



Rating Rationale

29 Apr 2020

Accord Distillers & Brewers Private Limited

Brickwork Ratings reaffirms the ratings with revision of outlook for the Bank Loan Facilities of Rs.100.64 Crores of Accord Distillers & Brewers Pvt Ltd ('ADBPL' or the 'Company')

Particulars

Facility**	Amount (Rs Cr)		Tenure	Rating*	
	Previous (Rs. Crs)	Present (Rs. Crs)		Previous	Present
Fund Based					
Cash Credit	70.00	70.00	Long Term	BWR BBB-/Stable	BWR BBB-/Negative Reaffirmed
Term Loan	20.00	14.64			
Non Fund Based					
Letter of credit	16.00	16.00	Short Term	BWR A3	BWR A3 Reaffirmed
Total	106.00	100.64	Rupees One Hundred Crores And Sixty Four Lakhs Only		

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ; ** Details of Bank facilities are provided in Annexure I;

Rating Action/Outlook

The ratings reaffirmation factors the consistent operational and financial performance, experienced management, established track record (part of the Chennai based Accord Group) and strong regional presence in Tamil Nadu. However, the ratings remain constrained by the substantial non income generating 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 the distillery industry and impact of COVID-19 on business operations.

The outlook revision reflects BWR's concerns over decline in profitability over the last three years, increasing investments in group/associate companies reported at ~Rs.305 cr as at March 31, 2019 (PY Rs.228 cr) which are not yielding returns and the impact of COVID-19 on their business operations. The company's profitability metrics have been declining for the last three years. Operating profit margin has deteriorated by ~50% from ~24% in FY17 to ~13% in FY19. A similar declining trend is observed in the net margins which have recorded a reduction of ~88% between FY17 to FY19. The company's incremental investments/ loans and advances to the group/associate companies works out to around Rs.77 cr during FY19. The exposure to group companies which are not yielding returns constrains the liquidity and financial flexibility of the company. The company's ability to recover the said loans/ investments to maintain adequate liquidity is key rating sensitivity. Furthermore, BWR expects that the challenging environment arising from COVID-19, which has significantly impacted the production and has dried up demand could dampen FY21 volumes for the company, due to the



extension of measures to curb the spread of the virus, leading to muted revenue and profitability metrics. The outlook may be revised to Stable in case the company shows a substantial growth in revenue, profitability margins, recovers a significant portion of its investments / long term advances from its associates/ group companies and improves its working capital management.

Key Rating Drivers

Credit Strengths:

Experienced management:

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 TASMAC (Tamil Nadu State Marketing Corporation) owned by the 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 the Breweries segment. Furthermore, during FY19, the company has increased its IMFL and Beer production capacity from 10 lakh cases to 13 lakh cases per month.

Moderate Financial Risk Profile

The company has reported consistent financial performance in FY19 and provisional 11MFY20. Operating income improved to Rs.859.10 Crs for FY19 as against Rs.624.94 Crs in FY18. On a provisional basis, the company reported net operating income of around Rs.869 Crores for 11MFY20. However, the company's profitability metrics as reflected in operating profit margin and Net margin have deteriorated to 13.27% and 1.13% respectively in FY19 as against 17.57% and 4.21% in FY18. The decline in net margins were primarily on account of dividend distribution to its shareholders who are primarily the promoters and one of the group companies. Tangible Net Worth was adequate at Rs.400.41 Crores (PY Rs.361.67 crs) as on 31 Mar 2019. However, the Tangible Net Worth (Analyzed), arrived after adjusting non current investments and long term loans/advances lent to group/associate companies, works out to a moderate level of Rs.105.06 cr as on 31 Mar 2019 (PY Rs.134.34 crs). Gearing was adequate at 0.27 times as on 31 Mar 2019. Gearing (Analyzed) was 1.04 times as on March 31, 2019. Debt protection metrics continue to be adequate as reflected in Interest coverage at 3.94 times as on 31 Mar 2019 (PY:3.82 times)and DSCR at 2.59 times as on 31 Mar 2019 (3.05 times as on 31 Mar 2018).

