



Rating Rationale

**Accord Distillers & Brewers Private Limited
(Formerly known as AM Breweries Pvt Ltd)**

2 Apr 2019

Brickwork Ratings revises ratings to BWR BBB-/A3 for the Bank Loan Facilities of Rs. 106.00 Crores of Accord Distillers & Brewers Private Limited (ADBPL or ‘the Company’)

Particulars

Facility#	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund based Cash Credit	70.00	70.00	Long Term	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable	BWR BBB- (Pronounced as BWR Triple B Minus) Outlook: Stable Upgraded
Term Loans	33.96	20.00			
Non Fund Based Letter of Credit	15.00	16.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus)	BWR A3 (Pronounced as BWR A Three) Upgraded
Total	118.96	106.00	INR One Hundred and Six Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

#Annexure I shows details of credit facilities

Rating Upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY18, provisional financials for 9MFY19, projections upto FY20, publicly available information and information/clarifications provided by the management.

The ratings upgrade factors the improved operational and financial performance of the company. The ratings continue to draw strength from the experienced management, established track record of ADBPL



(part of the Chennai based Accord Group) and strong regional presence in Tamil Nadu. However, the ratings remain constrained by the substantial low yielding investments in group entities, susceptibility of profitability to volatility in input prices, presence in a highly regulated industry, customer and regional concentration of business, intense competition from other brands, inherent risks associated with distillery industry and working capital intensive nature of operations.

Going forward, the company's ability to increase its scale of operations, improve profitability, generate adequate returns from its investments in the group/associate entities and effectively manage its working capital will be the key rating sensitivities.

Key Rating Drivers

Credit Strengths

Experienced Management and Group Strength:

The management is well experienced in the Indian Made Foreign Liquor segment and they are supported by a team of experienced professionals. The company benefits from synergies from the Chennai based Accord group which has presence across Education, Healthcare, Hospitality, Realty, Information Technology, Liquor, Brewery, Pharmaceuticals, Power etc.

Established track record of operations and competitive market share:

ADBPL has an established track record of nearly a decade in liquor manufacturing business and has established its brands in Tamil Nadu. The company sells its products only to TASMAL (Tamil Nadu State Marketing Corporation) owned by Govt of Tamil Nadu. The company is well established in the IMFL and Breweries market in Tamil Nadu with a market share of around 16% in the IMFL segment and 18% in Breweries segment.

Improved performance:

Net income increased to Rs 624.94 Crs in FY18 against Rs 617.21 Crs in FY17. The company has limited debt exposure and the gearing is low at 0.29 times as on March 31, 2018 as against 0.43 times as on 31 Mar 2017. Debt protection metrics are comfortable reflected in ISCR of 3.82 times as on 31 Mar 2018 and DSCR of 3.05 times as on 31 Mar 2018. Despite substantial investments and advances extended to the group companies of Rs. 228.34 Crs as on March 31 2018, the analysed gearing level was comfortable at 0.79 times. On a provisional basis, Net income increased to Rs 862.31 Crs in FY19 (volumes increased to 134 lakh cases(IMFL and Breweries))

Credit Risks

Exposure of the profitability margins to the volatility of raw-material prices:

The company's margins remain exposed to the changes in input prices like neutral spirits, other spirits, molasses, packing materials etc in the absence of any pricing flexibility with retailers. Operating margin



declined to 17.57% in FY18 against 23.77% in FY17 due to increase in raw material prices. Also, net profit margin declined to 4.21% in FY18 against 8.93% in FY17.

Substantial investments in group/associate companies:

The company has substantial exposure to its group/associate entities to the tune of Rs.228.34 Crs as on 31 Mar 2018 (Rs. 62.57 Crs as non current investments, Rs.165.77 Crs as long term loans and advances). The exposure to group companies which are not yielding returns, constrains the liquidity and financial flexibility of the company.

Government Regulatory Risks: The Indian alcohol industry is characterized by stringent regulations and is primarily regulated by the respective State Governments. Energy state has its set of regulations with respect to distribution and retail channels, registration, taxation and pricing of alcohol. Licenses to produce and bottle are particularly scarce and contract manufacturing is a well-established market entry strategy. Government regulations will have a significant impact as majority of the revenue is from TASMAC. Furthermore, players within the industry are susceptible to high excise duties; any adverse change in excise duties can weaken profitability, and consequently, affect its credit risk profile.

Geographical and client concentration:

Revenue is entirely derived from Tamil Nadu, which exposes the company to geographical concentration risk. Moreover, TASMAC is the apex body that controls wholesaling, retailing, and pricing of IMFL in the region. The company supplies 100% of its production to TASMAC, resulting in revenue concentration to a single customer. Further, state regulations relating to the IMFL segment are prone to change from time to time.

