



## Rating Rationale

M. Shankar

27 June 2019

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 9.26 Crores of M. Shankar.**

### Particulars

Facility	Existing limit (₹ Crs)	Proposed limit (₹ Crs)	Limits Rated (₹ Crs)	Tenure	Rating*
<b>Fund based:</b>					<b>BWR B (Pronounced BWR Single B) Outlook stable</b>
<b>CVPOD Term loan</b>	<b>9.26 -</b>	<b>6.82 2.44</b>	<b>6.82 2.44</b>	<b>Long Term</b>	
<b>Total</b>	<b>9.26</b>	<b>9.26</b>	<b>9.26</b>	<b>INR Nine Crores and Twenty Six Lakhs Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

BWR has essentially relied upon the firm's audited financial results up to FY 18, provisional statement for FY 19, projections for FY20 & FY 21, publicly available information and information/clarifications provided by the management.

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating has inter-alia, factored proprietor's vast experience for more than three decades in the breweries/hotel industry, consistent growth in operating revenue and ability to meet competition from many small and medium units in the region. However, the ratings are constrained by decline in net worth, stagnant profitability level, high gearing, reduced debt service coverage ratio, low liquidity position and inherent risk relating to imposition of government's rules and prohibition laws

Going forward ability of the company to improve its net worth with further infusion of capital, increase its profitability level, to improve its gearing and liquidity position will be the key rating sensitivities.

### Description of Key Rating Drivers

- **Credit Strengths:**

**Proprietor having vast experience in the relevant business:** Mr. M Shankar,



Proprietor has been carrying out the business for more than three decades. Further, he has been running other businesses like Boarding & lodging, renting out of space for commercial activities etc.

**Consistent growth in sales revenue of the firm:** Operating revenue for FY18 was at Rs. 30.45 crs as against Rs. 29.18 crs in FY17 and Rs. 23.48 crs in FY16. As per the management, Sales revenue till March 2019 was estimated at Rs. 38.02 crs

Ability to meet competition from many small and medium businesses in the region

- **Credit Risks:**

**Inherent risk relating to the liquor business:** Business is exposed to inherent risk relating to imposition of government's rules and prohibitions laws

**High Gearing level of the firm:** Debt Equity ratio of the firm was very high for FY18 at 6.98 times as compared to 4.89 times in FY17.

**Reduced Debt service coverage ratio:** Debt protection matrix of the firm has come down for FY18; with ISCR at 1.24 times as against 1.03 times in FY17 and 2.22 times in FY16

**Liquidity position of the firm has been low** with current ratio for FY18 at 0.86 times as against 0.59 times in FY17

### **Analytical Approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Outlook: Stable**

BWR believes the **M. Shankar'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 profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **About the Firm**

M/s. M Shankar was established as a proprietorship firm by Mr. Shankar on 20th January 1987 for carrying out the activities of purchase and sale of liquor products at Channarayapatna, Karnataka. He has more than 3 decades of experience in this business. Major portion of its supplies are purchased from MSIL, Hassan. The firm has mainly casual or one time employees



for carrying out the activities. Mr. M Shankar has been carrying out other businesses like boarding and lodging under the name of M/s. SRS Boarding & Lodging and letting out commercial spaces on lease in and around the region.

### Firm's Financial Performance

Operating revenue of the firm for FY18 stood at Rs. 30.45 crs as against Rs. 29.18 crs in FY17 and Rs. 23.48 crs in FY16; while PAT was stagnant at Rs. 0.51 crs as compared to Rs. 0.45 crs in FY17. As per the management, Sales revenue till March 2019 was estimated at Rs. 38.02 crs. Proprietor's capital stood at Rs. 2.75 crs for FY18 as against Rs. 3.04 crs and Rs. 3.25 crs in FY16. Liquidity position of the firm has been low with Current ratio for FY18 at 0.86 times as against 0.59 times in FY17.

### Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	30.45	29.18
EBITDA	₹ Cr	1.49	1.29
PAT	₹ Cr	0.51	0.45
Tangible Net worth	₹ Cr	2.75	3.04
Total Debt/Tangible Net worth	Times	6.98	4.89
Current Ratio	Times	0.86	0.59

### Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	FY18	FY17	FY16
1 2	<b>Fund Based:</b> <b>CVPOD Term Loan (Proposed)</b>	Long term	6.82 2.44	<b>BWR B (Pronounced as BWR single B)</b>  <b>outlook stable</b>	-	-	-
	<b>Total</b>		<b>9.26</b>	<b>₹ Nine Crores and Twenty Six Lakhs Only</b>			



**Status of non-cooperation with previous CRA (if applicable)-Reason and comments: Not Applicable**

**Any other information: None**

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)

Analytical Contacts	Investor Contacts
<p><b>K S Nagaraj</b> Associate Director - Ratings B : +91 80 4040 9940 <a href="mailto:nagaraj.ks@brickworkratings.com">nagaraj.ks@brickworkratings.com</a></p> <p><b>Suma Giridhara</b> Ratings Analyst B : +91 80 4040 9940 Ext : 345 <a href="mailto:suma.g@brickworkratings.com">suma.g@brickworkratings.com</a></p>	<p><b>Satish Nair</b> Director - Global Market Development &amp; Investor Relations M : +91 7738875550 B : +91 22 6745 6666 <a href="mailto:satish.n@brickworkratings.com">satish.n@brickworkratings.com</a></p>
<p><b>1-860-425-2742</b></p>	

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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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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.

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