

Rating Advisory

February 10, 2023 | Mumbai

Northern Spirits Limited

Update as on February 10, 2023

This rating advisory is provided in relation to the rating of Northern Spirits Limited

The key rating sensitivity factors for the rating include:

Upward factors:

- Sustained revenue growth of 20%, leading to higher accrual
- Prudent working capital management leading to lower gross current assets

Downward factors:

- Non-renewal of foreign liquor trading license, leading to a decline in revenue and operating margin
- Weakening of financial risk profile, with overall gearing exceeding 1.5 times and interest coverage falling below 2 times

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 Ratings is yet to receive adequate information from Northern Spirits Limited (NSL) to enable it to undertake a rating review. CRISIL Ratings 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 Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If NSL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

NSL was set up in 2012, by the promoters, Mr Anuj Bakshi, his brother, Mr Ankush Bakshi, and Mr Kulbir Singh. The company imports and distributes alcoholic beverages and liquor in northern India. It distributes brands such as Glenfiddich Single Malt, Balvenie Single Malt, Hendricks Gin, Monkey Shoulder Blended Whiskey, Grey Goose Vodka, Bombay Sapphire Gin, and Camino Tequila.

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Rating Rationale

December 20, 2021 | Mumbai

Northern Spirits Limited

Rating outlook revised to 'Stable'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.89 Crore (Enhanced from Rs.62 Crore)
Long Term Rating	CRISIL BBB-/Stable (Outlook revised from 'Negative'; rating reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Northern Spirits Ltd (NSL) to **'Stable'** from **'Negative'**, and reaffirmed the rating at **'CRISIL BBB-'**.

The outlook revision reflects the strong recovery in sales in the first half of fiscal 2022. Overall sales in fiscal 2022, may exceed pre-pandemic levels, driven by the sharp increase in demand across all territories that the company operates in. Steady demand from existing and newly added territories will continue to support the business and financial risk profiles. Debt protection metrics have also improved, particularly the interest coverage ratio, which rose to 2.61 times in the first half of fiscal 2022, from 2.05 times in fiscal 2021.

The ratings also reflect the extensive experience of the promoters in the liquor industry, and the healthy financial risk profile of NSL. These strengths are partially offset by the large working capital requirement and exposure to regulatory risk in the liquor industry.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoters: Presence of almost two decades in the liquor distribution business has enabled the promoters to gain strong understanding of market dynamics and maintain healthy relationships with suppliers and customers. Turnover rose sharply to Rs 161 crore in fiscal 2020, from Rs 110 crore in fiscal 2019, aided by foreign liquor trade licenses held by the company and exclusive distribution rights for many states. Performance was subdued in fiscal 2021, amidst the Covid-19 pandemic and the consequent lockdowns, but has shown a sharp revival in the first half of the current fiscal.

Healthy financial risk profile: Limited reliance on external debt kept the total outside liabilities to tangible network (TOLTNW) ratio below 1 time for the two fiscals ended March 31, 2021. Debt protection measures, although subdued in fiscal 2021, have improved significantly in the first half of fiscal 2022.

Weaknesses:

Exposure to regulatory risk in the liquor industry: The domestic spirits and wine industry is highly regulated by the state and central governments across all areas, including production, wholesale and retail distribution, raw material availability and advertisements. Sales and distribution in the wholesale and retail segments are governed by the respective states, depending on whether the market is government-controlled, hybrid, auction-based, or free. This has a significant impact on profitability, particularly in states where the government controls pricing.

Large working capital requirement: Gross current assets were high ranging between 270 and 299 days over the three fiscals ended March 31, 2021, driven by substantial receivables of 112 days and inventory of 104 days. The company needs to extend a long credit period to its customers. It also needs to extend substantial advances to the manufacturers for procurement of inventory.

Liquidity: Adequate

Liquidity remains adequate, marked by sufficient cash accrual and a healthy current ratio. Expected cash accrual should comfortably cover the working capital expenses, in the absence of any large maturing debt or capital expenditure plan. Current ratio was healthy at 2.23 times as on March 31, 2021. Bank limit utilisation averaged 88% over the six months ended October 31, 2021, and may remain high going forward.

Outlook Stable

CRISIL Ratings believes NSL will continue to benefit from the extensive experience of its promoters in the liquor distribution business.

Rating Sensitivity factors

Upward factors:

- Sustained revenue growth of 20%, leading to higher accrual
- Prudent working capital management leading to lower gross current assets

Downward factors:

- Non-renewal of foreign liquor trading license, leading to a decline in revenue and operating margin
- Weakening of financial risk profile, with overall gearing exceeding 1.5 times and interest coverage falling below 2 times

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Key Financial Indicators

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	138.24	160.81
Reported profit after tax (PAT)	Rs crore	2.97	3.61
PAT margin	%	2.15	2.25
Adjusted debt / adjusted networth	Times	0.86	0.68
Interest coverage	Times	2.05	2.58

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	75	NA	CRISIL BBB-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	2	NA	CRISIL BBB-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	12	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

		Current		2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	89.0	CRISIL BBB-/Stable	01-06-21	CRISIL BBB-/Negative	03-12-20	CRISIL BBB-/Negative	13-11-19	CRISIL BBB-/Stable / CRISIL A3		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	15	State Bank of India	CRISIL BBB-/Stable
Cash Credit	25	State Bank of India	CRISIL BBB-/Stable
Cash Credit	25	State Bank of India	CRISIL BBB-/Stable
Cash Credit	10	State Bank of India	CRISIL BBB-/Stable
Proposed Fund-Based Bank Limits	2	Not Applicable	CRISIL BBB-/Stable
Proposed Working Capital Facility	12	Not Applicable	CRISIL BBB-/Stable

This Annexure has been updated on 20-Dec-2021 in line with the lender-wise facility details as on 16-Dec-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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