

August 14, 2023

Som Distilleries Private 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	30.00	30.00	[ICRA]BBB- (Stable); reaffirmed
Long-term Fund-based – Term loans	39.06	19.65	[ICRA]BBB- (Stable); reaffirmed
Short-term – Non-fund based	5.00	5.00	[ICRA]A3; reaffirmed
Long-term – Unallocated	42.32	61.73	[ICRA]BBB- (Stable); reaffirmed
Total	116.38	116.38	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in ICRA's expectations that Som Distilleries Private Limited's (SDPL) earnings will improve in FY2024 after moderating in FY2023. The company's operating profit margin (OPM) declined due to a sharp decrease in higher-margin country liquor (CL) revenue and rise in key input cost. In FY2023, while the company won only one district for CL, it faced margin pressures across its revenue segments owing to the highly competitive intensity. Subsequently, the company was awarded eight districts in FY2024 and hence, price revisions are expected to improve its operating profile. The ratings continue to factor in the strengths derived from being a part of the Som Group and the favourable industry demand outlook. The Group has an established operational track record of over three decades and its promoters have an extensive experience in the liquor industry. SDPL is one of the prominent distilleries in Madhya Pradesh with diversified presence in the extra neutral alcohol (ENA), Indian Made Foreign Liquor (IMFL) and IMIL/CL segments.

The ratings are, however, constrained by the intensely competitive and highly regulated alcohol industry, which can impact the company's operational performance. Thus, SDPL's performance can vary with its ability to win contracts in CL regions. The company's margins remain exposed to volatility in raw material and input prices apart from product mix changes. The company's coverage indicators have been moderate in the past on account of low cash generation from business, however, are expected to improve in FY2024. Nevertheless, its promoters have infused funds as and when required, which lends comfort. While the company has a track record of extending advances to Group companies, it has recovered some advances in Q1 FY2024, which have supported its liquidity position.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SDPL will continue to benefit from its capacities and network for IMFL and ENA production and the favourable demand outlook for the overall 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 companies, Som Distilleries & Breweries Limited (SDBL) and its wholly-owned subsidiaries—Woodpecker Distilleries & Breweries Private Limited (WDBPL) and Som Distilleries & Breweries Odisha Private Limited (SDBOPL)—have been involved in manufacturing beer and IMFL.

Diversified presence in IMFL, IMIL and ENA – SDPL has a diversified presence across all the three segments of the distilleries business i.e., CL, IMFL and ENA. The company's product mix changed drastically in FY2023 on account of a sharp decline in CL

revenue. However, SDPL was awarded eight territories and the revenue contribution mix reverted as witnessed in Q1 FY2024 (~50% of its revenue from CL, ~20-25% from MFL and ENA each). Majority of ENA produced by the company is captively consumed for manufacturing IMIL and IMFL, while the rest is sold in the open market, including other states in case of ENA.

Favourable long-term demand outlook for industry; increase in consumption of liquor in MP – At present, the Indian alcohol industry is characterised by low per capita consumption compared to the global average. The industry's growth, and in turn the company's revenues, are expected to be supported by favourable demographics and rising disposable incomes of the consumers. In addition, Madhya Pradesh has reduced the excise duty and maximum retail price by ~10%, respectively, in FY2023, which increased the alcohol consumer base and, hence, there has been a sharp increase in liquor consumption in the state. The demand will remain healthy in the near to medium term.

Credit challenges

Decline in OPM in FY2023 due to increased input cost with change in product mix – While SDPL was able to post revenue increase in FY2023, its OPM declined to 7.8% in FY2023 from 10.4% in FY2022, contrary to expectations mainly due to rise in input cost amid product mix change. Prices of key inputs like maize, broken rice, and coal significantly increased in FY2023. Consequently, SDPL's coverage metrics weakened in FY2023. However, ICRA expects margins to improve in FY2024, on the back of a change in product mix towards the higher-margin CL business, an increase in selling price and softening of prices of some of the raw materials. Consequently, ICRA expects a revival in credit metrics in FY2024.

