

Rating Rationale

Brickwork Ratings upgrades the rating to 'BWR BBB-' for the Bank Loan facilities aggregating ₹ 36.00 Cr of Southern Agrifurane Industries Pvt Ltd

Brickwork Ratings (BWR) has upgraded the **Ratings**¹ for the Bank Loan Facilities of Southern Agrifurane Industries Pvt Ltd (SAFL or 'the company') as follows:

Facility	Previous Amount (₹Cr)	Rating Amount (₹Cr)	Tenure	Rating	Rating History
Fund Based: Cash Credit	64.80	36.00	Long Term	BWR BBB- (BWR Triple B Minus) Outlook: Stable	BWR BB+ (BWR Double B Plus) Outlook: Stable (March 2014)
Fund Based: Term Loan	2.98	0.00			
Total	67.78	36.00	INR Thirty Six Crores Only		

BWR has principally relied upon the audited financial results of SAFL up to FY14, provisional financials for 9M FY15 and projected financials up to FY16, publicly available information and information/clarifications provided by the company.

The rating continues to draw strength from the experienced management, established track record in the manufacturing of Indian Made Foreign Liquor (IMFL), improvement in the overall financial profile of the company, increase in procurement prices by TASMAL and good regional presence in the markets of Tamil Nadu and Kerala. The rating, however, remains constrained by the stringent government regulations applicable to the industry, working capital intensive nature of operations and extensive competition in the industry.

Background:

Incorporated in 1979 at Tamil Nadu, Southern Agrifurane Industries Pvt Ltd (SAFL), belongs to the MGM group which has a presence in varied areas such as Logistics, Hospitality, International Trading, Housing, Distillery business and Theme Parks. SAFL operates a distillation and manufacturing unit for IMFL. SAFL has a capacity to distil 20 kilolitres of alcohol per day and has an annual capacity of producing 6 million cases per annum.

SAFL manufactures products in all the segments – Premium, Medium and Regular with a significant market share in Tamil Nadu. Earlier the company was only manufacturing for other companies but now they have launched their own brands and have increased focus on production for captive brands. Some of the popular brands manufactured by SAFL are Apple Vodka, Orange Vodka, Mango Vodka, Krystal Vodka, Gold VSOP, Richman's Rum, Diamond Whisky, Brandy and Rum. The company was the pioneer in introducing flavoured vodka in the

¹ Please refer to www.brickworkratings.com for definition of the Ratings

market. The company has also launched a new Super Premium Brand in FY15 namely ‘MGM Gold Reserve’.

SAFL owns a subsidiary in Andhra Pradesh, Kamal Wineries, which has a capacity to produce 1.5 million cases of alcohol per annum.

The company sells majority of its products to TASMAL (Tamil Nadu State Marketing Corporation) owned by Government of Tamil Nadu. TASMAL has the monopoly over wholesale and retail vending of liquor in Tamil Nadu. With effect from November 1, 2014, TASMAL has increased the procurement prices for liquor in all categories.

Management:

The Board of Directors of SAFL consists of Dr. M. G. Muthu, Mr. M. G. M. Maran and Mr. M. G. M. Anand, who have vast industrial experience. Apart from them, the management team consists of well qualified and experienced professionals.

Financial Highlights:

SAFL recorded Net Revenue of Rs. 350.36 Cr for FY 14 as against Rs. 313.46 Cr in FY13. Operating Margin was 9.70% and PAT Margin was 3.32% in FY14 as against 10.01% and 4.76% respectively in FY13. Profitability declined on account of relatively lower procurement prices fixed by TASMAL earlier. However with the increased prices effective from Nov 1, 2014, the company expects to achieve higher revenue and margins.

Tangible Net Worth increased from Rs. 54.26 Cr as on March 31, 2013 to Rs. 65.92 Cr as on March 31, 2014 on account of plough back of profits. SAFL’s Liquidity position is strained on account of working capital intensive nature of operations.

On a provisional basis, SAFL has reported a Net Revenue of Rs. 289.54 Cr with an EBITDA Margin 9.46% for 9M FY15.

Rating Outlook:

The rating outlook is expected to be Stable for the current year. Going forward, the ability of the company to increase its scale of operations profitably, improve its liquidity, sustain its financial risk profile and manage its working capital efficiently would form the key rating sensitivities.

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