

June 13, 2019

SNJ Breweries Private Limited: Rating upgraded

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	19.63	0.00	-
Long Term - Fund Based/ CC	35.0	35.00	[ICRA]A-; Upgraded from [ICRA]BBB+; Outlook revised from Positive to Stable
Long Term - Unallocated	25.37	0.00	-
Total	100.00	35.00	

Rationale

For arriving at the rating, ICRA has now consolidated profile of the following entities - SNJ Breweries Private Limited (SNJBPL), SNJ Sugars and Products Limited (SNJSPL), and SNJ Distillers Private Limited (SNJDPL), considering the common promoters, and operational and financial linkages/synergies among them. Together, these three companies are henceforth referred to as SNJ Group or the Group.

The upgrade of the rating factor in SNJ Group's healthy scaling up of operation in the last two years on account of favourable demand growth for its products and diversification into new markets in the liquor segment. In the last two years, with establishment of IMFL and brewery operations in Andhra Pradesh (AP) through SNJSPL (in FY2019) and SNJDPL (in FY2018) respectively, and through export of beers, SNJ Group has been diversifying its geographical and customer base. Further, the rating also positively factors in the Group's established position in Tamil Nadu (TN) in Beer segment (with ~24% market share in FY2019) and IMFL segment (with ~16% market share in FY2019). The ratings also continue to factor in the presence of the Group across the value chain with manufacturing capacities for sugar (and refined sugar), power, extra neutral alcohol (ENA), ethanol, Indian-made foreign liquor (IMFL) and beers. Going forward, the Group's focus on premium products in both the sugar segment (brown sugar, pharma grade and refined sugar) and liquor (premium Brandy, beer etc) will likely help to drive the profitability. The rating also considers the Group's financial profile characterised by healthy capital structure and debt protection metrics.

The ratings, however, remain constrained by SNJ Group's limited geographical and customer diversification with operations primarily focussed in south India, especially TN and AP. The group's revenue from liquor segment is from The Tamil Nadu State Marketing Corporation (TASMAC) for Tamil Nadu and AP Beverages Corporation Ltd (APBCL) for Andhra Pradesh operations. These entities control the entire supply chain from indent placement, marketing, pricing and distribution, thereby exposing the company's operations to policy and business decision made by these entities. Similarly, the liquor prices are generally fixed for certain tenor (generally 3 years), thereby exposing the Group's profitability to raw material price fluctuations. Further, SNJ Group's revenue, liquidity profile and profitability remain vulnerable to the inherent regulatory risk in the liquor industry. The ratings remain constrained by the cyclical nature of the sugar industry, exposure of sugar operations to agro-climatic risks of sugar cane availability and to regulatory risks in terms of cane cost, inventory holding and import/export duties.

Outlook: Stable

The Stable outlook reflects the established presence of the Group in the liquor and sugar segment in Tamil Nadu and ICRA's expectation that the group will likely benefit from increasing brand presence and product portfolio. The Stable outlook also reflects the ICRA's expectation that the Group's operations in liquor segment in Andhra Pradesh will turnaround, going forward, thereby improving the Group's scale of operations and profitability. The rating outlook may be revised to Positive if the Group improves its scale of operation by further diversifying its customers base and geographical footprint, while sustaining the capital structure and profitability. The outlook may be revised to negative on account of any regulatory disruptions or deterioration in the financial risk profile of the Group. The outlook may be revised to Negative if the Group undertakes any debt funded capex or any inorganic expansion beyond ICRA's expectation which affects its capital structure and liquidity profile.

Key rating drivers

Credit strengths

Market leader in the TN liquor industry – SNJBPL is part of the SNJ group founded by Mr. S.N. Jayamurugan in 2008 and is based out of Tamil Nadu and Andhra Pradesh and primarily, catering to demand from these markets. The SNJ Group is the largest player in the brewery segment and Indian made foreign liquor (IMFL) segment of Tamil Nadu market with a market share of ~26% and ~16% respectively in FY2019. SNJDPL sells in its own brands as well as in brands of other major players such as Bacardi India Pvt Ltd and Radico Khaitan Ltd.

