

January 06, 2017

United Breweries Limited

Instruments	Amounts	Rating Action
	(Rs. crore ¹)	
Term loan	130.00	[ICRA]AA- (Stable) / Reaffirmed
Fund based (inter-changeable) facilities	600.00 [#]	[ICRA]AA- (Stable) / Reaffirmed
Non-fund based (inter-changeable) facilities	150.00 [#]	[ICRA]AA- (Stable) / Reaffirmed
Fund based (inter-changeable) facilities	600.00 [#]	[ICRA]A1+ / Reaffirmed
Non-fund based (inter-changeable) facilities	150.00 [#]	[ICRA]A1+ / Reaffirmed
Commercial Paper	500.00	[ICRA]A1+ / Reaffirmed

* Instrument details are provided in Annexure I

The Rs.600.00 crore fund based facilities and the Rs.150.00 crore non-fund based facilities may be utilized either as long-term or as short-term facilities. Total amount rated by ICRA is Rs.1,380.00 crore

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]AA- (pronounced as ICRA double A minus)² to the Rs.130.0 crore term loan facilities, the Rs.600.00 crore fund based inter-changeable facilities and the Rs.150.00 crore non-fund based inter-changeable facilities of United Breweries Limited (UBL/ the company). The outlook on the long term rating is Stable. ICRA has also reaffirmed the rating outstanding of [ICRA]A1+ (pronounced as ICRA A one plus) on the Rs.600.00 crore fund based inter-changeable facilities and the Rs.150.00 crore non-fund based inter-changeable facilities of UBL.

ICRA has also reaffirmed the rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs.500.00 crore Commercial Paper programme of the company.

Rationale

The ratings reaffirmation takes into account UBL's sustained market leadership in the domestic beer industry, the company's strong brand presence and its extensive manufacturing set up and distribution network. The company reported modest revenue growth of 3% during H1 FY2017 in the face of weak industry performance attributed to prolonged monsoons. However, UBL's operating margins for H1 FY2017 at 15.8% remains comfortable (15.2% during H1 FY2016). The ratings continue to factor UBL's large scale of operations entailing benefits of scale economics and positive long-term demand outlook for beer in the domestic market driven by favorable demographics supporting the company's business prospects. While highly regulated nature of the industry with extensive Government controls on advertising and taxes restricts growth to an extent; the same creates entry barriers for new players thereby favoring existing players such as UBL. Further, though the risk of unfavorable policy changes in key states continues to remain, ICRA believes that the diversified presence of UBL across states mitigates the risk to some extent. The ratings also consider the expected increase in competition with international beer majors expanding their presence in the domestic market.

Over the last few quarters, Heineken has increased its shareholding in UBL to 43.72% while the shareholding of UB Group in the company has reduced to 30.15%. Nevertheless, given the significant UB group stake and the board representation (three members, including the Chairman), the ongoing disputes between UB Group Promoters and certain financial institutions have to be monitored. UBL has a demonstrated track record of operating independently from the UB group and as such ICRA does not expect any adverse fallout for the company. Further, UBL has not extended any financial support to any of the UB Group entities. Any change in these however would lead to a review of the rating.

¹ 100 lakhs = 1 crore = 10 millions

² For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

Going forward, the company has outlined capital expenditure requirements in the range of Rs.250-300 crore per annum over the next two - three years. Though the stated capital expenditure is expected to be funded through mix of internal accruals and debt, ICRA expects UBL's capital structure and leverage levels to remain comfortable aided by sustained growth in revenues, improved accruals and consequent accretion to reserves.

