

February 27, 2020

Som Distilleries & Breweries Limited: Ratings reaffirmed; Issuer Rating put on notice of withdrawal, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital	28.00	28.00	[ICRA]BBB+ (Stable); reaffirmed
Fund Based - Term Loan	35.00	60.32	[ICRA]BBB+ (Stable); reaffirmed
Non-fund Based	18.00	18.00	[ICRA]A2+; reaffirmed
Unallocated	4.00	-	-
Issuer Rating	-	-	[ICRA]BBB+ (Stable); put on notice of withdrawal
Total	85.00	106.32	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Som Distilleries & Breweries Limited (SDBL) and its wholly-owned subsidiaries – Woodpecker Distilleries & Breweries Private Limited (WDBPL) and Som Distilleries & Breweries Odisha Private Limited (SDBOPL) – together referred to as the Group. The entities have strong financial, operational and management linkages.

ICRA's rating action takes into account the Group's increasing presence in the southern states and the eastern states through the establishment of two new companies, WDBPL in Hassan (Karnataka) and SDBOPL in Cuttack (Odisha). Earlier, the Group had established presence only in the Madhya Pradesh market through its flagship company, SDBL, which is one of the largest players in the region's beer industry. WDBL commenced commercial production in June 2018 with an installed manufacturing capacity of 3.2 million cases per annum (mcpa) of beer and 2.8 mcpa of Indian-made foreign liquor (IMFL). SDBOPL commenced commercial production in April 2019 with 4.2 mcpa of beer capacity. ICRA also notes the favourable demand outlook for the liquor industry, driven by the demographic profile, changing lifestyles and improving disposable income. This in turn supports the Group's growth prospects, as reflected in its healthy operating income (OI) growth over the past few years. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and the Group's established operational track record of over three decades. The ratings are also supported by the comfortable financial profile of the Group with low gearing levels and comfortable debt protection metrics.

The rating, however, is constrained by the fact that the Group has undertaken significant capacity expansion, both organic and inorganic, which might impact its return indicators in the near to medium term. The ratings are also subdued on account of the working capital-intensive nature of operations, resulting in high utilisation of working capital limits. The rating is also constrained by the intensely competitive and highly regulated alcohol industry, which might impact the Group's growth and margins. The Group's ability to establish its brand and increase its market share in states where it has recently entered, is yet to be seen. Further, the Group's margins remain exposed to volatility in raw material prices. The operating profit margin has declined in FY2019 and is expected to remain at similar levels in the current year as well. Moreover, the DSCR levels are expected to remain moderate on account of high debt repayments in the near-to-medium term.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of the promoters and its established track record in the liquor industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in industry - The promoters have been involved in the alcohol business for more than three decades. The Group's other company, Som Distilleries Private Limited (SDPL), has been involved in manufacturing extra neutral alcohol (ENA) since 1986.

Equity infusion by private players to support organic and inorganic growth - SDBL raised Rs. 100-crore fresh equity (under preferential allotment) capital through private placement under foreign direct investment (FDI) route from Karst Peak Asia Master Fund and Vermillion Peak Master Fund, both Hong Kong-based investors. The equity inflow was utilised for capacity expansion, both organic and inorganic. SDBL acquired SDBOPL, a beer manufacturing company in Odisha, as well increased the capacity at the existing Bhopal unit.

Geographical diversification towards southern states and eastern states - WDBL commenced its commercial production in June 2018. The target markets for the company are Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala Odisha, West Bengal, etc. These states are all-weather markets of liquor consumption. Earlier, SDBL used to supply to these states from its Bhopal manufacturing facilities.

Increasing sales turnover and comfortable profitability - The Group's revenues have been increasing due to aggressive marketing in the past and supported by increasing consumption pattern in the domestic market. The sales turnover is expected to increase further in the current fiscal as the newly established, Odisha-based SDOPL commenced commercial production in March 2019. The Group's profitability remained comfortable with operating profit margin of 13.12% (a marginal decline from 13.23% in FY2019), net profit margin of 5.45% (an increase from 5.01% in FY2019) in 9M FY2020.

Comfortable debt and interest coverage indicators - The Group's gearing is low at 0.73 times in FY2019 due to strong net worth. The interest cover and NCA/total debt stood at 4.19 times and 10.5% in FY2019 on account of comfortable profitability.

Credit challenges

Full utilisation of working capital limit and sizeable repayment of term loan - The Group has been fully utilising its working capital limits. Any major deviation in working capital parameters may lead to a tight liquidity position. The Group also has sizeable term loan repayment in near to medium term.

