

December 21, 2023

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
Total	90.00	90.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Aether Breweries LLP (ABL) considers the experience of the promoters in the liquor distribution and warehousing business through other entities, successful commissioning of the brewery plant in the recent past and the long-term contract manufacturing agreements (for seven years, with a reminder period of five years) with both United Breweries Limited (UBL) and Devans Modern Breweries Limited (DMBL), which are renewable thereafter. Also, in FY2023, the entity had overachieved the minimum volume commitment with its existing vendors, providing stability to its revenues. Moreover, the cost-plus brewing agreement mitigates the risks associated with fluctuations in raw materials prices to a large extent. Operating margin declined to 7.7% in FY2023 from 22.7% in FY2022 owing to a change in the accounting policy adopted by the company. While VAT remission was treated as a revenue receipt in FY2022, it was accounted as a capital receipt in FY2023 (i.e., not routed through the profit and loss statement), thereby leading to a reduction in margins and weakening of the coverage indicators.

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. With cashflows generated from operations remaining low, 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. Nevertheless, ICRA notes that the firm is 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 in the medium-to-long term.

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 would be enough to meet the debt repayment obligation of the company.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in the alcoholic beverages 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 a new customer, DMBL, for beer manufacturing and bottling in FY2022, with a minimum volume commitment of 6 lakh cases (+/- 10%) per annum supported the growth in ABL's revenues.

Eligibility to receive fiscal incentives likely to support cashflows – ABL is entitled to receive various fiscal incentives under NEIDS, 2017 and APIIP, 2020, which would continue to support the firm's cashflows and liquidity position. Most significant amongst the benefits would be the VAT remission benefit available for a period of 7 years from commencement of operations. ~98% VAT remission benefit is available with a ceiling of 150% of fixed capital investment.

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.

Significant debt servicing obligations – ABL's revenues quadrupled to ~Rs. 224 crore in FY2023 from ~Rs. 56 crore in FY2022, with FY2023 being its first full year of operations (COD of the project was December 2021). The company's operating margin, however, declined to 7.7% in FY2023 from 22.7% in FY2022 owing to a change in the accounting policy adopted by the company. While VAT remission was treated as a revenue receipt in FY2022, it was accounted as a capital receipt in FY2023 (i.e. not routed through the profit and loss statement), thereby leading to a reduction in margins. The interest coverage and debt service coverage ratio declined to 2.04 times and 1.54 times in FY2023 from 5.1 times and 5.1 times in FY2022, 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 service 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.

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 is 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.44.9 crore in FY2023, and the same is expected to marginally improve in FY2024. The proposed capex of Rs.20 crore in FY2024 is expected to be funded by the company's internal accruals and net cash accruals generated from business, which would support its term loan obligation of Rs. 11.4 crore in FY2024 and Rs. 12.5 crore in FY2025.

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 in case of an inability 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	Corporate Credit Rating Methodology
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 6.77 lakh hectolitres (HL) per annum at Namsai in Arunachal Pradesh (AP). The firm has entered into agreements with UBL and DMPL 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.

Key financial indicators (audited)

ABL Standalone	FY2022	FY2023
Operating income	55.7	224.4
PAT	0.3	-15.9
OPBDIT/OI	22.7%	7.7%
PAT/OI	0.5%	-7.1%
Total outside liabilities/Tangible net worth (times)	3.4	1.9
Total debt/OPBDIT (times)	9.0	5.5
Interest coverage (times)	5.1	2.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
				Dec 21, 2023	Nov 07, 2022	Aug 12, 2021	Jul 29, 2021	Jun 12, 2020		
1	Term loans	90.00	77.28	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)		--	
2	Unallocated Limits	0.00	--	--	--	[ICRA]A4 withdrawn	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4		

Complexity level of the rated instruments

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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Branches



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