

February 17, 2025

## Aether Breweries LLP: Rating reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Fund-based – Term loan	90.00	90.00	[ICRA]BBB- (Stable); Reaffirmed
<b>Total</b>	<b>90.00</b>	<b>90.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation on the bank lines of Aether Breweries LLP (ABL) considers an expected improvement in operation and financial performance over a medium term, supported by experience of the promoters in liquor distribution and warehousing business through other entities, successful commissioning of the brewery plant and the long-term contract manufacturing agreements (for seven years, with a reminder period of four years) with both United Breweries Limited (UBL) and Devans Modern Breweries Limited (DMBL), which are renewable thereafter. Besides, the entity has signed an agreement with the Carlsberg Group in January 2025. The cost-plus brewing agreement entered with its customers mitigates the risks associated with fluctuations in raw material prices to a large extent. Further, ICRA notes that the firm has received and is also entitled to receive various fiscal benefits under the Northeast Industry Development Scheme (NEIDS), 2017, and the Arunachal Pradesh State Industrial and Investment Policy (APIIP), 2020, which are expected to support its liquidity.

While the offtake clause mitigates market risks, the company remains exposed to regulatory risks associated with the liquor business, which include revision of tax rates and a ban on liquor production/ sale/ consumption. The entity also faces customer concentration risk and has limited bargaining power with UBL and DMBL. The performance of the entity had moderated in FY2024 due to an increase in overhead expenses with realisation per case remaining constant. Further, the management indicated that it is renegotiating its bottling pricing per case with its vendors, the materialisation of which is likely to support its profitability over the medium term. As the cash flows generated from operations remain weak, the entity remains dependent on value added tax (VAT) remission benefit received from the local government. The rating is further constrained by the risks associated with the entity's status as a limited liability partnership firm, including the risk of capital withdrawal by the partners. ICRA also notes partner withdrawals of ~Rs. 5.5 crore in FY2024 and Rs. 9 crore in 10M FY2025.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's comfort from the presence of an offtake clause in the contract manufacturing agreements with UBL and DMBL, cash flows from the sale of minimum guaranteed quantity, along with VAT remission, which is likely to support the debt repayment obligation of the company.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters; established track record in the alcobev industry** – The firm is promoted by Mr. Niraj Sharma, who has ~40 years of experience in the business of alcoholic beverages among others. He started his career in 1982, with a liquor retail shop and gradually diversified into the business of bonded liquor warehouse, wholesale liquor warehouse, contractual manufacturing of Indian-made foreign liquor (IMFL), bottling of beer and various other ventures. There are four other partners in the business.

**Contract brewing agreement with minimum guaranteed volume provides stability to revenues** – The firm has entered into an agreement with UBL for contractual brewing, bottling, packaging and storing of beer for its Kingfisher brand for seven years, with effect from December 2021. The contract carries a minimum volume commitment of 30 lakh cases (+/- 10%) of beer per annum, providing stability to the entity's revenues. The addition of DMBL for beer manufacturing and bottling in FY2022, with a minimum volume commitment of 6 lakh cases (+/- 10%) per annum supported ABL's revenue growth. Further, the firm has entered into an agreement with the Carlsberg Group from January 2025. The incremental addition of new customers to its portfolio provides stability to its revenues.

**Eligibility to receive fiscal incentives likely to support cash flows** – ABL is entitled to receive various fiscal incentives under NEIDS, 2017 and APIIP, 2020, which would continue to support the firm's cash flows and liquidity position. The most significant would be VAT remission benefit available for 7 years from the commencement of operations. VAT remission benefit of ~98% is available with a ceiling of 150% of the fixed capital investment. Cumulatively, the firm has received VAT remission benefit of Rs. 112.2 crore till January 2025.

### Credit challenges

**High client concentration risk, limited bargaining power** – The firm would remain exposed to high client concentration risk as the tie-ups with UBL and DMBL for contractual manufacturing of beer would utilise around 65% of ABL's overall production capacity. Moreover, the entity remains exposed to limited bargaining power with UBL and DMBL.

