Press Release

NV International Private Limited

November 03, 2020

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Current Rating	Previous Rating	Rating Action
Long Term Bank Facilities – Fund Based	91.00	IVR BBB- / Credit Watch with Negative Implications (IVR Triple B Minus/ Credit Watch with Negative Implications)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	**Revised**
Short Term Bank Facilities- Non-Fund Based	5.00	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three / Credit Watch with Negative Implications)	IVR A3 (IVR Single A Three)	**Revised**
Total	**96.00**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision of the rating to the bank facilities of NV International Private Limited (NVIPL) reflects the various news reports appeared in media relating to Mr Ashok Jain, Chairman of NV Group and the subsequent issuance of arrest warrant under his name by the Hon'ble Court, Panipat. **The rating is under credit watch with negative implications** on account of challenges posed due to above mentioned reasons. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit and operational risk profile of the company are clear.

The rating assigned to the bank facilities of NV International Private Limited (NVIPL) continues to draw comfort from parentage of the NV group and strong support from group synergy, locational advantage, improvement in financial performance of the NV group in FY19 albeit moderation in profit margin and satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics. The rating also positively factors in improvement in topline and margins in 9MFY20 (Standalone). However, the rating strengths are partially offset due to its volatility in input prices, competition from unorganized players, vulnerability to regulatory changes in the liquor industry and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and improvement in profitability leading to improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics
- Geographical diversification in sales

Downward factor:

- Moderation in operating income and/or profitability impacting the cash accruals
- Any stretch in working capital cycle driven by pile-up of inventory or stretched receivables or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.
- Withdrawal of subordinated unsecured loans amounting to Rs.18.36 crore from the NV Group and/or deterioration in overall gearing to over 1.5x and interest coverage to below 2x on a combined basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Parentage of the NV group and strong support from group synergy**

The promoters of the NV group have more than two decades of experience in the liquor industry. Currently, Mr. Ashok Jain (Whole Time Director) and Mr. Sameer Goyal (Managing Director) with more than two decades of experience in the industry is at the helm of affairs of the company. Since, last 10 years the promoters have been engaged in the related business through other group companies i.e. NVDBPL and NVDPL.

- **Locational advantage**

NV group distributes Country Liquor (CL) in Haryana & Punjab state & IMFL in Delhi, Haryana, Punjab, Uttarakhand, UP & Chattisgarh which is one of the biggest consumers of liquor in North Region. The group has 2 grain-based distillery in Ambala (Haryana) & 1 grain-based distillery in Rajpura (Punjab) which provides locational advantage in terms of availability of raw material (Broken Rice) in the state of Haryana & Punjab and neighboring states (like UP).

- **Improvement in financial performance of the NV group in FY19, albeit moderation in profit margin**

The NV Group's total operating income registered a CAGR of ~6% during FY17-FY19 with a y-o-y growth of ~8% in FY19, due to increase in sales realization from IMFL (in NVDBPL & NVPL) coupled with increase in capacity utilization as against previous year. The EBITDA margin have marginally moderated in FY19 as against FY18 majorly due to increased cost of raw materials on account of more usage in the quantity of the raw materials as well as increase in overall opex expenses, however, the groups absolute EBIDTA has increased from Rs.135.48 crore to Rs.138.90 crore in FY19 backed by scale up in the operations.

On a standalone basis, NVIPL's total operating income has remained almost stagnant during FY17-FY19 with a y-o-y growth of about ~7% in FY19, due to increase in sales realization from CL which has gone up by~ 23% coupled with increase in capacity utilization as against previous year. The EBIDTA margin of the company has moderated in FY 19 as against previous year though remained strong at 23.07%, due to increase in raw material cost and other opex expenses.

- **Satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics**

The NV group on a combined basis has satisfactory financial risk profile, the long term debt equity and the overall gearing ratio of the group stood satisfactory at 0.57x and 0.94x respectively as on March 31, 2019 and improved from 0.70x and 1.08x respectively as on March 31, 2018 driven by improvement in adjusted net worth (due to infusion of subordinated unsecured loans) and accretion of profits to net worth. The debt protection parameters reflected by interest coverage ratio remained comfortable and improved from 2.39x in FY18 to 2.66x in FY19 driven by improvement in absolute EBIDTA. Further, the Total debt to GCA and TOL/ANW (TOL/TNW) also remained comfortable at 5.13x and 1.24x (1.20x) as on March 31, 2019.

On a standalone basis, NVIPL has satisfactory financial risk profile, the long-term debt equity and the overall gearing ratio of the company stood satisfactory at 0.75x and 0.86x respectively as on March 31, 2019. The debt protection parameters reflected by interest coverage ratio remained moderate and marginally improved from 2.37x in FY18 to 2.96x in FY19. Further, the Total debt to GCA and TOL/TNW also remained moderate at 4.12 years and 1.12 years in FY19.

