October 18, 2024

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 – Term Loans	28.13	14.52	[ICRA]BBB+ (Stable); reaffirmed
Long-term Fund-based – Cash Credit	28.00	81.00	[ICRA]BBB+ (Stable); reaffirmed
Short Term Interchangeable – Other*	-	(30.00)	[ICRA]A2; reaffirmed
Short-term – Non-fund Based	15.00	10.00	[ICRA]A2; reaffirmed
Long-term – Unallocated	35.19	0.80	[ICRA]BBB+ (Stable); reaffirmed
Total	**106.32**	**106.32**	

**Instrument details are provided in Annexure-I; * with cash credit limit sanctioned by ICICI Bank*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Som Distilleries & Breweries Limited (SDBL) and its subsidiaries, Woodpecker Distilleries & Breweries Private Limited (WDBPL) and Som Distilleries & Breweries Odisha Private Limited (SDBOPL), together referred to as the company (or the Group or SDBL). The entities have strong financial and operational linkages as they sell products under the same brands and share a common management.

The ratings reaffirmation reflects ICRA's expectation that SDBL will continue to demonstrate steady revenue growth while maintaining its profit margins in the near-to-medium term. ICRA notes that an increase in earnings, supported by the economies of scale and price revisions, helped improve the company's operating performance in FY2024, which is expected to sustain in FY2025 as well. While the company has largely maintained its market share in Madhya Pradesh, Karnataka and Odisha's beer industry with its established presence, its volume growth was led by Hunter, Power Cool and Black Forte brands. ICRA expects SDBL's credit metrics to remain healthy and stable, supported by a strong peak season performance in Q1 FY2025. The favourable demand outlook in the sector augurs well for the company. SDBL's capacity expansion, particularly for beer facilities, will enable it to capture the associated market share across certain states. Additionally, the ratings continue to draw comfort from the company's established presence in the Indian alcoholic beverages (alcobev) industry and the experience of the promoters.

The ratings, however, are constrained by the working capital-intensive nature of operations, along with the intensely competitive and highly regulated alcobev industry. The company's ability to sustain its growth will remain a key credit rating factor. While the company has been maintaining its market share across various states, it continues to remain dependent on the top three states for a large part of its business. The ratings also factor in the vulnerability of the company's margins to volatility in raw material prices, which include barley, glass and aluminium. Timely inflow of funds to support growth plans and the pace of the capex implementation remain critical. Further, any adverse outcome of the ongoing litigation with Madhya Pradesh State Industrial Development Corporation (MPSIDC) pending before the High Court, will remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from its sizeable capacities, healthy 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, SDPL, has been 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.

Improving operating performance – SDBL has reported a healthy operational performance in FY2023 and FY2024 on account of a strong volume growth while maintaining its share in its key markets of Madhya Pradesh, Karnataka and Odisha, amid a favourable demand outlook of the industry. In terms of volume, it has sold 22.4 million cases and 8.9 million cases in FY2024 and Q1 FY2025, respectively, against 16 million cases and 6.8 million cases in FY2024 and Q1 FY2025, respectively. The company's full year performance will be supported by a strong peak season performance already witnessed in Q1 FY2025 and growing capacities. The company's plan to foray into new markets and increase its capacities will support its growth prospects.

Improving credit metrics and liquidity – SDBL's interest coverage improved to 12.7 times in FY2024 from 6.5 times in FY2024 because of a healthy improvement in earnings in FY2024. The interest coverage is expected to improve further in FY2025 and would continue to remain healthy in the near-to- medium term. SDBL's DSCR improved to 4.0 times in FY2024 from 2.7 times in FY2023 on account of a healthy increase in profit. ICRA's expects the company to maintain its coverage metrics in the near-to-medium term as well. The liquidity position has improved in the recent past with healthy cash generation and equity infusion. Timely infusion of funds and the pace of associated capex implementation will be key for improvement in credit metrics.

Credit challenges

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 beer business, and of ENA and glass bottles for its IMFL business. However, the key input price has been largely stable in FY2024, and the current year has helped the company maintain its margins. Its ability to receive commensurate price increase of final products remains crucial to profit margins.

Working capital intensive nature of operations – SDBL's operations are working capital intensive due to high debtors and inventory holding, especially towards March of each year, which is its ongoing peak season. Moreover, the planned expansion could further increase its working capital requirement. Against this backdrop, it remains dependent on enhancement of working capital limits and timely infusion of proposed equity.

Exposed to geographical concentration risk – The company has been deriving 85-90% of its total sales volume from Madhya Pradesh, Karnataka and Odisha. Hence, it is exposed to high geographical concentration risk. Madhya Pradesh has been contributing 40-45% of sales, followed by Karnataka (30-35%) and Odisha (20-25%). Given the company's plan to penetrate other states in India, its ability to diversify its revenues across regions remains a key rating sensitivity. ICRA notes that the company is focusing on Uttar Pradesh and Rajasthan as target states, going forward.

