

October 18, 2010

CARE ASSIGNS 'CARE BBB-(SO)' AND 'CARE BB+' RATINGS TO THE LONG-TERM AND 'PR4+' RATING TO THE SHORT-TERM BANK FACILITIES OF RADICO NV DISTILLERIES MAHARASHTRA LTD.

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities *	115.0	'CARE BBB-(SO)' (Triple B Minus Structured Obligation)	Assigned
Long-term Bank Facilities	72.0	'CARE BB+'	Assigned
Short-term Bank Facilities	5.0	'PR4+' (PR Four Plus)	Assigned
Total Facilities	192.0		

* backed by an unconditional and irrevocable Guarantee from Radico Khaitan Ltd. to the extent of 36%

Rating Rationale

The SO rating is based on partial unconditional and irrevocable guarantee from Radico Khaitan Ltd (RKL), (rated CARE A+/PR1).

The standalone ratings are constrained due to the short track record of operations, weak financial risk profile characterized by losses and high levels of leverage, presence in highly regulated industry with heavy burden of duties and taxes, exposure to volatility in raw material prices and risks arising out of geographical concentration in revenue profile. However, the above risk factors are partly offset due to significant experience of the promoters in the alcohol industry coupled with operational synergies between the joint venture (JV) partners, RNVD's presence in Maharashtra being a large Indian Made Foreign Liquor (IMFL) market with ready availability of molasses and grain and high entry barriers due to licensing restrictions and dominant incumbent players.

Going forward, RNVD's ability to scale up operations profitably and manage raw material price volatility, continued support from promoter companies and maintaining optimal capital structure would be the key rating sensitivities.

Company Profile

RNVD was formed as a tripartite joint venture (JV) amongst RKL (36%), Enn Vee Holding Pvt Ltd (32%) and Ridhi Sidhi Shares Pvt Ltd (32%) in 2007. The company is engaged in the manufacture of Extra Neutral Alcohol (ENA), Indian Made Foreign Liquor (IMFL) and Country Liquor (CL) at Aurangabad in Maharashtra.

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

RNVD has a molasses distillation capacity of 120 Kilo Litres Per Day (KLPD) and bottling capacity of 5,000 cases per day. During FY10, the company has set up a grain-based distillery with capacity of 33 KLPD and bottling capacity of 10,000 cases per day, for sale of CL.

On a total income of Rs.129 cr, RNVD incurred a net loss of Rs.16 cr in FY10.

About Guarantor

RKL has one of the largest distilleries in India at Rampur with molasses-based distillation capacity of 75 million litres per annum and grain-based distillation capacity of 27 million litres per annum.

For FY10, total income of RKL stood at Rs.836 cr with PAT of Rs.42 cr.

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