Key Rating Weaknesses

- **Volatility in input prices**

NV group uses ENA as a raw material for its production. About 50% of cost of raw materials equivalents to the ENA cost. The price of ENA may vary as major raw material for ENA is grains (Broken rice) and the same may vary depending on the production, since grains are seasonal products being susceptible to vagaries of nature.

- **Competition from established as well as unorganised players**

Alcohol industry is intensely competitive marked by presence of many established and reputed brands along with small set-ups of country liquor manufacturers.

- **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.

- **Working capital intensive nature of operations**

The operating cycle remained elongated at 109 days (though improved from 113 days & 123 days over the past two years), majorly due to stretched inventory days at 104 days in FY19. The major raw material for production is Grain (Broken Rice), majorly used by the company for manufacturing for Extra Neutral Alcohol, they maintain high stock of grain to ensure uninterrupted operation of distillery. This is being the seasonal item; there is volatility in prices during off season. Therefore they have to maintain higher inventory level to offset the impact of the price fluctuations. With regards to packing material, they manufacture no. of brands in different sizes and therefore they have to maintain enough stock of every category to avoid any hurdle in-timely availability of packing material. On a combined basis, the average utilisation of its working capital limits remained satisfactory at about 93.11% during the past 12 months ended on Feb, 2020. On a standalone basis, the average utilisation of its working capital limit of NVIPL remained satisfactory at about 80% during the past 12 months ended on Feb, 2020.

Analytical Approach: Consolidated

For arriving at the ratings, INFOMERICS analytical team has combined the financials of NV Distilleries Pvt Ltd (NVDPL), NV Distilleries & Breweries Pvt Ltd (NVDBPL), and NV International Pvt Ltd (NVIPL) commonly referred as NV Group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

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

Liquidity - Adequate

The NV group's liquidity profile is expected to remain adequate marked by its healthy cash accruals as compared to its overall debt repayment obligations. Further, the group as a whole has adequate gearing headroom on the back of its comfortable leverage ratios.

On a standalone basis, the liquidity profile of NVIPL is expected to remain adequate with its satisfactory gross cash accruals of INR 32.11 Crore against its debt repayment obligations of Rs.24.00 crore in FY20. Further, the average cash credit utilisation of the company remained at ~80% during the past 12 months ended Feb, 2020 indicating a limited liquidity cushion.

About the Company

NVIPL, a part of NV group has a grain-based distillery at Haryana for manufacturing of Extra Neutral Alcohol (ENA). It Captive consumes ENA in manufacturing of Country Liquor and sells excess production of ENA to others. NVIPL It sells country liquor in the State of Haryana based on the quota allotted by the Govt.

The NV group (NVDPL, NVDBPL and NVIL) is engaged in liquor industry since 1980's and was engaged in distribution of liquors and set up one bottling plant in early 90's. The company started distillery in 2008 with NVDPL, in 2012 started NVDBPL and set up a unit in Rajpura and started NVIL in 2014, together the group boasts of an installed capacity of ~279 KL/day for the production of ENA, 47000 cases/day of country liquor and 25000 cases/day of IMFL.

Financials: (Standalone)

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	181.82	194.36
EBITDA	45.85	44.84
PAT	8.10	2.91
Tangible Net worth	107.10	115.50
Adjusted Net worth^	124.96	133.86
EBITDA Margin (%)	25.21	23.07
PAT Margin (%)	4.45	1.49
Overall Gearing Ratio (x)	1.07	0.86

**As per Infomerics Standards*

^Unsecured loans of INR 18.36 Cr in FY19 arranged by promoters (in NVIPL) have been added, as the same is subordinated to bank facilities

Financials: (Consolidated)

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	950.48	1029.24
EBITDA	135.48	138.90
PAT	20.32	17.38
Tangible Net worth	415.12	437.93
Adjusted Net worth^	400.14	423.45
EBITDA Margin (%)	14.25	13.50
PAT Margin (%)	2.14	1.69
Overall Gearing Ratio (x)	1.08	0.94

**As per Infomerics Standards*

^Disputed amount of security deposits of INR 32.84 Cr yet to be received has been deducted & unsecured loans of INR 18.36 Cr in FY19 arranged by promoters (in NVIPL) have been added, as the same is subordinated to bank facilities

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.	Cash Credit	Long Term	15.00	IVR BBB- /Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications)	IVR BBB- /Stable (March 30, 2020)	-	-
2.	Term Loan	Long Term	76.00	IVR BBB- /Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications)	IVR BBB- /Stable (March 30, 2020)	-	-
3.	LC	Short Term	5.00	IVR A3 / Credit Watch with Negative Implications (IVR Single A Three/ Credit Watch with Negative Implications)	IVR A3 (March 30, 2020)	-	-

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.

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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.

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 - CC	-	-	-	15.00	IVR BBB-/Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications)
Long Term Bank Facilities – Term Loan	-	-	August 2023	76.00	IVR BBB-/Credit watch with negative implications (IVR Triple B Minus Under credit watch with negative implications)
Short Term Bank	-	-	-	5.00	IVR A3 / Credit Watch with Negative Implications

Facilities – LC					(IVR Single A Three/ Credit Watch with Negative Implications)