Key Rating Drivers

Credit Strengths

- Long track record in the industry as the market leader with an estimated market share of over 50%
- Strong brand name and extensive manufacturing and distribution network; UBL has pan-India manufacturing presence with 21 owned facilities and eight contract brewing arrangements
- Large scale of operations entailing benefits of scale economics and financial flexibility
- Long term demand outlook remains positive with favourable demographics expected to drive growth of the Indian beer industry
- High entry barriers to industry conducive for existing players
- Financial profile characterized by comfortable capital structure and coverage indicators; 43.72% stake with Heineken, a global beer major, provides further comfort on financial flexibility

Credit Weakness

- Highly regulated nature of the industry restricts growth to an extent; extensive Government controls, ban on advertising, varying tax structures from state to state pose challenges
- Expansion plans announced by brewers, especially the international majors, expected to increase competition in the premium and mainstream segments
- Weak financial profile of other key entities in the UB Group; however, UBL's demonstrated track record of operating independent of the group provides comfort

Description of key rating drivers highlighted above:

With an operating income of Rs.5,075.8 crore during FY2016, UBL is the largest brewer in the domestic market commanding market share of over 50% by volumes in the Indian beer industry. The company markets its products under various brands, including some popular brands like Kingfisher Ultra, Kingfisher Premium, Kingfisher Strong, UB Export Lager, London Pilsner, Kalyani Black Label Premium and Kingfisher Ultra Max. The company also brews Heineken brand in India. In the backdrop of a highly regulated alcoholic beverages industry in India, the company enjoys a distinctive advantage of having pan-India manufacturing presence which enhances its competitive advantage. Further, while competition from other local and international players is intensifying, the company's market position is likely to remain supported by its deep distribution network and strong brand recall for its products – especially in a media-dark industry.

UBL is a joint venture between UB Group and Heineken with former holding 30.15% stake and the latter holding 43.72% stake. Given the significant UB group stake and the board representation (three members, including the Chairman), the ongoing disputes between UB Group promoters and certain financial institutions have to be monitored. However, UBL has a demonstrated track record of operating independently from the UB group and as such ICRA does not expect any adverse fallout for the company.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of United Breweries Limited.

Links to applicable Criteria:

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company

UBL, the flagship company for the beer business in the UB Group, is engaged in the manufacture, marketing and distribution of beer. UBL commands market share of over 50 per cent by volumes in the Indian beer industry. The Company markets its products under various brands, including some popular brands like Kingfisher Ultra, Kingfisher Premium, Kingfisher Strong, UB Export Lager, London Pilsner, Kalyani Black Label Premium and Kalyani Black Label Strong. The company also locally brews Heineken in some of the major markets. Subsequent to the completion of amalgamation of all subsidiaries / JV entities with UBL, the Company currently owns 21 breweries and has 8 contract brewing arrangements.

UBL is a joint venture between UB Group and Heineken with former holding 30.15% stake and the latter holding 43.72% stake. Both promoter groups have three representatives on the Board with the Chief Executive Officer being nominated by UB Group and the Chief Financial Officer being nominated by Heineken.

Recent Results (Standalone)

For H1 FY2017, UBL reported net profit of Rs.174.1 crore on operating income of Rs.2,602.8 crore as against net profit of Rs.174.3 crore on operating income of Rs.2,526.9 crore during the same period previous fiscal. For FY2016, the company reported net profit of Rs.295.5 crore on operating income of Rs.5,075.8 crore (consolidated).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	November 2015	November 2014	October 2013
1	Term Loan	Long Term	130.00	[ICRA]AA-(Stable)	-	-	-
2	Fund-based	Long Term / Short Term	600.00	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A(Positive)/[ICRA]A1+
3	Non-Fund Based	Long Term / Short Term	150.00	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A(Positive)/[ICRA]A1+
4	Commercial Paper	Short Term	500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	29-11-2016	-	-	130.00	[ICRA]AA- (Stable)
Fund-based	21-02-2013	-	-	600.00	[ICRA]AA- (Stable) / [ICRA]A1+
Non-Fund Based	21-02-2013	-	-	150.00	[ICRA]AA- (Stable) / [ICRA]A1+
Commercial Paper	-	-	-	500.00	[ICRA]A1+

Source: United Breweries Limited



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About ICRA Limited:

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. For more information, visit www.icra.in

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