High capital expenditure impacts return indicators - WDBPL and SDBOPL incurred high capital expenditure in FY2018 and FY2019, which has impacted the Group's return indicators. The RoCE declined to 16.40% in FY2019 from 31.66% in FY2018. The Group has also invested more than Rs. 150 crore in SDBL's existing manufacturing unit in Bhopal to double the production capacity. If the Group is unable to achieve the envisaged sales, the profit margins and return indicators might decline further in FY2020.

Highly regulated alcohol industry - The liquor industry is highly regulated with the state government controlling the sales and distribution, making the Group susceptible to the changes in the government's policies. Any change in government policies with respect to production, distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and the company.

Liquidity position: Adequate

The liquidity profile of the Group is **adequate** on account of the comfortable working capital parameters, sufficient cash generation from business to manage its working capital requirement, and the repayment of interest and principal debt in a timely manner. Moreover, in case of any financial need, the promoters are expected to provide support, as and when required. However, there is limited cushion available in the working capital limit.

Rating sensitivities

Positive trigger: ICRA could upgrade the rating if the Group demonstrates a sustained improvement in revenues and profitability, which leads to an improvement in credit metrics, along with sufficient cushion available in the working capital limit. In terms of specific credit metrics, RoCE and interest coverage of 16% and 5 times, respectively on a sustained basis will be a positive trigger.

Negative trigger: ICRA could downgrade the ratings in case of any major debt-funded capital expenditure, which weakens the credit profile or a major decline in profitability and revenues. Also, any adverse regulatory action could lead a downward rating action. In terms of specific credit metrics, DSCR less than 1.4 times of sustained basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of SDBL, WDBPL and SDBOPL

About the firm

SDBL, incorporated in 1993, is involved in brewing, fermenting, bottling, canning and blending of beer and IMFL. It is the flagship company of the Bhopal, Madhya Pradesh-based Som Group. The company's shares are listed on BSE and NSE. It has a production capacity of 7.5 mcpa of beer and 1.2 mcpa of IMFL as of March 2019. SDBL has set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a capacity of 3.2 mcpa of beer and 2.8 mcpa of IMFL. The commercial production from the Hassan unit commenced in June 2018. SDBL has also acquired a beer manufacturing unit in Odisha to cater to the markets of Odisha and West Bengal for a purchase consideration of Rs. 46 crore. The acquired company, now known as SDBOPL, has a manufacturing capacity of 4.2 mcpa of beer and commenced commercial production in March 2019. SDBL had raised Rs. 100-crore fresh equity (preferential allotment) capital through private placement under the FDI route from Hong Kong-based investors, Karst Peak Asia Master Fund and Vermillion Peak Master Fund, which is utilised primarily for the acquisition and upgrade of the Odisha unit and capacity enhancement at SDBL's Bhopal manufacturing unit. On a consolidated basis, the Som Group (SDBL, WDBPL and SDBOPL) has the capacity to manufacture 14.9 mcpa beer and 4 mcpa of IMFL per annum as on March 2019.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	351.74	393.95
PAT (Rs. crore)	25.21	19.75
OPBDIT/ OI (%)	16.97%	13.23%
RoCE (%)	31.66%	16.40%
Total Outside Liabilities/Tangible Net Worth (times)	1.28x	1.22x
Total Debt/ OPBDITA (times)	1.92x	4.32x
Interest Coverage (times)	6.80x	4.19x
DSCR (times)	2.04x	1.46x

Source: Company data, consolidated financial of SDBL

Status of non-cooperation with previous CRA: Brickworks has migrated the BWR BB+ (Stable)/A4+ ratings to the issuer not cooperating category in June 2019.

Any other information: None

Rating history for last three years

Instrument		Chronology of Rating History for the past 3 years						
		Current Rating (FY2020)						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 27, 2020	Date & Rating in FY2019 November 20, 2018	-	-
1	Cash Credit	Long Term	28.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Term Loans	Long Term	60.32	60.32	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Bank Guarantee	Short Term	18.00	-	[ICRA]A2+	[ICRA]A2+	-	-
4	Unallocated	Long Term	-	-	-	[ICRA]BBB+ (Stable)	-	-
5	Issuer Rating	Long Term	-	-	[ICRA]BBB+ (Stable)*	[ICRA]BBB+ (Stable)	-	-

*put on notice of withdrawal for one month

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](http://www.icra.in)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	28.00	[ICRA]BBB+ (Stable)
NA	Term Loans	April 2017	-	March 2023	60.32	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	18.00	[ICRA]A2+
NA	Issuer Rating	-	-	-	-	[ICRA]BBB+ (Stable)

Source: SDBL

*put on notice of withdrawal for one month

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Som Distilleries & Breweries Limited	NA	Full consolidation
Woodpecker Distilleries & Breweries Private Limited	100%	Full consolidation
Som Distilleries & Breweries Odisha Private Limited	100%	Full consolidation

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