accruals over the medium term as against its repayment obligations on loans, marked by expected GCA of ~INR 50.79 Cr – ~INR 68.50 Cr from FY21-FY23, as against scheduled debt repayments of INR 13.00 Cr – INR 3.95 in the same period. Further, its bank limits remained moderately utilized to the extent of ~78% during the past 12 months ended September 2020 indicating moderate liquidity buffer and unencumbered cash and bank balances stood at INR 9.48 Cr in FY20. The current ratio stood at 0.94x in FY20.

About the Company

Rajasthan Liquors Limited (RLL) was incorporated as a Private Limited company in 1998. The Company commenced commercial operations in 2003. It was converted into a Public Limited Company in 2010.

RLL has tied up arrangement with Pernod Ricard India Private Limited (PRIPL) at both its bottling units situated at Derabassi (Punjab) and Jaipur (Rajasthan). There are many brands of PRIPL such as Royal Stag, Blenders Pride, Imperial Blue etc. which are bottled at both the units. The company only had bottling operations till 2014. In 2014-15, RLL set up a grain based distillery at Derabassi, Punjab for manufacturing of Extra Neutral Alcohol (ENA). Then in Jan 2017, RLL entered into a Franchise Agreement with United Spirits Limited for manufacturing and marketing of some of their renowned brands such as Bagpiper Whisky, Mcdowell's etc. in the state of Rajasthan. Bottling for USL started from April 2017. In FY20, the company has entered into exclusive rights for brands named as Bira, Sula & Amrut for the distribution in Rajasthan territory.

In FY19, under a strategic move RLL Acquired group company oil unit by way of merger, resulted in the diversification of RLL in solvent extraction and edible and refined oil business and named it as "Aarti Oils".

Financials: Standalone

(Rs.in crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	**Audited**
Total Operating Income	533.73	677.35
EBITDA	36.39	55.65
PAT	5.38	24.57
Tangible Net worth	139.12	163.96
^Adjusted Net worth	123.59	146.36
EBITDA Margin (%)	6.82	8.22
PAT Margin (%)	1.00	3.61
Overall Gearing Ratio (x)	1.18	0.88

**As per Infomerics Standards*

^Adjusted exposure towards group companies of RLL in the form of loans given and investments

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan -	Long Term	14.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	IVR A-/Stable (August 22, 2019)	-	-
2.	Cash Credit –	Long Term	110.00 (enhanced from INR 90.00 Cr)	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	IVR A-/Stable (August 22, 2019)	-	-
3.	Bank Guarantee -	Short Term	0.50	IVR A2+ (IVR Single A Two Plus)	IVR A2+ (August 22, 2019)	-	-
4.	Proposed Term Loan -	Long Term	25.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	-	-	-
5.	CCECL -	Long Term	11.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Rajat Maheshwari

Tel: (011) 24611910

Email: rmaheshwari@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	June 2021	14.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)
Long Term Bank Facilities – Cash Credit	-	-	Revolving	110.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)

Short Term Bank Facilities – BG	-	-	-	0.50	IVR A2+ (IVR Single A Two Plus)
Long Term Bank Facilities – CCECL	-	-	April 2022	11.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)
Long Term Bank Facilities – Proposed Term Loan	-	-	-	25.00	IVR A-/Stable outlook (IVR Single A Minus with Stable outlook)