

Rating Advisory

July 09, 2018 | Mumbai

Bhatia Wine Merchants Private Limited

Advisory as on July 09, 2018

This rating advisory is provided in relation to the rating of Bhatia Wine Merchants Private Limited

The key rating sensitivity factors for the rating include:

- Future capital expenditure and the funding mix thereof Adverse changes in central government regulations
- Volatility in prices of grain and molasses
- Large capital expenditure (capex) and its funding
- Scale of operations and profitability

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Bhatia Wine Merchants Pvt Ltd (BWMPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If BWMPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

Incorporated in 1997 and promoted by Mr. Bhupendra Pal Singh Bhatia and family, BWMPL manufactures extra neutral alcohol (ENA), Indian made foreign liquor (IMFL), and country liquor (CL). The company sells IMFL under its own brand, Bhatia, and also undertakes bottling on jobwork basis for Pernod Richard India Pvt Ltd and Radico Khaitan Ltd.

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Rating Rationale

May 22, 2017 | Mumbai

Bhatia Wine Merchants Private Limited

Rating downgraded to 'CRISIL BBB-/Stable'

Rating Action

| | |
|----------------------------------|--|
| Total Bank Loan Facilities Rated | Rs.70 Crore (Enhanced from Rs.40 Crore) |
| Long Term Rating | CRISIL BBB-/Stable (Downgraded from 'CRISIL BBB/Stable') |

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the long-term bank facilities of Bhatia Wine Merchants Pvt Ltd (BWMPL) to '**CRISIL BBB-/Stable**' from 'CRISIL BBB/Stable'.

The downgrade reflects weakening of liquidity on account of additional debt of Rs 30 crore that was contracted for the incremental working capital requirements arising out of advances to be given to its retailers. Hence, gearing weakened to 2.6 times as on March 31, 2016, from 1.4-1.5 times previously. Despite improvement, gearing is estimated to remain high at 2-2.2 times as on March 31, 2017. Cash accrual of Rs 10-12 crore per annum in fiscals 2018 and 2019 will remain modest against yearly debt obligation of Rs 10 crore. Hence, CRISIL will monitor the timely return of funds from the retailers in order to ensure the efficient liquidity management of the company. Furthermore CRISIL believes that sustenance of cash accruals will be contingent on expected continual strong business risk profile. The business risk profile however will remain vulnerable to any stringent ban on alcohol, if any, in Chhattisgarh.

The rating reflects BWMPL's moderate business risk profile backed by strong relationship with key customers, established position in the Chhattisgarh liquor market, extensive experience of promoters, These strengths are partially offset by deteriorating capital structure and geographical concentration in revenue and exposure to regulatory changes.

Key Rating Drivers & Detailed Description

Strengths

* **Extensive experience of promoters in liquor industry:** Experience of over a decade has enabled the promoters to establish presence across the entire value chain of the liquor industry.

* **Strong relationships with key customers and established position in Chhattisgarh alcohol market:** The group has established presence across the value chain of the liquor industry: ENA manufacturing, IMFL and CL manufacturing, retailing, and bottling for other principals. This has helped BWMPL establish its market position in the Chhattisgarh alco-beverage market.

Weakness

* **Deteriorating capital structure:** On account of the recent debt availed, the company's capital structure deteriorated in 2015-16 with gearing ratio of 2.6 times as on March 31, 2016. The same has improved yet remains high estimated at 2-2.2 times for fiscal 2017. Increasing accrual is estimated to have led to a comfortable interest coverage ratio of above 2 times for fiscal 2017. Networth is likely to be healthy at Rs 30 crore as on March 31, 2017.

* **Geographical concentration in revenue:** Operations are limited to Chhattisgarh, which exposes the company to intense competition from other players in that state.

* **Exposure to regulatory changes:** The liquor industry has a complex structure of duties and taxes, which differs from state to state. Any change in the duty structure is likely to affect demand-supply dynamics. Any ban imposed by the State Government on consumption of alcohol in the state may lead to pressure on business.

Outlook: Stable

CRISIL believes BWMPL will continue to benefit over the medium term from its established market position in Chhattisgarh. The outlook may be revised to 'Positive' in case of increase in cash accruals while the working capital cycle improves. The outlook may be revised to 'Negative' if decline in revenue or profitability on account of adverse regulatory changes, or increase in debt funded working capital requirements affects liquidity.

About the Company

Incorporated in 1997 and promoted by Mr. Bhupendra Pal Singh Bhatia and family, BWMPL manufactures extra neutral alcohol (ENA), Indian made foreign liquor (IMFL), and country liquor (CL). The company sells IMFL under its own brand, Bhatia, and also undertakes bottling on jobwork basis for Pernod Richard India Pvt Ltd and Radico Khaitan Ltd.

The company reported a profit after tax (PAT) of Rs 3.2 cr on net sale of Rs 151.5 cr in 2015-16, as against a PAT of Rs 1.64 cr on net sale of Rs 161.9 cr in 2014-15.

Any other information: Not applicable

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs. crore) | Rating assigned |
|------|--------------------|-------------------|-----------------|---------------|------------------------|-----------------|
| NA | Cash credit | NA | NA | NA | 25 | CRISIL B |
| NA | Term Loan | NA | NA | Apr-2021 | 45 | CRISIL B |

Annexure - Rating History for last 3 Years

| | Current | | | 2017 (History) | | 2016 | | 2015 | | 2014 | |
|----------------------------|---------|---------|--------------------|----------------|------------------|------|------------------|----------|-------------------|------|--------|
| Instrument | Type | Quantum | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Fund-based Bank Facilities | LT/ST | 70 | CRISIL BBB-/Stable | | No Rating Change | | No Rating Change | 06-01-15 | CRISIL BBB/Stable | | -- |

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

| Current facilities | | | Previous facilities | | |
|--------------------|-------------------|--------------------|---------------------|-------------------|--------------------|
| Facility | Amount (Rs.Crore) | Rating | Facility | Amount (Rs.Crore) | Rating |
| Cash Credit | 25 | CRISIL BBB-/Stable | Cash Credit | 25 | CRISIL BBB-/Stable |
| Term Loan | 45 | CRISIL BBB-/Stable | Term Loan | 15 | CRISIL BBB-/Stable |
| Total | 70 | -- | Total | 40 | -- |

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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Last updated: April 2016

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