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 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 change 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 worth Rs. 120-130 crore annually. The company has been utilising 50-60% of its cash credit limit on an average in the last 12 months ended in August 2024, while maintaining an average buffer of Rs. 45-50 crore. SDBL also maintains Rs. 10-15 crore of free cash in the business at any point of time. It had availed additional credit from its key suppliers in the past to support the growing scale along with timely infusion of unsecured loans from the promoter and promoter companies, as and when needed. Moreover, in the past it has received additional funding at short notices from Group companies, promoter companies and various corporates, which were interest free in nature and without any committed repayment schedules. SDBL has a repayment liability of ~Rs. 19 crore in FY2025 for its term loan. The company has a scheduled capex of ~Rs. 40 crore to enhance the production capacity in FY2025, which will be funded by internal accruals.

Environmental and Social Risks

Environmental considerations: SDBL manufactures beer and IMFL in its three manufacturing units at Bhopal (Madhya Pradesh), Hassan (Karnataka) and Cuttack (Odisha). Environmental risks for industry players are related to discharge of hazardous and pollutant wastes. All breweries of SDBL are equipped with wastewater treatment before any kind of discharge. The company has taken up rainwater harvesting, watershed development, and restoration, along with active water conservation projects. The company aims to incorporate sustainable packaging materials and invest in recycling of such items. Further, SDBL ensures appropriate segregation of hazardous and non-hazardous waste. The waste which the company cannot dispose of are transferred to the respective authorities or management bodies at the local or the regional level.

Social considerations: SDBL is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics. It also faces evolving regulatory norms and societal attitudes towards alcohol-containing products, which can affect demand for its items. Further, SDBL has high dependence on human capital. Retaining human capital, maintaining healthy relationships with employees and a safe work environment remain essential for disruption free operations.

Rating sensitivities

Positive factors – ICRA could upgrade its ratings if the company improves its earnings while maintaining its credit metrics on a sustained basis, supported by growing geographical presence and strengthening brand position. Further, improvement in the liquidity position will also be a positive rating trigger.

Negative factors – ICRA could downgrade the ratings in case of a substantial decline in revenue and profitability, or a stretch in liquidity and debt coverage metrics. In terms of specific credit metrics, DSCR of less than 1.6 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. SDBL is the flagship company of the Bhopal-based Som Group, with a production capacity of 15.2 million cases per annum (mcpa) of beer and 0.6 mcpa of IMFL. The company's shares are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). SDBL's 78.87% subsidiary, WDBPL, has a manufacturing facility in Hassan, Karnataka, with a production capacity of 14.0 mcpa of beer and 2.7 mcpa of IMFL. SDBOPL, a 100% subsidiary of SDBL, has manufacturing facilities in Cuttack, Odisha with a capacity of 6.0 mcpa of beer and 0.6 mcpa of IMFL. SDBOPL is enhancing its beer capacity to 9.0 mcpa in FY2025. On a consolidated basis, the Group has a production capacity of 35.2 mcpa of beer and 3.9 mcpa of IMFL. The Group's key brands are Hunter, Power Cool and Black Forte in the beer segment.

Key financial indicators

SDBL Consolidated	FY2023	FY2024	Q1FY2025*
Operating income	807.6	1,282.7	513.1
PAT	60.3	86.5	40.6
OPBDIT/OI	12.8%	11.8%	12.5%
PAT/OI	7.5%	6.7%	7.9%
Total outside liabilities/Tangible net worth (times)	1.4x	1.0x	-
Total debt/OPBDIT (times)	2.4x	1.3x	-
Interest coverage (times)	6.5x	12.7x	23.5x

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore * as per limited audited quarterly financials; Note: All financial ratios as per ICRA's calculation*

Status of non-cooperation with previous CRA: Brickworks has kept the ratings under Issuer Not Cooperating category at BWR B (Stable) /A4 via its press release dated September 27, 2024.

Any other information: None

Rating history for past three years

Instrument	Current ratings (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Terms Loans	Long term	14.52	18-Oct-2024	[ICRA]BBB+ (Stable)	20-Nov-2023	[ICRA]BBB+ (Stable)	04-Aug-2022	[ICRA]BBB (Stable)	-	-
			25-Jun-2024	[ICRA]BBB+ (Stable)	09-Aug-2023	[ICRA]BBB+ (Stable)	07-Apr-2022	[ICRA]BBB- (Stable)	-	-
			-	-	06-Apr-2023	[ICRA]BBB (Stable)	-	-	-	-
Cash Credit	Long term	81.00	18-Oct-2024	[ICRA]BBB+ (Stable)	20-Nov-2023	[ICRA]BBB+ (Stable)	04-Aug-2022	[ICRA]BBB (Stable)	-	-
			25-Jun-2024	[ICRA]BBB+ (Stable)	09-Aug-2023	[ICRA]BBB+ (Stable)	07-Apr-2022	[ICRA]BBB- (Stable)	-	-
			-	-	06-Apr-2023	[ICRA]BBB (Stable)	-	-	-	-
Interchangeable*	Short Term	(30.00)	18-Oct-2024	[ICRA]A2	-	-	-	-	-	-
LC/BG#	Short term	10.00	18-Oct-2024	[ICRA]A2	20-Nov-2023	[ICRA]A2	04-Aug-2022	[ICRA]A3+	-	-
			25-Jun-2024	[ICRA]A2	09-Aug-2023	[ICRA]A2	07-Apr-2022	[ICRA]A3	-	-
			-	-	06-Apr-2023	[ICRA]A3+	-	-	-	-
Unallocated	Long term	0.80	18-Oct-2024	[ICRA]BBB+ (Stable)	20-Nov-2023	[ICRA]BBB+ (Stable)	04-Aug-2022	[ICRA]BBB (Stable)	-	-
			25-Jun-2024	[ICRA]BBB+ (Stable)	09-Aug-2023	[ICRA]BBB+ (Stable)	07-Apr-2022	[ICRA]BBB- (Stable)	-	-
			-	-	06-Apr-2023	[ICRA]BBB (Stable)			-	-

*Source: Company, #Letter of credit/Bank guarantee, * with cash credit limit sanctioned by ICICI Bank*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loans	Simple
Short Term Interchangeable - Other	Very Simple
Short-term – Non-fund Based	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	**Term Loans**	April 2017	-	March 2026	14.52	[ICRA]BBB+ (Stable)
NA	**Cash Credits**	-	-	-	81.00	[ICRA]BBB+ (Stable)
NA	**Interchangeable***	-	-	-	(30.00)	[ICRA]A2
NA	**LC/BG**	-	-	-	10.00	[ICRA]A2
NA	**Unallocated**	-	-	-	0.80	[ICRA]BBB+ (Stable)

*Source: Company; * with cash credit limit sanctioned by ICICI Bank*

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	78.87%	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

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

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

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@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

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For more information, visit www.icra.in

ICRA Limited

Registered Office

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

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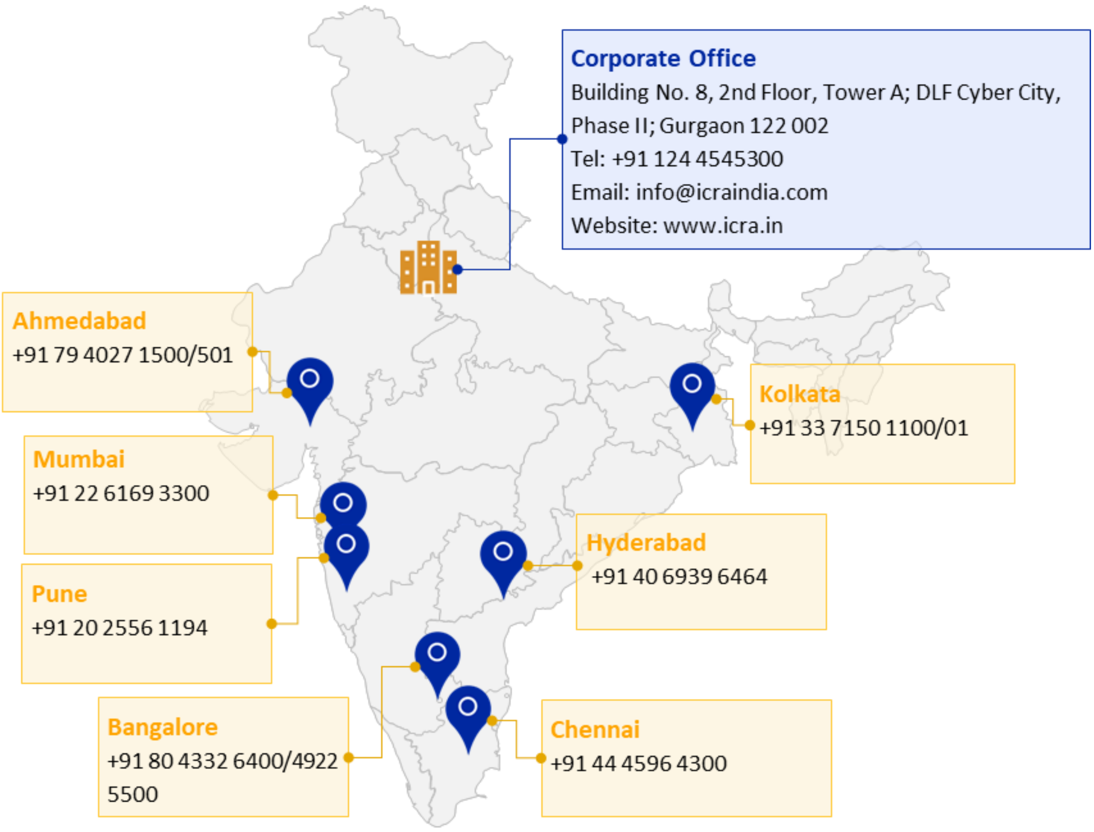

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