

July 07, 2023

Mohan Meakin Limited: Rating upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ cash credit	65.00	65.00	[ICRA]A (Stable); upgraded with revision in outlook from [ICRA]A- (Positive)
Short-term/ Non-fund based limits	10.00	10.00	[ICRA]A1; upgraded from [ICRA]A2+
Total	75.00	75.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade takes into account the strengthening in Mohan Meakin Limited's (MML) financial and operating profiles, which is expected to continue in the near to medium term, supported by buoyant demand in the domestic market. Further, price revisions received by the company in Q1 FY2024 will augur well for the margin profile, going forward. In addition to the sustained improvement in its operational performance led by healthy volumetric and moderate realisation growth, the company's efforts to further diversify its product portfolio are expected to support its performance. Consequently, ICRA expects MML's credit metrics to remain strong, characterised by healthy revenue and accruals growth, debt-free capital structure and healthy liquidity position. The ratings further consider MML's long track record, strong nation-wide presence in the Indian Made Foreign Liquor (IMFL) segment and established brand reputation of its flagship product, Old Monk.

The ratings are, however, constrained by the moderate profitability of MML compared to its peers, which is largely because it operates in the low-margin segment. Also, some part of the company's sales takes place through trading with a Group company, which moderates its margins to some extent. Further, the company is exposed to raw material availability and pricing risks, which are heightened by its reliance on external parties for purchase of spirits (ENA). While the company receives price revisions on an annual basis from state governments, the same happens with a lag and often to a limited extent, resulting in price risks. The ratings remain constrained by the high business risk inherent in the liquor industry owing to high taxes, stringent Government controls and regulations, and limited pricing power. Also, while MML's high dependence on a single brand, Old Monk exists, ICRA notes that the company is working towards portfolio expansion to meaningfully diversify further through ramp up of business from new products in the medium to long term.

The Stable outlook reflects ICRA's expectations that MML will benefit from the established brand reputation and growing franchisee network, resulting in increased penetration of its key products.

Key rating drivers and their description

Credit strengths

Experienced management and long operating track record – MML is an established company with a track record of over 150 years in the liquor manufacturing industry. The company operates through its own as well as franchisee manufacturing networks. The Mohan family took over the company's operations in 1949 and has remained well-known players in the Indian liquor industry ever since. Mr. Hemant Mohan, from the family's third generation, has been at the helm of affairs in recent years.

Reputed brand and established market position; growth in exports also witnessed – MML enjoys a strong brand recognition and established position because of its Old Monk brand in the domestic IMFL market. The company has an established pan-India presence in this domestic segment and generates ~21% of its revenues from exports in the volume terms in FY2023. The

healthy brand reputation has enabled the company to post growth significantly (both in value as well as volume terms) in FY2023 across own and franchisee networks. The exports growth has been due to penetration into new geographies along with addition of several products in the entire bouquet of portfolio.

Continued growth in scale in FY2023 owing to buoyant demand – A sizeable portion of MML’s brand volumes comes from franchisee and it receives only the royalty income, which results in its muted top line. Despite that, the company managed to grow its scale significantly in FY2022 and FY2023. In FY2023, MML’s operating income (OI) grew by ~24% to Rs. 1,270.8 crore from Rs. 1,023.9 crore in the previous fiscal, supported by ~21% growth in volumes. The volumes continued to grow in FY2023 after it grew by ~29% in the previous fiscal. The significant growth in volumes and the overall top line of the company are mainly driven by the robust demand witnessed in both the domestic as well as exports segments. Additionally, recent launches in the whiskey, gin and beer segments are also contributing to the overall volume growth and likely to drive business, going forward. While the overall growth has been largely driven by volumetric growth but has been additionally supported by marginal realisation growth as well.

Healthy credit metrics led by negligible debt – MML’s credit metrics are expected to remain strong, characterised by robust revenue and accruals growth, debt-free capital structure and healthy liquidity position. The company witnessed an improvement in its profit margins on the back of improving operational efficiencies, increased exports and stabilisation of input prices, etc. Better margins and improved scale boosted cash accruals and reserve accretion. Price revisions received from various states as well as Canteen Stores Department in Q1 FY2024 would support the margin performance in the current fiscal. MML maintained a robust capital structure with nil debt levels as on March 31, 2023 and had strong liquidity profile. The coverage indicators remained strong with interest coverage of ~97 times and TOL/TNW of 0.54 times. ICRA notes that MML has plans to set up a distillery in the medium term; however, the scope of the project is yet to be finalised and is expected to be funded primarily through internal accruals.

Credit challenges

Moderate margins compared to other large players in the industry – MML’s operating margins are lower than other established market players despite its strong brand. This is because, while the key revenue contributor—Old Monk—is a strong brand, it remains a lower-priced product than the portfolio of other players operating in the premium segment. Further, the company’s ability to increase franchisee fee or royalty income also determines its margin profile. Nevertheless, ICRA notes that various measures taken by the management, such as replacing the ageing machinery and active management of bottlers/franchisee arrangements, have been successful in improving its operational efficiency in recent years.

