March 13, 2023

Rajasthan Liquors Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	110.00	135.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Long-term Fund-based – Term Loans	27.32	31.78	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Long-term/Short-term – Non-fund Based	2.00	15.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed, assigned for enhanced amount
Long-term/ Short-term – Unallocated	60.68	25.22	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Long-term/ Short-term Fund-based – Standby Line of Credit	-	18.00	[ICRA]A- (Stable)/ [ICRA]A2+; assigned
Total	**200.00**	**225.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Rajasthan Liquors Limited's (RLL) ratings reflects ICRA's opinion that the company's financial profile will be supported by its growing revenue diversity while maintaining healthy financial risk profile. Moreover, the timely commencement of operations in its subsidiary, Aarti Distilleries Private Limited (ADPL), and healthy revenue visibility due to the stated minimum off-take commitments from Pernod Ricard India Private Limited (PRIPL) would support RLL's consolidated cash flows, going forward. ICRA continues to take comfort from the experience of RLL's promoters in the contract manufacturing space in the alcobev sector and their long association with liquor majors such as PRIPL and United Spirits Limited (USL), which together dominate the domestic Indian Made Foreign Liquor (IMFL) market as well as the favourable demand outlook for the sector. Given the limited repayment commitments in RLL on a standalone basis, expected ramp up in ADPL's cash flows, ICRA expects the combined cash flows to be comfortable to service the total debt obligations.

However, the ratings are constrained by the moderation in RLL's operating profit margin (OPM) in FY2022 due to significantly higher revenue contribution from low margin edible oils and liquor distribution business, though its earnings depicted growth. Further margin revival is expected with increasing contribution from ADPL, going forward. This apart, RLL's margins are exposed to volatility in raw material prices, particularly in the distillery and edible oil division on a standalone basis. It also remains exposed to competition across its business segments and regulatory risks, particularly in the liquor division. Further, renewal of contracts with key customers remains crucial, though its association and track record with them act as an advantage.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RLL's earnings will grow with the ramp up in ADPL's operations and its overall business will be supported by healthy demand outlook for the liquor industry in the domestic market.

Key rating drivers and their description

Credit strengths

Experienced promoters and established relationships with reputed customers – RLL's promoter and Managing Director, Mr. Tilak Raj Sharma, has an experience of more than 30 years in the liquor industry. Further, the company has been associated with PRIPL since 2004 and with USL since 2017. The company has been undertaking contract manufacturing for the major IMFL brands of PRIPL and has minimum offtake commitment for a substantial capacity. RLL is the franchisee and the brand owner of certain brands of USL for the Rajasthan territory and operates through three bottling units. With PRIPL and USL having majority market share in the IMFL segment, RLL stands to gain amid a healthy demand outlook of the alcobev sector.

Healthy revenue visibility supported by successful project completion and healthy ramp-up in ADPL – ADPL, a 74% subsidiary of RLL, has successfully set up an integrated manufacturing unit comprising distillery, bottling unit and captive power plant in Kanpur, Uttar Pradesh. The distillery commenced production three months ahead of the scheduled commercial operation date while the bottling unit commenced as per scheduled. ADPL has reported healthy initial ramp-up in production. PRIPL has given a minimum offtake commitment for a major proportion of the production, which is a rating comfort factor as well. ICRA expects the entity to enjoy a good revenue visibility given its importance to PRIPL for addressing demand in UP and nearby markets. For the existing distillery and bottling units of RLL in Derabassi and Jaipur too, PRIPL has a minimum offtake arrangement, which lends revenue visibility.

