April 06, 2023

# Som Distilleries & Breweries Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based – Cash Credit | 28.00 | 28.00 | [ICRA]BBB (Stable); reaffirmed |
| Long-term Fund-based – Term Loans | 39.74 | 32.78 | [ICRA]BBB (Stable); reaffirmed |
| Short-term – Non-fund Based | 15.00 | 15.00 | [ICRA]A3+; reaffirmed |
| Long-term – Unallocated | 23.58 | 30.54 | [ICRA]BBB (Stable); reaffirmed |
| **Total** | **106.32** | **106.32** | |

**Instrument details are provided in Annexure-I*

## 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 company or Group or SDBL. The entities have strong financial and operational linkages, selling products under the same brands and sharing a common management.

The rating reaffirmation factors in ICRA's opinion that the company will demonstrate healthy revenue growth while maintaining healthy profit margins in FY2023, in line with expectations. The favourable demand outlook in the sector augurs well for the company. While the company has regained its leading position in Madhya Pradesh's beer industry with its established presence, the continued expansion of its market share in Karnataka has supported its volume growth led by the Power Cool brand. The company's capacity expansion, particularly for canning facilities, will enable it to capture the associated market share across certain states. The ratings continue to draw comfort from the company's established presence in the alcobev industry and the experience of the promoters.

The ratings, however, are constrained by the working capital-intensive nature of operations, rendering the company highly dependent on working capital limits, which remain low in relation to the current scale of operations; and also funding from creditors. While coverage metrics are expected to improve in FY2023 on the back of better earnings, the company is yet to raise additional funding which is needed for its growing working capital needs. The rating is further constrained by the intensely competitive and highly regulated alcobev industry. While the company has been expanding its market share across various states, it remains dependent on its top two states for a large part of its business. The rating also factors the vulnerability of the company's margins to volatility in raw material prices, which include barley and glass.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will benefit from its sizeable capacities, increasing market share and continuing strong demand for beer in the key states where it operates.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters; established track record in industry –** The promoters have been involved in the alcobev 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), Indian made Indian liquor (IMIL), and Indian made foreign liquor (IMFL) since 1986. The promoter also has other companies operating in the same business segment.

**Healthy performance in FY2023 resulting in improvement in credit metrics –** In line with expectations, SDBL has reported a healthy performance in 9M FY2023 on account of the strong volume growth in its key markets of Madhya Pradesh, Karnataka and Odisha, amid a favourable demand outlook. The company has reported Rs. 554.9-crore operating income (OI) with an operating profit margin of ~13.3%. In terms of volume, it has reported 10.3 million cases of beer in 9M FY2023, a growth of ~38% over 7.0 million cases in 9M FY2020, the company's previous best. On account of healthy improvement in profitability, SDBL's interest coverage improved to 6.7 times in 9M FY2023 compared to 1.3 times in FY2022. ICRA's expects to maintain healthy profit margins and witness improvement in coverage metrics in FY2023.

**Improving market share in key states –** SDBL has strong presence in the states where it operates. The company has regained its market share of ~35% in the beer segment in Madhya Pradesh in FY2023, which it had lost during the pandemic. The reduction in excise duty and maximum retail prices by ~10% each in Madhya Pradesh has supported the revival in demand in the state. The company also increased its market share in Karnataka to more than 16% in FY2023 compared to ~12% in FY2022, while it held ~12% market share in Odisha. In FY2023, the company witnessed healthy demand for its budget brand, Power Cool, particularly in Karnataka. The company is in the process of adding capacities, particularly in canning, which will enable it to capture the associated market share in certain states and augurs well for long-term growth prospects.

## Credit challenges

**Working capital intensive nature of operations –** SDBL's operations are working capital intensive due to its requirement of upfront excise duty payment and high inventory holding. Moreover, the strong growth in revenues has led to increase in funding requirements and the company is yet to raise funding towards the same. ICRA notes that the company availed term loans to part fund its ongoing capex. Against this backdrop, it remains dependent on working capital limits, which remain low in comparison to the increasing scale of operations. However, the company has been receiving consistent advances from the promoter group, along with credit period from its suppliers, to support the working capital requirement and capex as well. ICRA notes that the company may raise equity through rights or preferential issue and is also planning to enhance working capital limits, the timing and quantum of which will be crucial.

**Vulnerability to changes in raw material prices –** SDBL's margins remain exposed to volatile raw material prices, particularly of barley and glass bottles for the breweries and ENA and glass bottles for its IMFL business. The input price has remained elevated in 9M FY2023 compared to FY2022; however, the company has been able to take price rise of final products across markets and improve economies of scale, which has expanded its margins in FY2023. SDBL's ability to receive commensurate price increase approvals and support its margins remains crucial.

**Geographical concentration risk –** The company has been deriving ~90% of total sales volume in 9M FY2023 from Madhya Pradesh, Karnataka and Odisha; hence, it has a high geographical concentration risk. Madhya Pradesh has been contributing ~45-50%, followed by Karnataka (~30-35%) and Odisha (~10%). Given the company's plan to penetrate other states in India, its ability to diversify its revenues across regions remains key.

**Intense competition in highly regulated alcohol industry –** The liquor industry is intensely competitive due to numerous small players. It is a highly regulated industry with the state government controlling the sales and distribution, making the company susceptible to changes in Government policies. Any change in Government policies with respect to production and distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and, subsequently, the company.