Franchise arrangements and Branding :

The company has an exclusive tie up with Carlsberg of Denmark, to produce and sell products in Tamil Nadu. ADBPL has 24 active Brands, which are categorized into three range segments such as Premium, Medium and Ordinary range Brands. Age De Oak Brandy, Hollandus Spanish Brandy, Royal Accord Premium French Brandy, Ancient Cask XXX Rum, Honey 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 Tuborg. It has introduced new brands under 'Cognac' and 'Super premium' categories. The new brands introduced are: Henry X Special Reserve Brandy XO – Cognac, Royal Accord Blue XR



French Brandy – Premium, Scottish Royal finest blended Scotch Whisky – premium Brand, Chennai king - Strong Beer.

Credit Challenges:

Volatility in input prices

Profitability is susceptible to prices of raw materials i.e ENA which is derived from sugarcane molasses, hence any fluctuation in the prices of raw materials impact the operating margin. Further, in view of the limited pricing flexibility for its final product (as most of the liquor market is controlled by the government distribution channel), the profitability of the company is also likely to be affected.

Increasing investments in group/associate companies

The company has substantial exposure to its group/associate entities to the tune of Rs.304.80 Crs as on 31 Mar 2019 (Rs. 42.64 Crs as non current investments, Rs.262.16 Crs as long term loans and advances) as against 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. The company's ability to recover the said loans/ investments to maintain adequate liquidity in the business is considered a rating sensitivity. Any incremental investment in the group/associate entities may impact the liquidity of the company.

Government Regulatory Risks

The Indian alcohol industry is characterized by stringent regulations and is primarily regulated by the respective State Governments. Every 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 the 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 risk

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. Therefore, any change in the state government's policies on liquor consumption or prohibition would affect its business risk profile.

Impact of COVID-19 on business operations

BWR notes significant uncertainties due to COVID-19 which have significantly lowered revenue and earnings visibility due to the expected drop in demand for IMFL and beer through not only closure of outlets but also other major demand generators i.e bars/ hotels/ pubs across the country. Furthermore, with the economic activity coming to standstill, BWR expects drop in income levels, job losses which may further dampen the demand. The impact is also expected in the supply side wherein significant supply chains and production constraints could dampen FY21 volumes for the company. The manufacturing units of ADBPL continue to be completely shut in compliance with the Govt orders. Any improvement thereafter will remain contingent on the extent of containment of the virus spread. In case of a prolonged impact, the ability of the players to withstand the challenges will remain dependent on policy measures undertaken by the Government to combat



the same. However, as it is difficult to ascertain the duration and extent of impact of the pandemic on the sector as well as the amount of time it would take to recover from the impact, progress on Covid-19 remains a key monitorable for the sector

Analytical Approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Sensitivities

Positive:

- Healthy growth in revenues and earnings on a sustained basis.
- Increased geographical diversification.

Negative :

- Prolonged lockdown due to the coronavirus outbreak impacting revenues and cash flows due to a disruption in production and demand, leading to material deterioration in its financial risk profile and liquidity.
- Significant debt-funded capex and/or an increase in the working capital cycle and/or significant deterioration in the EBITDA margins
- Further increase in investment in associate entities weakening liquidity.
- Any regulatory developments impacting the business
- Specific credit metrics which may result in a rating downgrade include EBITDA<11.00%, Total Debt/TNW (Analyzed) exceeding 1.50 times, DSCR and ISCR declining to below 2.00 times on a sustained basis