Increasing scale of operations – The Group's revenue has been in increasing trend in the recent past on account of increasing demand and improved market share in liquor segment in Tamil Nadu. Revenue of SNJBPL, SNJDPL had growth from Rs 152 crore, Rs 550 crore in FY2014 to Rs 315 crore, Rs 928 crore in FY2019 at a CAGR of 20%, 14% respectively. Further, with establishment of IMFL and brewery operation in Andhra Pradesh through SNJSPL (in FY2019) and SNJDPL (in FY2018) respectively, the Group has been diversifying its geography and customer base in the recent past and the same is expected to drive the revenue growth, going forward. Also export of beer to other markets such as Kerala, Singapore also resulted in scaling up of beer volumes from FY2018. Further, SNJSPL's revenue from Sugar and ENA also witnessed healthy improvement in revenue in FY2018 and FY2019 on account of higher cane crushing and increased capacity utilization of if distillery unit.

Financial profile marked by healthy profitability and adequate debt-protection metrics – Supported by healthy profitability and relatively low borrowing, the Group's capital structure and debt-protection metrics have remained adequate in the recent past. The capital structure remained healthy with gearing at 0.6 times and estimated Total Debt/OPDITA, interest coverage and DSCR of around 1.8, 5.5 and 2.2 times respectively in FY2019. While debt level is expected to increase in FY2020 on account of proposed loan in SNJSPL (~Rs 15 crore soft loan and ~Rs 40-crore Corporate loan) and SNJBPL (~Rs 42 crore corporate/capex reimbursement loan), nonetheless the Group's capital structure and debt protection metric will likely remain healthy. However, the Group's, working capital profile in FY2019 was marked by increased creditor day for SNJSPL (due to higher crushing and sales restriction) metrics during the peak season.

Integrated nature of operations protects the Group's profitability – Integrated nature of the Group's operations has resulted in diverse revenue mix from production of Beer, Brandy, power, sugar, extra neutral alcohol (ENA) from molasses and grain, ethanol, bagasse. This helps in stabilising any volatility of operating margins and operating revenue arising out of price volatility and sales restrictions of sugar. Further the Group's operations are also supported the higher than market recovery rate and realization enjoyed by the Group in the sugar segment.

Credit weaknesses

The group's operations characterised by geographic and customer concentration – The Group derives major portion of its revenue from TN, thereby exposing the company to revenue concentration risk. Going forward, this risk is expected to be partially offset, by increase revenue from IMFL and brewer operations in Andhra Pradesh. Nonetheless major portion of the revenue from is expected to be derived from Tamil Nadu in the medium-term. Similarly, SNJSPL's customer concentration for sugar sales remains high, with sales primarily focussed towards public-sector undertakings from Andhra Pradesh and Tamil Nadu.

High regulatory risk associated with the Group's operations - The liquor industry in Tamil Nadu and Andhra Pradesh is controlled by the state government through TASMAL and APSC. These entities control the entire supply chain from indent placement, marketing, pricing and distribution of liquor in the state. This rigid regulatory environment exposes the manufacturer's profits to volatility in price movements of key raw materials and operations will remain vulnerable to political risk associated with the liquor sector. Similarly, profitability of sugar mills (in SNJSPL) remain vulnerable to the cyclical nature of the sugar industry and agro-climatic risks related to cane production. Stipulation of fixed cane procurement prices, irrespective of market realization of sugar, will continue to remain a prohibitive factor for profitability of sugar mills in India.

Decline in Profitability in FY2018 and FY2019– The Groups profitability declined in last two years on account of higher selling expense, employee cost and raw material price fluctuation in the liquor segment. As the prices are fixed for 3 years period, the profitability is exposed to raw material prices fluctuation. Similarly, for SNJSPL, despite higher tolling margin in FY2018, profitability had declined in FY2018 on account of usage/wastages involved in usage of raw materials. Also, the Group's return-on-capital employed has remained low on account of low capacity utilisation and high capital cost involved in setting up of both sugar and brewery plants (which are at relatively nascent stage of operations).