## Liquidity position: Adequate

SDBL's liquidity is **adequate** on account of healthy cash generation from business in 9M FY2023. The company has been utilising its cash credit limit of ~95% on an average over the last 15-months ending February 2023. It also maintains ~Rs. 10-15 crore of free cash in the business at any point in time (~Rs. 15 crore as of February 2023). It has been availing additional credit available from its key suppliers to support the growing scale along with a timely infusion of unsecured loans from the promoter and promoter companies. Moreover, it can receive additional funding at short notice from group companies, promoter companies and various corporates, which is interest free in nature and without any committed repayment schedule. The company has a repayment liability of its term loan, which is ~Rs. 20-22 crore each for FY2024-FY2026.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company continues to demonstrate a sustained revenue and profitability improvement supported by its growing geographical presence and strengthening brand position, leading to an improvement in credit metrics. Improvement in its liquidity position will also be a positive rating trigger.

**Negative factors** – ICRA could downgrade the ratings in case of substantial decline in revenue and profitability, or a stretch in liquidity and debt coverage metrics. In terms of specific credit metrics, DSCR less than 1.4 times on a sustained basis could be a negative rating 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 company

SDBL, incorporated in 1993, is involved in brewing, fermenting, bottling, canning and blending beer and IMFL. It is the flagship company of the Bhopal-based Som Group, with a production capacity of 15.2 million cases per annum (mcpa) and 0.6 mcpa of IMFL. The company's shares are listed on the BSE and NSE. SDBL set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a manufacturing capacity of 4.5 mcpa of beer and 1.2 mcpa of IMFL. The commercial production from the Hassan unit commenced from June 2018. SDBL has also acquired a beer manufacturing unit in Odisha for the eastern markets. The acquired company, now known as SDBOPL, has a manufacturing capacity of 4.2 mcpa of beer, and commenced commercial production from March 2019. On a consolidated basis, the Group has a production capacity of 23.9 mcpa of beer and 1.8 mcpa of IMFL.

### Key financial indicators (audited/Provisional)

| SDBL Consolidated | FY2021 | FY2022 | 9M FY2023* |
|---|---|---|---|
| **Operating income** | 289.7 | 365.2 | 554.9 |
| **PAT** | -38.1 | -9.8 | 44.4 |
| **OPBDIT/OI** | -2.6% | 5.3% | 13.3% |
| **PAT/OI** | -13.1% | -2.7% | 8.0% |
| **Total outside liabilities/Tangible net worth (times)** | 1.5x | 1.4x | - |
| **Total debt/OPBDIT (times)** | -34.1x | 13.6x | - |
| **Interest coverage (times)** | -0.4x | 1.3x | 6.7x |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

**Status of non-cooperation with previous CRA:** Brickworks has kept the ratings under Issuer Not Cooperating category at BWR BB- (Stable) /A4 via press release dated August 1, 2022

**Any other information: None**

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) * | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2021 | | | | | | Date & rating in FY2020 |
| | | | | | Apr 06, 2023 | Aug 04, 2022 | Apr 07, 2022 | Feb 23, 2021 | Sep 15, 2020 | Aug 07, 2020 | July 20, 2020 | July 07, 2020 | April 07, 2020 | Feb 27, 2020 |
| 1 | **Cash Credit** | Long term | 28.00 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB - (Stable) | [ICRA]BBB - (Negative) | [ICRA]BBB (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | - | [ICRA]BBB+ (Stable) |
| 2 | **Term Loans** | Long term | 32.78 | 32.78 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB - (Stable) | [ICRA]BBB- (Negative) | [ICRA]BBB (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | - | [ICRA]BBB+ (Stable) |
| 3 | **Bank Guarantee** | Short term | 15.00 | - | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 | [ICRA]A3 | [ICRA]A3+ | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 | - | [ICRA]A2+ |
| 4 | **Unallocated** | Long term | 30.54 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB - (Stable) | - | - | - | - | - | - | [ICRA]BBB+ (Stable) |
| 5 | **Issuer Rating** | Long term | - | - | | - | - | - | - | - | - | - | [ICRA]BBB+ (Stable) Withdrawn | [ICRA]BBB+ (Stable)# Notice of Withdrawal |

*Source: Company,* as on Dec 31, 2022*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
| --- | --- |
| Long Term – Cash Credit | Simple |
| Long Term – Term Loan | Simple |
| Short Term – Bank Guarantee | Very Simple |
| Long Term – Unallocated | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | - | - | - | 28.00 | [ICRA]BBB (Stable) |
| NA | Term Loans | April 2017 | - | March 2026 | 32.78 | [ICRA]BBB (Stable) |
| NA | Bank Guarantee | - | - | - | 15.00 | [ICRA]A3+ |
| NA | Unallocated | - | - | - | 30.54 | [ICRA]BBB (Stable) |

*Source: Company*

### Annexure II: List of entities considered for consolidated analysis

| 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 |

*Source: Company, *parent company*

## ANALYST CONTACTS


**Shamsher Dewan**
91 124 4545 328
shamsherd@icraindia.com

**Kinjal Shah**
+91 22 6114 3442
kinjal.shah@icraindia.com

**Sheetal Sharad**
+91 124 4545 374
Sheetal.sharad@icraindia.com

**Uday Kumar**
+91 124 4545 867
uday.kumar@icraindia.com


## RELATIONSHIP CONTACT


**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

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## ICRA Limited


### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches