



Press Release

S.V. Distributors Private Limited

June 19, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	64.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Proposed Cash Credit	24.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	1.00	IVR A3 (IVR A Three)	Assigned
Total	89.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of S.V. Distributors Private Limited (SVDPL) takes into account its experienced promoters with long track record of operations, operational synergies with its group companies, established market presence of brands of its principal suppliers in the liquor distribution business and its large customer base. The ratings also consider improvement in its performance during FY20(provisional). These rating strengths are partially offset by its thin yet stable margins, working capital intensive nature of business with intense competition and susceptibility of its business to regulatory changes.

Key Rating Sensitivities

Upward factors

- Growth in operating income with improvement in margins leading to improvement in cash accruals on a sustained basis
- Improvement in capital structure and debt protection metrics
- Improvement in the operating cycle leading to improvement in liquidity and improvement in average working capital utilisation to below 95% on a sustained basis

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity on a sustained basis



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- Deterioration in the capital structure with overall gearing to more than 3x and/or deterioration in debt protection metrics
- More than 10% deviation in the FY20(Prov.) results as compared to FY20 (A) results
- Any adverse government regulations.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operations**
Operating since 1983, SVDPL has a long track record of more than two decades. Further, Mr. Neeraj Rawal, has a vast experience of over 42 years in the liquor industry. He started operating since 1978 and gradually incorporated various companies engaged in liquor distribution or liquor related business. Presence of many companies in the related field provides synergy benefits to SVDPL. Further, the promoters have infused equity aggregating to ~Rs.12 crore in the business during FY19 to support the business.
- **Established market presence of the brands of its principal suppliers in the liquor distribution business**
SVDPL derives most of its revenue from Diageo, UBL & USL products, which has healthy brand recognition in the market. Further, the company is active across all sales channels of the liquor industry with a diversified product offering which further strengthens its position.
- **Large customer base**
Total consumption of alcohol has increased with CAGR of ~10% over past few years. SVDPL has a diversified clientele of which majorly constitute of retailers. The company supplies to more than 1000 outlets (On premise Bar & Rest 623 outlets; Off premise – Wines shop 364 outlets & Beer shop 136 outlets). Diversified customer base and protects company from dip in sales from any single retail counter.

Key Rating Weaknesses

- **Intense competition with high geographical concentration**
SVDPL Operations are concentrated in Mumbai city hence highly exposed to local demand-supply dynamics as well as political/ economic conditions. Furthermore, liquor industry has intense competition due to presence of many brands in this



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sector; hence the company is also exposed to intense competition from other breweries and traders of other IMFL brands. However, NR Group has established presence for few decades imparts some comfort.

- **Vulnerability to regulatory changes**

The liquor industry has a complex structure of duties and taxes that differ from state to state. Any change in the duty structure will constrain demand-supply dynamics. Also, the industry is governed by strict government regulations regarding advertising and brand promotion. Certain states prohibit and restrict liquor distribution. The industry is administered through a strict license regime. Any change in the license authorisation policy, such as discontinuation or restriction on renewal of licenses, or substantial increase in license fee could constrain its business risk profile.

- **Thin profitability**

The financial risk profile of the company remained moderate marked by thin profitability on account of its low value additive trading nature of business with no pricing flexibility. The company is operating at a thin EBITDA in the range of ~1.5-3.5% in the past four years (FY17-FY20) and a below unity PAT margin over the aforesaid period. Thin profitability affects its cash accruals and debt protection metrics. The gross cash accruals of the company also remained low and the company has generated a gross cash accrual of Rs.2.48 crore in FY19. Further, with marginal improvement in EBITDA margin during FY20 (Prov.) gross cash accrual improved to Rs.3.17 crore. However, the scale of operations of the company remained comfortable at close to ~Rs.380 Crore in the past two fiscals ending in FY19 and witnessed a y-o-y growth of ~5% in FY20 (Prov.) to Rs.398.50 crore.

- **Working capital intensive operations leading to leveraged capital structure**

Being in trading operations the company is large dependent on its bank borrowings to fund its high working capital requirements. The operations are working capital intensive due to its more than a month average collection period and inventory holding requirements of about a month. On the other hand, it needs to pay promptly to its suppliers to lift goods. Due to its higher reliance on bank borrowings, the average utilisation of bank borrowings of the company remained high at ~ 99% for past 12 months ended in May 2020. Consequently, the capital structure of the



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company remained leveraged with an overall gearing at 2.52x as on March 31, 2020 (Prov.). However, total indebtedness as reflected by TOL/TNW remained satisfactory 3.18x as on March 31, 2020 (Prov.). The debt profile of the company includes unsecured loans from the promoters and relatives and associates. Infomerics has considered unsecured loans aggregating to ~Rs.16.60 Crore as neither debt nor equity as these loans are expected to be retained in the business for a medium term.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

SVDPL has generated a cash accrual of Rs.2.48 Crore in FY19 and Rs.3.17 crore in FY20 (Prov.) vis-à-vis its negligible debt repayment obligations. Further, the company has negligible debt repayment obligation in FY21 and in FY22 and expecting to generate a gross cash accrual in the range of Rs.3-4 crore during the aforesaid period. However, the liquidity position is constrained due to high utilisation of its bank limits to ~99% for the last twelve months ended May2020 indicating a low liquidity buffer. However, the company has availed of COVID emergency credit line of Rs.1.80 crore & Rs.4.60 crore (10% of FBWC limit of Rs.18.00 crore & Rs.46 crore from SBI& BOB respectively to meet its working capital requirements.

About the Company

S.V. Distributors Pvt Ltd belongs to the NR Group. NR group comprises of S.V. Distributors Pvt. Ltd situated at offices in Mumbai, Bangalore & Hyderabad, Polaris Liquor Pvt. Ltd at Pune, Iced Desserts & Food Parlours India Pvt. Ltd at Pune and Iced Desserts & Food Parlours India Pvt. Ltd at Secunderabad. The company is incepted at 1982 in Mumbai, Maharashtra. However, the company started its business in imports from 2005. Presently, the company is engaged in business of liquor distributor. Currently, it is having core distribution business with United Spirits,



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Diageo, United Breweries, Heineken, Brown Forman, William Grants, Beam Global, Bacardi, Sonarys, Ab-Inbev & other renowned imported brands

Financials: Standalone

(Rs. crore)

For the year ended*/As on	31-03-2019	29-02-2020
	Audited	Provisional
Total Operating Income	380.56	398.50
EBITDA	9.11	12.78
PAT	2.15	2.77
Tangible Net worth	25.26	28.48
EBITDA Margin (%)	2.39	3.21
PAT Margin (%)	0.56	0.69
Overall Gearing Ratio (x)	2.20	2.52

*As per Infomerics Standards

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)	Ratings	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	64.00	IVR BBB-/stable Outlook (IVR Triple B Minus with Stable Outlook)	-	-	-
2.	Proposed Cash Credit	Long Term	24.00	IVR BBB-/stable Outlook (IVR Triple B Minus with Stable Outlook)	-	-	-
3.	Bank Guarantee	Short Term	1.00	IVR A3 (IVR A Three)	-	-	-

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.

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ANNEXURE I

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 – Cash Credit	-	-	-	88.00 (Including proposed limit of Rs.24.00 crore)	IVR BBB-/stable Outlook (IVR Triple B Minus with Stable Outlook)
Short Term Bank Facilities – Bank Guarantee	-	-	-	1.00	IVR A3 (IVR A Three)
Total				89.00	