CRISIL Ratings

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January 05, 2024

Mr. Abhinav Gupta
Chief Financial Officer
Tilaknagar Industries Limited
3rd Floor, Industrial Assurance Building, Churchgate,
Mumbai City - 400020
9878170010

Dear Mr. Abhinav Gupta,

Re: Assignment of CRISIL Ratings to the bank facilities of Tilaknagar Industries Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL Ratings on the ratings as on date.

Total Bank Loan Facilities Rated	**Rs.200 Crore**
Long Term Rating	**CRISIL A-/Stable (Assigned)**

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL Ratings would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL Ratings reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the ratings. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL Ratings will be necessary.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Shounak Chakravarty
Associate Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

S.No.	Bank Facility	Bank	Amount (Rs. in Crore)	Outstanding Rating
1	Proposed Working Capital Facility	--	25	CRISIL A-/Stable
2	Term Loan	Kotak Mahindra Bank Limited	150	CRISIL A-/Stable
3	Working Capital Facility	Kotak Mahindra Bank Limited	25	CRISIL A-/Stable
	Total		**200**	

Rating Rationale

January 05, 2024 | Mumbai

Tilaknagar Industries Limited

'CRISIL A-/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.200 Crore**
Long Term Rating	**CRISIL A-/Stable (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A-/Stable'** rating to the bank facilities of Tilaknagar Industries Ltd (TIL, a part of TI group).

The rating reflects the healthy business risk profile of TIL backed by its established leadership position in the brandy segment aided by strong brands such as Mansion House and Courier Napolean, improving operating efficiency as well as financial risk profile. The rating also factors in the long-established track record, vintage and experience of the promoters in the distillery industry. These strengths are however partially offset by constrained geographical and category diversity in the highly regulated alcohol industry and volatile input prices coupled with limited pricing power.

Net Revenue during fiscal 2023 improved by 48% to Rs 1,164 crore (fiscal 2022: Rs.784 crore) driven by ~43%% rise in volumes and ~5% in realisations. TIL's brandy segment where it has a strong market position formed ~93% of total volume sold in fiscal 2023 (fiscal 2022: 94%%) followed by ~5% from rum and balance from vodka, gin & whiskey. Sales of brandy is supported by robust demand for its flagship brands viz Mansion House and Courier Napolean. TIL has a strong and established presence in Southern India, which accounted for ~86% of total volume sold in fiscals 2022 and 2023. Revenue expansion continued in the first half of fiscal 2024 with company recording 30% year-on-year growth to Rs 658 crore. Revenue is expected to grow in double digits over the near-to-medium term driven by strong demand for existing products, increasing revenue contributions from new product launches in the premium category such as Flandy and Chambers and increasing geographic penetration.

Operating margin improved to ~13% in the first half of fiscal 2024 compared to 11.8% in fiscal 2023. The margin expansion was aided by improvement in gross margins to 49.04% from 47.07% owing to softening glass prices (forms ~50 % of overall raw material costs) and higher focus on premium segment. This has helped the company partly offset the impact of rise in Extra Neutral Alcohol (ENA) prices. Operating margin also benefitted from higher operating leverage. Margins are expected to sustain at ~14% over the medium term.

Over fiscals 2010-2014, the company undertook several asset heavy backward integration capital expenditure (capex) programmes aggregating ~Rs 720 crore through a mix of debt, equity and internal accrual to improve efficiency and take advantage of benefits under government subsidy scheme for which some of the projects were eligible. However, from fiscal 2015, the company faced several operational and macro-economic challenges such as sudden cessation of operations of its main bottler in Tamil Nadu, operational disturbances with bifurcation of Andhra Pradesh and Telangana, delay in receipt of subsidy and licenses for facilities being set up that impacted volumes sold. This, together with increase in fixed costs due to expansions undertaken impacted the liquidity of TIL severely, which then defaulted on its loan obligations in fiscal 2015. With financial challenges continuing, total debt increased from Rs 825 crore as on March 31, 2015 to Rs 1,111 crore as on March 31, 2019 mainly on account of accrued unpaid interest. In fiscal 2020, company reached One Time Settlement agreement with three of its lenders with outstanding debt of Rs 668 crore, which was settled for Rs.213 crore. Balance loan of Rs 523 crore was transferred to Edelweiss ARC (EARC), which got restructured into sustainable debt of Rs 345 crore and balance debt (interest rate of 0.001%) of Rs 178 crore. As per the Master Restructuring Agreement, Rs 34 crore out of the balance debt was to be converted into equity and Rs 144 crore was to be waived off once payment on the sustainable portion was completed. In June 2023, TIL completely repaid EARC debt through a mix of internal accrual and by availing a term loan facility from Kotak Mahindra Bank Ltd to partially refinance the balance bullet instalment outstanding with EARC. Additionally, between December 2021 and June 2023, the company raised substantial equity totalling Rs 311 crore including

Rs 63 crore from promoters, which helped them make repayments on time and also revive business operations. The total debt outstanding stood at Rs 188 crore as on September 30, 2023.

