

March 13, 2023

Aarti Distilleries Private Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based – Term Loans | 219.20 | 234.11 | [ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable), assigned for enhanced amount |
| Long-term/ Short-term – Unallocated | 15.80 | 25.89 | [ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded from [ICRA]BBB (Stable)/ [ICRA]A3+, assigned for enhanced amount |
| Total | 235.00 | 260.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in ICRA's expectation of a healthy ramp up in production and sales volume for Aarti Distilleries Private Limited (ADPL), going forward. ADPL's distillery project commenced its commercial production earlier than expected, while bottling operations started as scheduled. The company has reported healthy operational performance since commencement of operations and the same is expected to continue in the future as well. This is well supported by a favourable demand outlook for the alcobev sector and ADPL's firm offtake arrangements with a secured margin profile with Pernod Ricard India Private Limited (PRIPL). The rating factors the funding support from its parent companies, namely Rajasthan Liquors Limited (RLL, 74% equity stake in ADPL) and PRIPL (26% equity stake in ADPL), by way of secured loans, unsecured loans and the stated intent of support for working capital requirement. In addition to an established track record of integrated distillery and bottling operations in Rajasthan and Punjab, RLL has a long-term relationship with PRIPL, a leading player in the liquor industry.

However, the ratings are constrained by ADPL's moderate credit profile led by its high debt dependence at present, given the recent large, debt-funded capex undertaken. Thus, coverage metrics are expected to be moderate in the near to medium term as ramp up in returns will happen over a period. ADPL will also remain exposed to competition among brands in the sector and the prevalent regulatory risks, though partially mitigated by the track record of its promoters and recent favourable regulatory changes in Uttar Pradesh.

The Stable outlook on the [ICRA] BBB+ rating reflects ICRA's opinion that ADPL would benefit from the strong position of PRIPL, which would utilise ADPL's production to address growing demand in the Uttar Pradesh region amid the healthy demand outlook for the sector.

Key rating drivers and their description

Credit strengths

Successful project completion and healthy ramp-up in ADPL – ADPL has successfully set-up an integrated manufacturing unit comprising distillery, bottling unit and captive power plant in Kanpur, Uttar Pradesh, which mitigates project execution related risks. While the distillery commenced production from July 2022, three months ahead of the scheduled commercial operation date, the bottling unit commenced operations as scheduled, from October 2022. ADPL has reported healthy ramp-up in distillery production, which is operating at more than 75% of operational capacity and bottling division is operating at 67% of operating capacity in the period ending December 31, 2022.

Strong off-take arrangement with PRIPL with favourable pricing formula – ADPL’s operations are important to PRIPL for addressing growing demand in the Uttar Pradesh and nearby states including Delhi. ADPL has a strong operational agreement with PRIPL for off-take from its distillery and bottling plants. PRIPL will buy the entire extra neutral alcohol (ENA) production from the distillery and minimum 80% production from the bottling plant. This apart, ADPL’s profit margin is highly secured as the selling price is decided on cost-plus margin method with PRIPL. In addition to the aforementioned operational support, there is a track record of funding support from both JV partners by way of secured and unsecured loans in addition to equity stake. The change in scope of the project was funded by the partners. Moreover, the off-take agreement includes the stated intent of PRIPL to extend support for working capital requirement.

Experienced promoters and established relationships with reputed customers – RLL’s and ADPL’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 doing contract manufacturing for the major IMFL brands of PRIPL and has minimum off-take commitment for a substantial capacity. RLL is the franchisee and 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 for the alcohol sector.

Credit challenges

High leverage and weak DSCR – ADPL has recently completed a large, debt-funded capex with a project cost of ~Rs. 410 crore, funded by equity capital of Rs. 80.3 crore and term debt of Rs. 160 crore from the bank. The balance funding of ~Rs. 170 crore are secured loan, preference share and unsecured loan from PRIPL and RLL. Hence, leverage is expected to remain high for the company during the initial phase of operations, which would improve gradually, going forward, as returns ramp up. The company has a weak DSCR due to sizeable repayment of ~Rs. 16.7 crore and ~Rs. 33.5 crore in FY2024 and FY2025, respectively. While ADPL’s cash generation from the business is sufficient to manage its repayment, expected funding support when needed from its parent, RLL, lends comfort.

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. ICRA notes that recent policy changes in Uttar Pradesh are favourable for ADPL.

Liquidity position: Adequate

ADPL’s liquidity profile is **adequate**. The company is expected to generate adequate cash flow for its term loan repayment, which will commence from Q3 FY2024. The company has repayments of Rs. 16.7 crore in FY2024 and Rs. 33.5 crore in FY2025. The company also maintains three months of DSRA (principal and interest). The company maintains Rs. 2-3 crore free cash for any urgency. Moreover, the stated intent of promoters to support its for working capital needs, as also mentioned in the offtake agreement with PRIPL, lends comfort. There has also been a track record of timely funding support from them at the project stage.

Rating sensitivities

Positive factors – Substantial ramp-up in scale and cash accruals resulting in sustained improvement in credit metrics may trigger a rating upgrade. Improvement in the credit profile of the parent, RLL, would also be a credit positive. Specific credit metric of DSCR more than 1.4 times on a sustained basis would trigger a rating upgrade.

Negative factors – A rating downgrade would be driven by a sustained decline in earnings resulting in weakening liquidity and credit metrics. Adverse dilution of key terms with PRIPL will also be a credit negative. This apart, a weakening in the credit profile of the parent company will put negative pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group |
| Parent/Group support | ADPL is a 74% subsidiary of RLL. ICRA expects RLL to extend financial support to ADPL, should there be a need. |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the standalone financials of ADPL. |

About the company

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 KLDP 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. ADPL's 74% equity stake is held by RLL and balance 26% stake in held by PRIPL.

Key financial indicators (audited)

| ADPL standalone | FY2021 | FY2022 | 9M FY2023* |
|--|--------|--------|------------|
| Operating income | - | - | 116.0 |
| PAT | - | - | - |
| OPBDIT/OI | - | - | 16.1% |
| PAT/OI | - | - | - |
| Total outside liabilities/Tangible net worth (times) | 0.5 | 3.2 | - |
| Total debt/OPBDIT (times) | - | - | - |
| Interest coverage (times) | - | - | - |

Source: Company, *provisional financials submitted by management, *provisional financial submitted by the management
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

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 |
| | | | | March 13, 2023 | Dec 31, 2021 | - | - |
| 1 Term Loans | Long Term | 234.11 | 234.11 | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | - | - |
| 2 Unallocated | Long/Short Term | 25.89 | - | [ICRA]BBB+ (Stable)/[ICRA]A2 | [ICRA]BBB (Stable)/[ICRA]A3+ | - | - |

Source: Company, *outstanding as on Dec 31, 2022

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|------------------------------------|----------------------|
| Long-term Fund-based – Term Loans | Simple |
| Long-term/Short-term – Unallocated | NA |

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 | Term Loans | Oct 2021 | NA | Sep 2030 | 234.11 | [ICRA]BBB+ (Stable) |
| NA | Unallocated | NA | NA | NA | 25.89 | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545 374
Sheetal.sharad@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.