Liquidity Position:

The company has total fund based working capital bank borrowing limits of Rs 35.00 crore and the average limits utilization(month-end) in FY2019 was at around 50% of its fund-based limits. Also, proposed loan for the ongoing capex will likely support the liquidity in the near term. The group's liquidity profile remains comfortable with SNJDPL and SNJBPL enjoying a limit of Rs 60-crore and Rs 50-crore respectively with average month end utilization in recent past at 6% and 90% respectively. Similarly, SNJDPL is estimated to have cash and liquid investments of around Rs 60 crore as on March 31, 2019 which further supports liquidity.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Sugar Industry Financial Consolidation and Rating Approach
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has now consolidated profile of the following entities - SNJ Sugars & Products Limited (SNJSPL), SNJ Breweries Private Limited (SNJBPL) and SNJ Distillers Private Limited (SNJDPL), considering the common promoters, and operational and financial linkages/synergies among them.

About the company:

SNJBPL was incorporated in 2009 by Mr. N Jayamurugan and his wife Mrs. J Geetha. The Company is engaged in the manufacture of Beer in Tamil Nadu and retails them under the brands SNJ10000, British Empire etc. The company with a bottling capacity of 10.0 lakh cases and canning capacity of 2.0 lakh cases per month across seven units licensed to manufacture Beer within Tamil Nadu. The company is closely held and managed by Mr. S N Jayamurugan and is a part of the SNJ Group. Other key entities in the SNJ Group include SNJ Sugars & Products Limited and SNJ Distillers Pvt. Ltd.

SNJ Distillers Private Limited (SNJDPL) was incorporated in April 2008 at Chennai. SNJDPL is primarily engaged in the manufacture of Indian made Foreign liquor(IMFL) and beer. The Company has 3 units i.e IMFL plant at Madurantakam, Tamil Nadu with a licensed capacity of 9 lakh cases Per Month, Brewery plant at Nellore in Andhra Pradesh with 7 lakh cases production capacity and Packing/carton Unit at Tamil Nadu as backward integration for the Liquor and Beer. SNJ Sugars & Products Limited is an integrated sugar manufacturer located in Chittoor district of Andhra Pradesh. Set up in 1994, the plant has a sugar-extraction plant with a capacity of 4,000 TCD, extra Neutral Alcohol capacity of 70 KLPD, and ethanol capacity of 40 KLPD and also operates a 20-MW multi-fuel cogeneration plant.

Key Financial Indicators (Audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	1052.8	1227.8
PAT (Rs. crore)	55.5	32.3
OPBDIT/ OI (%)	12%	9%
RoCE (%)	20%	12%
Total Debt/ TNW (times)	0.8	0.8
Total Debt/ OPBDIT (times)	2.1	2.3
Interest coverage (times)	7.1	4.8

Key Financial Indicators (Audited) - Standalone

	FY2017	FY2018
Operating Income (Rs. crore)	283.2	232.9
PAT (Rs. crore)	21.2	14.4
OPBDIT/ OI (%)	45.2	33.1
RoCE (%)	0.3	0.2
Total Debt/ TNW (times)	0.8	0.6
Total Debt/ OPBDIT (times)	1.5	1.8
Interest coverage (times)	5.3	6.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in June 2019	Date & Rating in FY2019	Date & Rating in FY2017	Date & Rating in FY2017
Long Term - Fund Based TL	Long Term	0.00	0.0	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (stable)
Long Term - Fund Based/ CC	Long Term	35.00	32.0	[ICRA]A- (stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (stable)
Long Term - Unallocated	Long Term	0.00	0.0	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (stable)

*as on 31.03.2019

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
	Long Term - Fund Based/ CC Source: SNJBPL	NA	NA	NA	35.00	[ICRA]A- (stable)

ANALYST CONTACTS

Ravichandran. K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan. R
+91 44 4596 4315
r.srinivasan@icraindia.com

Rathina Pradeep
+91 44 4297 4315
rathina.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

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) 2556 0194/ 6606 9999

© Copyright, 2019 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