Diversified revenue profile in terms of customers and products; renewal of contracts with customers crucial – RLL's revenue profile is diversified. Majority of extra natural alcohol (ENA) produced by its distillery unit in Derabassi (Punjab) and two out of five bottling units (Derabassi and Jaipur) are contracted with PRIPL. The other three bottling units in Rajasthan are used for USL and Inbrew Beverages Private Limited (Inbrew). The company has also reported healthy revenue in the liquor distribution segment in FY2022, which it had started in Q4 FY2021. The renewal of contracts with these reputed players remains crucial; however, long association with customers and a track record of operations reduces the risk to a large extent. This apart, the company has an edible oil refinery unit, which is also contributing healthy revenue for RLL. In FY2022, 64% of RLL's revenue came from liquor division (distillery, bottling[1] and liquor distribution) and 36% came from the edible oil division. Thus, the revenues are diversified both from customers as well as products.

Comfortable financial profile – RLL witnessed more than 100% revenue growth in FY2022 led by the liquor distribution business and edible oil division. The margins in the distillery and bottling divisions remained healthy, given the high value addition compared to edible oil and liquor distribution business. Moreover, with moderate repayment commitments and working capital cycle, RLL's interest coverage and DSCR stood comfortable at 6.6 times and 3.0 times, respectively, in FY2022, compared to 5.9 times and 4.4 times, respectively, in FY2021. The company's leverage has increased in FY2022 and current fiscal with debt-funded capex in its subsidiary, ADPL. Repayments for ADPL's loans commence from December 2023. Against the backdrop of healthy earnings from the existing divisions and expected ramp up in ADPL, ICRA expects RLL's debt coverage to remain comfortable in the near to medium term. On a consolidated basis, RLL has reported Rs. 1,312 crore revenue in 9M FY2023 at OPM of 8.3%.

Favourable demand outlook for alcobev industry – The demand outlook for the alcobev industry is favourable, led by increasing consumption on account of rising disposable income, urbanisation and changing consumer preferences. With the waning impact of the pandemic, the alcobev industry witnessed a healthy revival in FY2022 and is poised to report healthy growth in revenues going forward as well.

Credit challenges

Decline in OPM in FY2022 led by changes in revenue mix; revival expected in FY2023 – RLL reported a sharp decline in OPM to 7.1% in FY2022 from 11.1% in FY2021 due to increase in revenue contribution from the low margin revenue segment. The contribution from the edible oil business and the liquor distribution business rose to 71% of total revenue in FY2022 from 55% in FY2021. Going forward, RLL's OPM is likely to improve with scale-up in ADPL, wherein both distillery and bottling have cost-plus margin-based offtake arrangements with PRIPL. Moreover, RLL has a minimum off-take agreement with PRIPL for its Derabassi distillery and bottling operations as well. This apart, the company does not envisage sizeable ramp up in its trading revenue segments.

Vulnerability to changes in raw material prices – RLL's margins remain exposed to volatile raw material prices, particularly for broken rice for the distillery. Moreover, in its franchisee business with USL, IMFL's selling prices are controlled by the state

[1] *RLL's revenues include only bottling fee in case of its bottling units.*

governments. Thus, any large changes in input prices could impact RLL's return metrics, though in such instances typically players do receive some price revisions in IMFL prices. Prices may also fluctuate in other segments like edible oil.

Intense competition in highly regulated alcohol industry – The liquor industry is intensely competitive due to numerous small players. It is a highly regulated industry 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. RLL also faces competition in the oil refinery division.

Liquidity position: Adequate

RLL's liquidity profile is **adequate**, supported by the healthy cash generation from business, moderate buffer (~Rs. 25-30 crore) in the cash credit limit and the company's policy to maintain Rs. 8-10 crore of free cash. RLL had an average utilisation of ~83% of cash credit limit in the 14-month period ending in January 2023. The company, on a consolidated level, has long-term repayments of ~Rs. 3.0 crore and ~Rs. 28.0 in Q4 FY2023 and FY2024, respectively. The cash flows from the existing business are expected to be sufficient to manage the additional working capital requirement and repayment, if any.

Rating sensitivities

Positive factors – A rating upgrade would be driven by sustained growth in earnings, comfortable liquidity position, along with healthy debt coverage indicators. In terms of specific credit metrics, External Debt (total debt less unsecured loans from the promoters)/ OPBDITA less than 2.0 times, on a sustained basis, will be a positive trigger for the ratings.