**Weak financial profile, coupled with high debt servicing obligations** – ABL's revenues grew by ~8% (on a YoY basis) to Rs. 257.8 crore in FY2024, but its operating margin declined by 350 bps to 3.6% due to an increase in the overhead costs with realisation per case remaining constant. VAT remission was treated as a revenue receipt in FY2022, but from FY2023 it is being accounted as a capital receipt (i.e. not routed through the profit and loss statement), leading to a reduction in margins from FY2023, compared to the levels witnessed in FY2022. The interest coverage and debt service coverage ratio declined to 1.4 times and 0.5 times as on March 31, 2024 from 2.0 times and 0.8 times as on March 31, 2023, respectively, due to reduced profitability. ICRA notes that the firm has significant debt servicing obligations in the near-to-medium term. However, net cash accruals generated from operations and the VAT remission benefit received under the Arunachal Pradesh Industrial Tax Incentives Order 2010, would support the entity's debt servicing obligations. Nonetheless, the cash flows remained adequate, aided by VAT benefits received, lending comfort to the company's liquidity position.

**Exposure to regulatory risks** – The liquor industry is highly regulated with the state government controlling the distribution and pricing of end products. Any change in Government policies with respect to consumption, production, distribution of liquor, taxation and state excise duty or any material change in the duty structure may impact the liquor industry and the firm.

**Risks associated with the entity's legal status as a limited liability partnership firm** – ICRA notes that ABL is a limited liability partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm's net worth and liquidity position. ICRA also notes partner withdrawals of ~Rs. 5.5 crore in FY2024 and Rs. 9 crore in 10M FY2025.

### Liquidity position: Adequate

The liquidity profile of the entity is likely to remain adequate. The agreements with UBL and DMBL include a minimum volume commitment clause, which provides stability to its revenue. Various financial incentives that ABL are entitled to are expected to further improve the company's liquidity position. The entity's net cash accruals, after considering the VAT remission, stood at Rs. 34.7 crore in FY2024, and the same is expected to remain at a similar level, going forward. The proposed capex of Rs. 15 crore in FY2025 is expected to be funded from internal accruals and the net cash accrual, including the capex subsidy receipt, is likely to support the term loan obligation of Rs. 12.5 crore in FY2025 and Rs. 12.5 crore in FY2026. ICRA also notes partner withdrawals of ~Rs.5.5 crore in FY2024 and Rs. 9 crore in 10M FY2025. Going forward, any significant capital withdrawal could impact the Group's liquidity position.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if ABL demonstrates a significant growth in the top line and earns a healthy net profit on a sustained basis.

**Negative factors** – ICRA could downgrade the rating if the company is unable to earn profits at the net level, and/or if there is a stretch in the liquidity and debt coverage metrics.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Aether Breweries LLP (ABL) was established in 2019 for beer manufacturing, with an installed capacity of 12 lakh cases per month at Namsai in Arunachal Pradesh. The firm has entered into agreements with UBL and DMBL for contractual brewing, bottling, packaging, and storing of beer for its Kingfisher and Godfather brands, respectively, at its manufacturing plant, for seven years, with effect from December 2021, and renewable thereafter, as per mutual agreement. The firm has also entered into agreement with Carlsberg Group from January 2025.

### Key financial indicators (audited)

ABL Standalone	FY2023	FY2024	H1FY2025*
Operating income	239.6	257.8	115.2
PAT	-15.9	-16.9	-12.5
OPBDIT/OI	7.2%	3.6%	0.5%
PAT/OI	-6.6%	-6.5%	-10.8%
Total outside liabilities/Tangible net worth (times)	1.9	1.6	-
Total debt/OPBDIT (times)	5.5	8.8	-
Interest coverage (times)	2.0	1.4	0.2

Source: Company, ICRA Research; \* Provisional number; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Current (FY2025)			Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	90.00	Feb-17-2025	[ICRA]BBB-(Stable)	Dec-21-2023	[ICRA]BBB-(Stable)	Nov-07-2022	[ICRA]BBB-(Stable)	Jul-29-2021	[ICRA]BB-(Stable)
									Aug-12-2021	[ICRA]BB-(Stable)
Unallocated Limits	Long term and short term	0.00	-	-	-	-	-	-	Jul-29-2021	[ICRA]BB-(Stable)/[ICRA]A4
									Aug-12-2021	[ICRA]A4; withdrawn

## Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term fund based – Term loan	Simple

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	Term Loan-I	FY2021	NA	FY2030	90.00	[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 – Not Applicable**

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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