Liquidity - Adequate:

Cash conversion cycle was comfortable at 13 days in FY18 due to low receivable days. Current ratio was 1.04 times as on 31 Mar 2018. For FY18, the company's cash accruals were around Rs 83 Crs. It is expected that the cash accruals from FY19 onwards would be adequate to service the debt obligations, which are in the range of Rs 16 to 17 Crs in FY20. Working capital utilisation is almost full. The company's cash balances were Rs. 19.98 Crs as on 31 Mar 2018, indicating adequate liquidity.

Analytical Approach

BWR has adopted a standalone approach while assigning the ratings and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Outlook: Stable

BWR believes Accord Distillers & Brewers Private Limited's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium



term. The rating outlook may be revised to 'Positive' in case the revenues and profits show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures and/or there is further increase in non income generating investments in group/associate companies.

About the Company

The company was incorporated in 2010 as AM Breweries Pvt Ltd, Chennai, Tamil Nadu. The company is engaged in the production and sale of alcoholic beverages. The company is part of the Chennai based Accord Group, which is promoted by Mr. Jagathratchagan and his family members. The name was changed to Accord Distillers & Brewers Private Limited in Jan 2018. The merger of Elite Distilleries Pvt Ltd with ADBPL was approved by State Excise Department in Oct 2018. ADBPL has 24 active Brands, which are categorized into three range segments such as Premium, Medium and Ordinary range Brands. Age Dee Oak Brandy, Hollandus Spanish Brandy, Royal Accord Premium French Brandy, Ancient Cask XXX Rum, Honiey Day Brandy and Accord No.1 Brandy are the popular IMFL brands. ADBPL also has 4 active Brands for Breweries such as 10000 Volts Super Strong, Royal Accord Super Strong, Carlsberg and Tuberg. The Company sells its products to TASMAL (owned by the Government of Tamil Nadu). TASMAL has monopoly over wholesale and retail vending of liquor in Tamil Nadu. It also controls the Indian Made Foreign Liquor (IMFL) trade in the state.

Dr. S. Jagathrakshagan is the Chairman of the Accord Group. Mr J Sundeep Anand and Mrs J Srinisha are the directors of ADBPL.

Some of the major group companies of the Accord group include Fortune Distillers And Vintners Private Limited, Accord Mediplus Pvt Ltd, Accord Life Spec Private Limited, Jam Hotels And Resorts Private Limited., J Hotels Pvt.Ltd and Sri Lakshmi Ammal Educational Trust.

Financial Performance:

ADBPL reported total operating income of Rs. 624.94 Crs and Net profit of Rs 26.33 Crs in FY18 as against total operating income of Rs.617.21 Crs and Net profit of Rs. 55.11 Crs in FY17. Tangible net worth was Rs.361.67 Crores as of 31 Mar 2018. Gearing is low at 0.29 times as on 31 Mar 2018. Total Debt was Rs. 104.31 crs as on 31 Mar 2018. On a provisional basis, the Company has achieved net revenue of around Rs 862 crs for FY19.

Key financial indicators are given in Annexure II.

Rating History for the last three years

Sl. No	Facility	Current Rating (Mar 2019)			Rating History*		
		Type	Amount (Rs Crs)	Rating	04-Dec-2017	2016	2015
1	Fund based Cash Credit	Long Term	70.00	BWR BBB- (Pronounced as BWR Triple B Minus) Outlook: Stable Upgraded	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable	-	-
	Term Loans		20.00				
2	Non Fund Based Letter of Credit	Short Term	16.00	BWR A3 (Pronounced as BWR A Three) Upgraded	BWR A4+ (Pronounced as BWR A Four Plus)	-	-
Total			106.00	Rs One Hundred and Six Crores Only			

*Rating was migrated to Rating not reviewed category on 05-Mar-2019

Status of non-cooperation with previous CRA-

ICRA has continued its ratings of the bank loan facilities of the company in the “Issuer Not Cooperating” category, vide its press release dated 28 Mar 2019, as the company did not cooperate in the surveillance exercise.

Any other information: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)



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Accord Distillers & Brewers Private Limited

Annexure I: Details of Bank Facilities

(in Rs Crs)

Bank	Tenure	Type	Previous Total	Punjab National Bank	State Bank of India	Total
Cash Credit	Long Term	Fund Based	70.00	35.00	35.00	70.00
Term Loan			33.96	7.00	13.00	20.00*
Letter of Credit	Short Term	Non Fund Based	15.00	7.50	8.50	16.00
Total			118.96	49.50	56.50	106.00

*Term loan outstanding



Annexure II: Key Financial Indicators

Key Parameters	Units	31 Mar 2017	31 Mar 2018
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	617.21	624.94
EBITDA	Rs. Crs	146.71	109.77
PAT	Rs. Crs	55.11	26.33
Tangible Net worth	Rs. Crs	298.58	361.67
Total Debt/Tangible Net worth	Times	0.43	0.29
Current Ratio	Times	0.90	1.04



For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over Rs 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over Rs24,440 Cr have been rated.

DISCLAIMER

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