Negative factors – The sharp decline in revenue and profit margins and any large, debt-funded capex weakening RLL's liquidity and credit metrics may trigger a rating downgrade. Adverse dilution of terms with key customers will also be a credit negative. In terms of specific credit metrics, DSCR less than 1.8 times, on a sustained basis, will be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the financial risk profiles of RLL and its subsidiary, ADPL.

About the company

RLL was incorporated in 1998 as a private limited company to manufacture ENA and contact manufacturing of IMFL. It was subsequently converted into a public limited company in 2010. RLL has a grain-based distillery unit in Derabassi (Punjab) with an installed manufacturing capacity of 90-110 kilo litre per day (KLPD) of ENA. The company also has a bottling capacity of 123 lakh cases per annum (LCPA) across five bottling units. The Derabassi and Jaipur (Rajasthan) bottling units, with capacities of 84 LCPA, are used for PRIPL and the other three bottling units (Alwal, Kishangarh and Reengus) in Rajasthan, with capacities of 39 LCPA, are used for USL/Inbrew. RLL is the contract manufacturer for PRIPL's major IMFL brands. It is the franchisee and the brand owner of certain brands of USL and Inbrew for the Rajasthan territory. RLL also has an edible oil manufacturing unit with a refinery capacity of 150 tonnes per day and a non-operational oil extraction plant.

RLL's subsidiary ADPL is involved in manufacturing grain-based ENA and downstream products, including IMFL, along with a co-generation power plant. The manufacturing facility is at Chiruara and Mubarakpurlata, Akbarpur, Kanpur Dehat (Uttar Pradesh). ADPL is promoted by RLL and PRIPL with a shareholding in the proportion of 74:26. This apart, RLL and PRIPL has invested preference shares in ADPL, in addition to extending secured loan and unsecured loans. ADP's integrated manufacturing capacity has 150 KLPD of ENA, 100 LCPA of bottling and 4.5-MW of co-generated power. The plant's distillery commenced commercial production from July 2022 and its bottling unit began from October 2022.

Key financial indicators (audited)

RLL and ADPL consolidated	FY2021	FY2022
Operating income	731.1	1487.2
PAT	70.5	22.4
OPBDIT/OI	11.1%	7.1%
PAT/OI	9.6%	1.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.8
Total debt/OPBDIT (times)	2.2	3.3
External debt*/OPBDIT (times)	2.0	3.2
Interest coverage (times)	5.9	6.6

*Source: Company, *external debt= total debt less unsecured loan from promoters*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Informatics has downgraded and migrated the ratings (IVR BBB+/A2, ISSUER NON COOPERATION) to issuer non-cooperation category vide press release dated February 15, 2022.

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 (Rs. crore) *	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019
					Mar 13, 2023	Dec 31, 2021	-	-
1	**Cash Credit**	Long Term	135.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
2	**Term Loans**	Long Term	31.78	31.78	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
3	**Bank Guarantee**	Long/ Short Term	15.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
4	**Unallocated**	Long/ Short Term	25.22	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
5	**SLC****	Long/ Short Term	18.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

*Source: Company, *outstanding as on Dec 31, 2022, **Standby line of credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund-based – Cash Credit	Simple
Long term Fund-based – Term Loans	Simple
Long-term/Short-term – Non fund Based	Very Simple

Long-term/Short-term – Unallocated	NA
Long-term/Short-term Fund-based – Standby line of Credit	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	135.00	[ICRA]A- (Stable)
NA	**Term Loans**	Apr 2020	NA	March 2025	31.78	[ICRA]A- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	15.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	**Unallocated**	NA	NA	NA	25.22	[ICRA]A- (Stable)/ [ICRA]A2+
NA	**Standby Line of Credit**	NA	NA	NA	18.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajasthan Liquors Limited	NA*	Full consolidation
Aarti Distilleries Private Limited	74%	Full consolidation

*Source: Company, *parent company*

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