Sizeable advances to Group companies – SDPL has extended long-term interest-free advances to its various Group companies, which has kept the liquidity and return metrics under pressure. However, the advances to Group companies declined to ~Rs. 67 crore as of March 2023 from ~Rs. 120 crore as on March 2022, which further reduced to Rs. 55 crore in June 2023. Timely return of the existing advances or SDPL's ability to maintain its adequate buffer in the working capital limits would remain key for improving its liquidity position. Nevertheless, ICRA notes that the promoters have infused funds, as and when required, on a timely basis.

Highly regulated alcohol industry – The Indian alcohol industry is highly regulated by state governments, who control the sales and distribution, making the Group susceptible to changes in Government policies. Any change in Government policies with respect to production, distribution, taxation, and state excise duty, or any material changes in the duty structure, may impact the industry as well as the company. SDPL's ability to secure CL regions, which is a higher-margin business, is dependent on bidding success and competitive scenario.

Liquidity position: Adequate

SDPL's liquidity position is **adequate**, due to sufficient cushion in the working capital limit (Rs. 30 crore as of July 2023) and free cash levels of Rs. 5-6 crore. The company had been utilising more than 95% of the cash credit limit till March 2023; however, the same started declining from April 2023 onwards on account of better cash generation from business and recovery of advances given to Group companies. However, in case of any shortfalls in SDPL's funding requirements, ICRA expects the promoters to bring in interest-free unsecured loans in line with past trends.

Rating sensitivities

Positive factors – ICRA could revise the ratings upwards, in case there is any sustained improvement in revenues and profitability on the back of improved demand. In terms of specific credit metrics, interest coverage higher than 3.0 times on a sustained basis, will be a positive rating factor.

Negative factors – ICRA could downgrade the ratings, in case there is a further decline in revenues and profitability resulting in weak credit metrics. In terms of specific credit metrics, External Debt (total debt-less promoter loan) /OPBIDTA higher than 2.8 times on a sustained basis, will be a negative factor.

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 standalone financials of SDPL

About the company

SDPL, incorporated in 1986 by Mr. J. K. Arora, manufactures ENA, IMIL and IMFL. SDPL is an integrated distillery for manufacturing alcohol from molasses and grain. The company has a plant with an installed manufacturing capacity of 214 kilo litre per day (KLPD) of alcohol production at Sehatganj village, Bhopal-Raisen Road, Raisen, Madhya Pradesh.

SDPL is part of the Bhopal-based Som Group. Som Distilleries & Breweries Limited, incorporated in 1993, is the flagship company of the Group, along with and its wholly-owned subsidiaries—Woodpecker Distilleries & Breweries Private limited (manufacturing unit in Karnataka) and Som Distilleries & Breweries Odisha Private Limited (manufacturing unit in Cuttack)—involved in brewing, fermenting, bottling, canning and blending beer and IMFL.

Key financial indicators (audited)

SDPL standalone	FY2022	FY2023
Operating income	236.2	284.1
PAT	1.9	5.8
OPBDIT/OI	10.4%	7.8%
PAT/OI	0.8%	2.0%
Total outside liabilities/Tangible net worth (times)	2.0x	1.9x
Total debt/OPBDIT (times)	5.1x	5.6x
External debt/OPBDIT (times)	3.3x	3.2x
Interest coverage (times)	2.3x	2.4x

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

Status of non-cooperation with previous CRA: Brickworks has kept the ratings under Issuer Not Cooperating category at BWR B- (Stable) /A4 via press release dated December 2, 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 FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 14, 2023	Aug 4, 2022	May 6, 2021	July 20, 2020	Feb 27, 2020
1	Cash Credit	Long-term	30.00	–	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@	[ICRA]BBB- (Stable)
2	Term Loan	Long-term	19.65	19.65	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@	[ICRA]BBB- (Stable)
3	LC/BG**	Short-term	5.00	–	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3@	[ICRA]A3
4	Unallocated	Long-term	61.73	–	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@	[ICRA]BBB- (Stable)

Source: Company, * as on June 30, 2023; @ Rating watch with negative implication, **letter of credit/bank guarantee

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loans	Simple
Short Term – Letter of Credit/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	-	-	-	30.00	[ICRA]BBB- (Stable)
NA	Term Loans	April 2017	-	March 2026	19.65	[ICRA]BBB- (Stable)
NA	LC/BG	-	-	-	5.00	[ICRA]A3
NA	Unallocated	-	-	-	61.73	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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About ICRA Limited:

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