Improvement in operating performance leading to higher cash generation has benefitted key debt protection metrics such as interest cover, which improved to 6.2 times in the first half of fiscal 2024 (fiscal 2023: 3.51 times) and total debt/earnings before interest, tax, depreciation and amortisation (EBITDA), which improved to 1.09 times in the first half of fiscal 2024 from 1.83 times in fiscal 2023 and 5.06 times in fiscal 2022. Annual net cash accrual, expected over Rs 150 crore in the near-to-medium term would be adequate to meet balance repayment obligations of Rs 10 crore in fiscal 2024 and Rs 30-40 crore fiscal 2025 onwards and capex requirements of Rs 20-25 crore per annum over the medium term.

Analytical Approach

CRISIL Ratings has taken a consolidated view of the company and has combined the business and financial risk profiles of TIL and its wholly owned subsidiaries, Vahni Distilleries Pvt Ltd, PunjabExpo Breweries Pvt Ltd and Prag Distilleries Pvt Ltd. That's because all these companies, collectively referred to as the TI group, have the same promoters, and business and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position in the brandy segment of Indian manufactured foreign liquor (IMFL) industry:** TIL, which was setup as a sugar manufacturing company in 1933 gradually exited the same and has been involved in manufacturing and bottling of IMFL since 1974.

  TIL enjoys leadership position in the brandy segment (93% of total volumes) of IMFL industry with market share of ~20% excluding Tamil Nadu. Further, within the Prestige and above segment of brandy, TIL has ~30% market share. Brandy is the second largest in spirits category in IMFL with ~20% plus volume share after whiskey, which has ~55% share. South India is a key region for IMFL manufacturers with almost 60% consumption coming from the region. TIL has a major presence in the Southern market with ~86% of total volumes coming from this region.

  Prestige and above constitutes only ~34% of overall brandy segment, which is much lower compared to whiskey and vodka. Increasing premiumisation is expected to augur well for the company as more than ~80% of its products are in the premium category. This along with new product launches is expected to drive revenue growth in the near-to-medium term.

- **Established track record and extensive experience of the promoters:** TIL, which was setup as a sugar manufacturing company in 1933 gradually exited the same and has been involved in manufacturing and bottling of IMFL since 1974. The company has a strong distribution network of ~40,000 outlets across the country, primarily selling through state corporations, direct sales, and distributors. It also exports its products to Africa, the Middle East, East and South-East Asia and Europe.

  The company is a major player in the Southern Indian states, which account for ~86% of total revenue. The promoters have experience of more than five decades in this field and have strong relationships with dealers/distributors. Mr Amit Dahanukar, the current Chairman cum Managing Director joined the board in 2001 and has been instrumental in guiding the company through its troubled phase and reviving the business prospects.

- **Adequate financial risk profile:** Tangible networth increased to Rs 570 crore as on September 30, 2023 from Rs 133 crore as on March 31, 2022 driven by equity infusions totalling Rs 311 crore between fiscal 2022 and the first half of fiscal 2024. This is expected to further enhance with continued steady accretion to reserve. As a result, the company's capital structure has improved significantly, as reflected in gearing of 0.30 time as on September 30, 2023. Gearing is expected to remain below 0.25 time going forward in the absence of any debt-funded capex over the medium term. Debt protection metrics have augmented sharply supported by growing operating profitability, as indicated by interest coverage and net cash accrual to total debt (NCATD) ratios of 6.2 times and 0.83 time, respectively, in the first half of fiscal 2024. Same is expected to remain comfortable at similar levels over the medium term. Absence of any major sizeable debt-funded capex along with expected accretion to reserve will support the financial risk profile over medium term.

Weaknesses:

- **Limited geographical and category diversification in the highly regulated alcohol industry**: The liquor industry is highly regulated with the state government controlling its selling and distribution. Any change in government policies with respect to production and distribution, or significant variation in the duty structure may impact the liquor industry, and therefore, the company. Further, a large percentage of the company's turnover is derived from Southern India (86% of total volumes), where any unfavourable regulatory policy may impact its business. The company has been taking steps to gradually reduce its geographical concentration by expanding into newer regions.

Company also has category concentration as 93% of its volumes come from brandy. In order to mitigate the same, the company plans to scale up its other categories over the medium term. The company aims to reduce its brandy concentration to ~80% over the medium term.