Liquidity Position: Adequate

ADBPL's net cash accruals are adequate to cover its debt obligation which is in the range of Rs.6 Crores to Rs.7 Crores for FY21. The company's utilisation of its fund based working capital limits is at ~95-100% and Current ratio was low at 0.79 time as on 31 Mar 2019 as against 1.04 times as on 31 Mar 2018. However, cash and cash equivalents are reported at around Rs.19 Crs as on Feb 29, 2020 (Provisional). The company has informed that its monthly outgo towards salaries is around Rs.0.40 to Rs.0.50 Cr per month. The company has already paid the salaries for Mar-20 and have reserves in its current accounts to cover for 2-3 months of expenses. Furthermore, the company has informed that around 80-90% of the receivables to the tune of Rs.46-47 cr (Raised in Mar-2020) are expected to be released by TASMACH as soon the lockdown is lifted. In the meantime, the promoters would be supporting the company's liquidity through their own resources and group companies, as and when required. BWR also takes note that ADBPL has not availed RBI Moratorium Package.

About the Company

Accord Distillers & Brewers Private Limited (ADBPL) was incorporated in 2010 and is located at Mahalingapuram, Chennai, Tamil Nadu. The company is part of Chennai based ACCORD GROUP, which is promoted by Mr. Jagathratchagan and his family members. ADBPL is engaged in the production and sale of



alcoholic beverages. The company produces two types of liquor viz., Indian Made Foreign Liquor (IMFL) and beer. The Company sells its products to TASMAL (owned by the Government of Tamil Nadu). The company's product mix (based on Revenue for FY19) was approximately 35% from sale of brandy, 25% from vodka, 20% from sale of rum and the remaining ~20% is from sale of beer. IMFL Unit manufactures 'Indian Made Foreign Spirit' near Kanchipuram, with a capacity to manufacture thirteen lakh cases per month. The utilization in FY19 and FY20 was ~77%. Brewery Unit is a 300 HL Automatic Brewery. The unit is currently capable of producing 1 Million Hectolitres per annum which translates to 1 million cases per month.

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 Life Spec Private Limited, Jam Hotels And Resorts Private Limited, J Hotels Pvt.Ltd and Sri Lakshmi Ammal Educational Trust.

Financial performance

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Revenue from Operations	Rs. Cr	624.94	859.10
EBIDTA	Rs. Cr	109.77	114.00
PAT	Rs. Cr	26.33	9.74
Tangible Net Worth	Rs. Cr	361.67	400.41
TangibleNet Worth (Analyzed)	Rs. Cr	134.34	105.06
Total Debt/Tangible Net Worth	Times	0.03	0.19
Total Debt/Tangible Net Worth (Analyzed)	Times	0.78	1.04
Current Ratio	Times	1.04	0.79

On a provisional basis, the company reported total operating income of ~Rs.869 Crores for 11MFY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - ICRA, vide its press release dated 28 March 2019, has continued the ratings in 'Issuer Not Cooperating' category as the company has not provided the requisite information to monitor the ratings.



Rating History for the last three years

Facility	Current Rating (Apr 2020)			Rating History		
	Type	Amount (Rs. Crs)	Rating	02 Apr 2019	2018	04 Dec 2017 [^]
Fund Based						
Cash Credit	Long	70.00	BWR BBB-/Negative	BWR BBB-/Stable	-	BWR BB+/Stable
Term Loan	Term	14.64				
Non Fund Based						
Letter of credit	Short Term	16.00	BWR A3	BWR A3	-	BWR A4+
Total		100.64	Rupees One Hundred Crores And Sixty Four Lakhs Only			

[^] BWR had assigned BWR BB+/ Stable/A4+ to Bank Loan Ratings of Rs.118.96 cr.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

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 rated

Sl No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	Punjab National Bank	Cash Credit	35.00	-	35.00
		Term Loan	6.51	-	6.51
		Letter of credit	-	7.50	7.50
2	State Bank of India	Cash Credit	35.00	-	35.00
		Term Loan	8.13	-	8.13
		Letter of credit	-	8.50	8.50
Total : Rupees One Hundred Crores And Sixty Four Lakhs Only					100.64

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