Concentrated product portfolio – MML’s product portfolio remains concentrated towards the rum segment. In volume terms, this segment drove ~86% of the total IMFL cases sold by MML in FY2023. However, it has been diversifying its product portfolio by introducing brands in other product categories over the last few years. The company has added some premium brands in its gin and whiskey segments in the current as well as previous fiscal. In addition, MML has witnessed growth in its beer sales by adding craft beers to its overall brewery portfolio. Sharpened focus on exports, along with its diversification initiatives, including in its non-alcoholic segments, augur well for the company’s long-term growth and diversification prospects.

Profitability vulnerable to increase in raw material prices – MML’s profitability is prone to any fluctuations in raw material prices, particularly ENA, whose prices had been following an increasing trend since H2 FY2022 and continued till September 2022. Thereafter, ENA prices have stabilised which remains rangebound till date. Apart from ENA, the company had also been dealing with higher glass and packaging costs, which have also stabilised in the recent past. The company typically receives price revisions from state governments with a lag, and the extent of escalation could vary.

Exposure to regulatory changes; intense competition – The liquor industry is highly regulated, with state governments typically controlling the sales and distribution, making the company susceptible to changes in Government policies. The Government levies various duties such as excise duty, sales tax, license fee, state-level import and export duties, bottling fee, surcharge, etc., which varies from state to state. Any change in these Government policies may impact the liquor industry and, subsequently, MML. Further, there is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. Also, the organised alcohol industry is characterised by intense competition,

given the presence of large players. While this could restrict the company’s growth to an extent, MML’s established brands are a positive and help it in partly mitigating the competition-related risks in these sub-segments.

Environmental and Social Risks

Environmental considerations: MML is one of the oldest distillery and brewing companies in India, which operates through several manufacturing units and franchisees. Environmental risks for industry players include discharge of hazardous and pollutant waste. All units of MML are equipped with wastewater treatment facilities. The company has also taken up various activities to recycle water. Further, the company uses boilers to reduce its dependence on coal and wood.

Social considerations: MML is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, as well as to evolving regulatory and societal attitudes towards alcohol-containing products, which can affect demand. Further, MML faces moderate dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations.

Liquidity position: Strong

MML’s liquidity position is strong, backed by positive fund flows from operations (FFO), nil repayment obligations, and healthy unencumbered cash and liquid balances. Its liquidity profile is further supported by the availability of sufficient undrawn bank limits for its working capital requirements. As on March 31, 2023, the company had Rs. 90 crore of free cash, which was further supported by availability of Rs. 65 crore of working capital limits, for which utilisation for the last 14 months ending May 2023, stood at less than 1.0%.

Rating sensitivities

Positive factors – The ratings may be revised upwards, if the company demonstrates any significant improvement in its revenues and profitability, while maintaining healthy debt coverage indicators and liquidity profile.

Negative factors – Pressure on MML’s ratings could arise, if there is any substantial decline in revenues and/or operating margins, resulting in subdued cash accruals or increased leverage on a sustained basis. Any adverse regulatory action impacting the company’s credit profile could also lead to a downward rating action. Further, TD/OPBIDTA greater than 2 times on a sustained basis, may also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the entity.

About the company

Mohan Meakin Limited (MML) was established in 1855 by Mr. Edward Dyer, who established the entity as the first brewery in India. In 1949, the Late Narendra N. Mohan took over its operations and as on March 31, 2022, the Mohan family-owned majority stake in the company. MML owns popular brands such as Old Monk in the rum segment, as well as Meakin 10000, Asia 72, and Golden Eagle in the beer segment. It has two manufacturing facilities for beer, spirits and food products (largely grain flakes) at Mohan Nagar, Uttar Pradesh, and at Kasauli/Solan in Himachal Pradesh. In addition, it has bottling plants at Mohangram (Punjab) and Solan.

Key financial indicators (audited)

MML consolidated	FY2021	FY2022	FY2023
Operating income	762.6	1,023.9	1,270.8
PAT	40.3	51.5	68.4
OPBDIT/OI	7.5%	7.0%	7.3%
PAT/OI	5.3%	5.0%	5.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.6	0.5
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	19.7	45.9	97.2

Source: Company

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) ^	Date & rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				July 07, 2023	Nov 02, 2022	Aug 26, 2021	Aug 6, 2020
1 Cash credit	Long-term	65.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Non-fund Based	Short-term	10.00	-	[ICRA]A1 (Stable)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Cash Credit	Simple
Short-term/ Non-fund Based Limits	Very 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	65.00	[ICRA]A (Stable)
NA	Non-fund Based Limits	NA	NA	NA	10.00	[ICRA]A1

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

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