- **Volatile input prices and limited pricing power:** The key raw materials of TIL include ENA and glass (packing material). ENA, which contributes ~50% of total raw material cost witnessed an increase of ~20% from ~Rs 59/litre in fiscal 2022 to ~Rs 70/litre in fiscal 2023, while glass prices that had increased by 20-30% in fiscal 2023 softened in the current fiscal. The sharp rise in the prices of ENA and glass in fiscal 2023 on account of macro-economic factors resulted in decline in EBITDA margins of TIL from 14.3% in fiscal 2022 to 11.8%. ENA is derived from agro-based products such as grain and molasses, which are dependent on the vagaries of monsoon; consequently, their prices remain volatile. The company has limited pricing power as the prices in majority of states wherein the company operates (barring Karnataka and Pondicherry) are governed by regulatory authorities.

Liquidity: Strong

Expected cash accrual of Rs 160-170 crore over the near-to-medium term will be adequate to meet annual capex requirements of ~Rs 20 crore and balance repayment obligations of Rs 10 crore in fiscal 2024 and Rs 30-40 crore per annum fiscal 2025 onwards. Further, company also had cash surplus of Rs 40 crore as on September 30, 2023.

Outlook: Stable

CRISIL Ratings believes TIL's business risk profile will continue to be stable with strong brand recall, robust demand and premiumisation trend, which benefits the company. This coupled with healthy cash generation and absence of any major debt funded capex plans over the medium term will keep the financial risk profile steady.

Rating Sensitivity factors

Upward factors:

- Sustained revenue growth while maintaining operating profitability around 14%
- Maintenance of financial risk profile leading to significant improvement in key debt protection metrics especially interest cover at over 8 times

Downward factors:

- Significant moderation in business performance leading to deterioration in operating margin on a sustained basis
- High debt levels due to capex or elongation of working capital cycle leading to deterioration in key debt metrics; interest cover falling below 5 times on a sustained basis

About the Company

TIL was founded in 1933 as The Maharashtra Sugar Mills Ltd by Shri Mahadev L Dahanukar. In the 1970s, the company shifted its focus to alcohol production, quickly becoming a prominent manufacturer of alcoholic beverage (Alcobev) brands in India. TIL is the maker of India's highest-selling premium brandy, Mansion House Brandy. The company offers over 15 different brands of brandy, whiskey, gin, rum, and vodka, with a focus on the Prestige and above segments. TIL's manufacturing operations span 19 units, including 4 owned units and 15 contract manufacturing units. The primary manufacturing facility is in Srirampur, Ahmednagar district, Maharashtra. In Srirampur, TIL has a 100 KLPD grain-based distillery (currently non-operational) and a 50 KLPD molasses-based distillery. TIL is a significant player in the brandy segment; Brandy forms ~22% of overall IMFL market in India. TIL is the largest player in the brandy segment having ~20% market share excluding Tamil Nadu (market dominated by local players). TIL has a strong foothold and brand-recall in South Indian market (A.P, Telangana, Karnataka, Kerala and Pondicherry) contributing ~86% of total volume. In fiscal 2023, the company sold over 9.6 million cases (1 case = 9 litre), reflecting a 43.3% increase compared to fiscal 2022, with southern states contributing 86% of the volume, East (3%), West (2.8%), Canteen Store Departments (CSD) and exports (7.9%). TIL maintains a robust distribution network across the country, primarily selling through state corporations, direct sales, and distributors

Key Financial Indicators

As on/for the period ended March 31		2023	2022
Net Revenue	Rs Crore	1,164	784
Profit after tax (PAT)	Rs Crore	150	45
PAT margin	%	12.9	5.8
Adjusted debt/Adjusted networth	Times	0.52	4.39
Adjusted interest coverage	Times	3.52	1.90

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Term loan	NA	NA	30-Jul-28	150	Simple	CRISIL A-/Stable
NA	Working capital facility	NA	NA	NA	25	Simple	CRISIL A-/Stable
NA	Proposed working capital facility	NA	NA	NA	25	Simple	CRISIL A-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Vahni Distilleries Pvt Ltd	100%	Common management, similar line of business, business and financial linkages, and common promoters
PunjabExpo Breweries Pvt Ltd	100%	Common management, similar line of business, business and financial linkages, and common promoters
Prag Distilleries Pvt Ltd	100%	Common management, similar line of business, business and financial linkages, and common promoters

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	200.0	CRISIL A-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Working Capital Facility	**25**	**Not Applicable**	**CRISIL A-/Stable**
Term Loan	**150**	**Kotak Mahindra Bank Limited**	**CRISIL A-/Stable**
Working Capital Facility	**25**	**Kotak Mahindra Bank Limited**	**CRISIL A-/Stable**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
The Rating Process
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for Consolidation

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For more information, visit www.crisilratings.com

About CRISIL Limited

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It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

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