

Sona Beverages Private Limited

March 12, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	10.00	[ICRA]B-(Stable); Assigned
Total	10.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]B- (pronounced ICRA B minus) to the Rs. 8.00-crore¹ term loan and Rs. 2.00-crore cash-credit facilities of Sona Beverages Private Limited (SBPL)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account SBPL's weak financial profile, characterised by losses at the net level. The rating also factors in the leveraged capital structure, leading to a high gearing of 2.46 times in FY2017 and subdued coverage indicators. The rating is further constrained by insufficient internal cash accruals to service the debt repayments, thus adversely impacting liquidity position and leading to continuous dependence on cash infusion from promoters. ICRA notes that the extensive advertising and promotion expenses incurred by SBPL for promotion of its own brands impact profitability and is likely to keep the liquidity position stretched, at least in the near term. SBPL also remains exposed to regulatory risks associated with the liquor business, which include changes in the policies governing the industry such as revision of tax rates, ban on liquor consumption etc.

The rating, however, derives comfort from the long experience of the promoters in the liquor business and SBPL's position as the sole manufacturer of beer in Chhattisgarh. The rating also favourably factors in the increasing trend in sales volumes of SBPL's own brands on the back of growing demand in Chhattisgarh and launch of its products in other states. ICRA notes that the company's long-term contract-manufacturing agreements with SabMiller and Kaama Breweries, containing minimum guarantee volume clauses, provide stability to revenues to an extent.

Outlook: Stable

ICRA believes that SBPL will continue to benefit from the long experience of its promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working-capital management, strengthen the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if significant debt-repayment obligations, or stretch in the working-capital cycle, further weakens the liquidity.

¹ 100 lakh = 1 crore = 10 million

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

Key rating drivers

Credit strengths

Experience of promoters in the liquor industry and sole manufacturer of beer in Chhattisgarh - The promoters of the company have long experience of over two decades in the alcoholic beverage industry. One of the promoters, Mr. Satpal Singh Bhatia owns around 40 liquor shops in Chhattisgarh. Further, SBPL is the first and the sole manufacturer of beer in Chhattisgarh.

Increasing trend in sale volumes of own brands – SBPL manufactures beer under its two registered brands, Simba (started in FY2015) and Sumo (started in FY2017). The company's sale volume of its own brands has increased from 1.67 lakh cases in FY2017 to 3.84 lakh cases in H1 FY2018 on the back of extensive marketing expenditure and launch of new variations of its products in the market.

Contract-bottling agreements with minimum guaranteed volume provides stability to the revenues to an extent – SBPL carries out processing and bottling of beer for two parties – SabMiller and Kaama Breweries. The contracts with these parties carry minimum guaranteed volume clauses and it is entitled to receive liquidated damages in case the parties do not off take the guaranteed amount, thus, providing stability to the company's revenues to an extent.

Credit challenges

Weak financial profile characterised by losses at the net level; leveraged capital structure and weak coverage indicators – The capital structure of the firm remained leveraged, as depicted by a gearing of 2.46 times as on March 31, 2017. High debt levels, coupled with low profitability kept the coverage indicators subdued with DSCR at 0.59 times in FY2017 (1.14 times in FY2016) and Total Debt/OPBDITA of 20.50 times in FY2017 (9.83 times in FY2016). Further, the company continued to incur losses at the net level up to FY2017, however, some improvement is expected in FY2018.

Significant debt-servicing obligations likely to keep cash flows under pressure – ICRA notes that the company has significant debt-servicing obligations compared to its current cash accruals from the business, which tightens the liquidity position and leads to continuous dependence on cash infusion from promoters.

Considerable advertisement expenditure impacts profitability – SBPL has incurred considerable advertisement, designing, labelling and promotion expenditure for its own brands in FY2017 which resulted in a fall in OPBDITA from Rs. 4.56 crore in FY2016 to Rs. 2.44 crore in FY2017 despite a slight increase in revenue from Rs. 32.27 crore in FY2016 to Rs. 33.70 crore in FY2017. Extensive sales promotion expenses to achieve brand recognition is expected to continue in the near future, given the initial stages of the company's product, as well as plans to launch the brand in other states.

Exposed to regulatory changes – SBPL, like other players in the liquor business, remains exposed to changes in the legal and regulatory environment such as revision of tax rates, ban on liquor sale etc.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 2006, Sona Beverages Private Limited (SBPL) manufactures beer and its brewery is located at Borai Industrial Area in Durg district of Chhattisgarh. The installed capacity of the plant is 3,00,000 hecto litre (HL) per annum. The manufacturing operations of the company started in April 2014 and at present, SBPL has contract-bottling agreements with SAB Miller India Ltd. and Kaama Breweries Pvt. Ltd. Besides, SBPL manufactures beer under its own brands, Simba and Sumo.

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)
Operating Income (Rs. crore)	32.27	33.70
PAT (Rs. crore)	4.56	2.44
OPBDIT/ OI (%)	14.14%	7.25%
RoCE (%)	2.96%	-1.86%
Total Debt/ TNW (times)	2.14	2.46
Total Debt/ OPBDIT (times)	9.83	20.50
Interest coverage (times)	1.14	0.59
NWC/ OI (%)	8.77%	13.10%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) March 31, 2017	Date & Rating March 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Term Loan	Long Term	8.00	31.29	[ICRA]B- (Stable)	-	-	-
2 Cash Credit	Long Term	2.00	6.95	[ICRA]B- (Stable)	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	August, 2015	-	September, 2020	8.00	[ICRA]B- (Stable)
NA	Cash Credit	-	-	-	2.00	[ICRA]B- (Stable)

Source: Sona Beverages Private Limited

ANALYST CONTACTS

Mr. K Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Mr. Sandipan Kumar Das

+91 33 7150 1190
sandipan.das@icraindia.com

Mr. Sujoy Saha

+91 33 7150 1184
sujoy.saha@icraindia.com

Ms. Nabanita Sengupta

+91 33 7150 1123
nabanita.sengupta@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents