

April 6, 2018

Empee Distilleries Limited: CARE revises rating for Non -Convertible Debentures issue from "CARE B; Negative to CARE C; Negative ISSUER NOT COOPERATING".

Credit Analysis & Research Limited (CARE) has revised its rating on the Non -Convertible Debentures from "CARE B; Negative to CARE C; Negative ISSUER NOT COOPERATING".

Please find attached is the press release from CARE for perusal and record.

This is for your information and records.

IDBI Trusteeship Services Limited

Sd/-

Authorised Signatory

Empee Distilleries Limited
 April 05, 2018

Facilities	Amount (Rs. crore)	Rating ¹⁾	Rating Action
Long term Bank Facilities	73.28	CARE D; ISSUER NOT COOPERATING* (Single D; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; on the basis of best available information
Short Term Bank Facilities	32.45	CARE D; ISSUER NOT COOPERATING* (Single D; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; on the basis of best available information
Total	105.73 (Rupees One hundred five crore and seventy three lakhs only)		
Non-Convertible Debentures	47.50	CARE C; Negative ISSUER NOT COOPERATING* (Single C; Outlook : Negative)	Issuer not cooperating; Revised from CARE B; Negative (Single B; Outlook: Negative) on the basis of best available information

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Empee Distilleries Limited to monitor the rating(s) vide e-mail communications dated February 01, 2018, February 14, 2018, February 28, 2018 and March 12, 2018 and letter dated March 19, 2018. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on bank facilities of Empee Distilleries Limited will now be denoted as CARE D; ISSUER NOT COOPERATING*. The rating on Non-Convertible Debentures of Empee Distilleries Limited will now be denoted as CARE C; Negative; ISSUER NOT COOPERATING.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating assigned to bank facilities of EDL take into account delays in debt servicing by the company.

The total revenue (excluding VAT) reduced to Rs.249 Cr in FY17 from Rs.330 Cr in FY16. The company incurred net loss of Rs.25 Cr and cash loss of Rs.42 Cr in FY17 as against PAT of Rs.2 Cr and GCA of Rs. 14 Cr in FY16. During 9MFY'18, EDL reported net loss of Rs 24 Cr and cash loss of Rs.22 Cr as against net loss of Rs.19 crore and cash loss of Rs.9 Cr in 9MFY17. The coverage indicators such as interest coverage ratio also moderated to 0.24 times as on March 31, 2017 as against 1.59 times as on March 31, 2016.

Detailed description of the key rating drivers

At the time of last rating on March 23, 2017 the following were the rating strengths and weaknesses:

Detailed description of the key rating drivers
Key Rating Weaknesses
Highly regulated nature of the TN liquor industry

The IMFL industry in TN is highly regulated and is subject to a convoluted tax structure. From manufacturing through distribution, pricing and advertising, restrictions prevail. The sector under the Constitution is a State subject and accordingly each State/Union Territory has its own policies and taxation regime. State governments are therefore, free to issue their own guidelines to regulate the movement, possession and use of alcohol in their states through licensing mechanism. Tamil Nadu liquor market is highly regulated with production, distribution, retailing and pricing of IMFL products controlled by Tamil Nadu State Marketing Corporation Ltd. (TASMAC), a GoTN entity. TASMAC sets the pricing of the product after consultation with the industry players; however, price revision generally does not take place frequently.

Significant exposure to group entities

¹⁾ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Over the last few years, EDL has made significant investments by way of equity infusion and loans & advances to its group entities. As on March 31, 2016, the company's non-current investments in group companies aggregated Rs.280 crore as against the company's tangible net worth of Rs.289 crore.

Instances of delays in debt servicing of bank facilities

The moderation in the performance of EDL coupled with significant exposure to group entities primarily in the form of equity capital and their constrained liquidity position, leading to instances of delays in debt servicing of bank facilities by EDL.

Key Rating Strengths

Improved performance in FY16

EDL registered a net profit of Rs.2 crore on the total operating income of Rs.326 crore as against loss of Rs.3 crore on the total operating income of Rs.513 crore in 15MFY15. The improvement in profitability parameters were due to increase in procurement prices from Tamil Nadu State Marketing Corporation (TASMAC) and the upward price revision of 21% by TASMAC w.e.f November, 2014. EDL reported net loss of Rs.19 crore on the total operating income of Rs.162 crore in 9MFY17. The losses in 9MFY17 were due to demonetization, dry days announced by the governments in Tamil Nadu, Karnataka and Kerala.

Established brand presence of the Empee group in the Tamil Nadu (TN) market

The flagship company of the group, EDL, was established in 1983 and is primarily engaged in the manufacturing of Indian Made Foreign Liquor (IMFL) in the states of Tamil Nadu, Kerala and Karnataka. EDL has a licensed capacity of 7.2 million cases per annum, spread among these three states. EDL also produces power through a bio-mass-based power plant of 10 MW capacity in TN.

Analytical approach: Standalone

Applicable Criteria:

Policy in respect of Non-cooperation by Issuer

CARE's Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

CARE's Rating Methodology for Education Sector

Financial ratios – Non-Financial Sector

About the Company:

Promoted in 1983 by Mr M P Purushothaman, EDL is the flagship company of the Empee group mainly engaged in the manufacturing of Indian Made Foreign Liquor (IMFL) in the states of Tamil Nadu (TN), Kerala and Karnataka. EDL has a licensed capacity of 7.2 million cases per annum, spread among these three states. EDL also produces power through a bio-mass based power plant of 10 MW capacity in TN and has a 60 Kilo Litre per Day (KLPD) grain based alcohol plant in Andhra Pradesh (AP).

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/Market Intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Ratings Outlook
Fund-based - LT-Cash Credit	-	-	-	37.20	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	March 2021	36.08	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	29.45	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Debentures-Non Convertible Debentures	April 27, 2016 & September 16, 2016	14%	April 2021	47.50	CARE C; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Negative on the basis of best available information

*issuer did not cooperate

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	36.08	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D (11-Apr-17)	-	1)CARE D (21-Mar-16) 2)CARE D (24-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	37.20	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D (11-Apr-17)	-	1)CARE D (21-Mar-16) 2)CARE D (24-Apr-15)
3.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D (11-Apr-17)	-	1)CARE D (21-Mar-16)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	29.45	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D (11-Apr-17)	-	1)CARE D (21-Mar-16)
5.	Debentures-Non Convertible Debentures	LT	47.50	CARE C; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Negative on the basis of best available information	-	1)CARE B; Negative (11-Apr-17)	-	1)CARE B (21-Mar-16)

*issuer did not cooperate