February 23, 2021

Som Distilleries & Breweries Limited: Ratings revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	71.38	71.38	[ICRA]BBB- (Negative); revised from [ICRA]BBB (Negative)
Fund Based - Working Capital	28.00	28.00	[ICRA]BBB- (Negative); revised from [ICRA]BBB (Negative)
Non-fund Based	18.00	18.00	[ICRA]A3; revised from [ICRA]A3+
Total	**117.38**	**117.38**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Som Distilleries & Breweries Limited (SDBL) and its wholly-owned subsidiaries—Woodpecker Distilleries & Breweries Private Limited (WDBPL) and Som Distilleries & Breweries Odisha Private Limited (SDBOPL)— together referred to as the Group. The entities have strong financial, operational and management linkages.

The ratings revision is driven by the significant YoY decline in revenues and profitability in 9M FY2021 due to the Covid-19 crisis. The revenues are 51% lower in 9M FY2021 compared to 9M FY2020 due to multiple instances of lockdown, including restriction on restaurants and bars, as well as weak demand. The Group has reported Rs. 16.14 crore of operating loss and Rs. 41.77 crore of net loss in 9M FY2021 compared to Rs. 48.09 crore of operating profit and Rs. 19.99 crore of net profit in 9M FY2020. The Group's profitability has been significantly impacted by inventory write-off (beer has a short shelf life), heavy discount offered to retailers and substantial under-absorption of overheads. The expectation for full-year FY2021 is also weaker than FY2020; however, some recovery is expected in Q4 FY2021 as the peak season would start for brewery players. The subdued cash flows resulted in a stretched liquidity position for the Group, with very limited cushion available in the working capital limits. The subdued performance in 9M FY2021 has resulted in further weakening of the Group's key credit metrics such as interest cover, debt/OPBIDTA and DSCR.

The ratings are also constrained by the significant capacity expansion, both organic and inorganic, undertaken by the Group, which has impacted its return indicators. The ratings also take into account the working capital-intensive nature of the operations. The ratings are also constrained by the intensely competitive and highly regulated alcohol industry, which can impact the Group's future growth and profit margins. The Group's ability to establish its brand and increase its market share in geographies it has recently entered into is yet to be seen. Further, the Group's margins remain exposed to volatility in raw material prices.

The ratings continue to positively factor in the Group's increasing presence in the southern and eastern states of India through the establishment of two new companies—WDBPL in Hassan (Karnataka) and SDBOPL in Cuttack (Odisha). Earlier, the Group had established its presence only in the Madhya Pradesh market through its flagship company, SDBL, which is one of the largest players in the region's beer industry. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and the Group's established operational track record of over three decades.

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SDBL's operational and financial profile is expected to remain under pressure in the near to medium term due to uncertainty over the improvement in demand.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in industry - The promoters have been involved in the alcohol business for more than three decades. The Group's other company, Som Distilleries Private Limited (SDPL), has been involved in manufacturing extra neutral alcohol (ENA) since 1986.

Geographical diversification into southern and eastern states - WDBL and SDBOPL commenced commercial production in FY2019 and FY2020, respectively. The target markets for the company are Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala Odisha, West Bengal, etc. These states are all-weather markets in terms of liquor consumption. Earlier, SDBL used to supply to these states from its Bhopal manufacturing facilities.

Unutilised production capacity augurs well for the Group - The Group has sizeable unutilised production capacity in WDBPL and SDBOPL, in both beer and IMFL segments. These idle capacities augur well for the Group if they decide to diversify into new geographies once the consumer sentiment is back to normalcy post Covid-19 pandemic. The Group is also planning to commence the commercial production in Q4 FY2021, where in the capacity would be doubled at the Bhopal manufacturing unit.

Credit challenges

Decline in revenue and profitability in FY2020 and 9M FY2021 due to Covid-19 pandemic - The Group's revenues and profitability were lower in FY2020 than FY2019 due to the initial impact of Covid-19 pandemic and inventory loss in Q4 FY2020. Further, the Group has reported a significant decline in revenues along with negative operating and net profit margins in 9M FY2021 due to weak demand amid Covid-19 pandemic, inventory write-off (beer has a short shelf life), heavy discount offered to retailers and substantial under-absorption of overheads. The Group has reported ~Rs. 181.18 crore of operating income in 9M FY2021 compared to ~Rs. 366.63 crore in 9M FY2020.

Full utilisation of working capital limit and sizeable repayment of term loan - The Group has been fully utilising its working capital limits. Any major deviation in working capital parameters may lead to a tight liquidity position. The Group also has sizeable term loan repayment in the near to medium term.

High capital expenditure impacts return indicators - WDBPL and SDBOPL incurred high capital expenditure in FY2018 and FY2019, which impacted the Group's return indicators. The Group also invested more than Rs. 150 crore in SDBL's existing manufacturing Bhopal unit to double the production capacity. If the Group is unable to achieve the envisaged sales, the profit margins and return indicators could remain under pressure.

Highly regulated alcohol industry - The liquor industry is highly regulated with the state government controlling the sales and distribution, making the Group susceptible to changes in Government policies. Any change in Government policies with respect to production, distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and the company.

Liquidity position: Stretched

The liquidity profile of the Group is **stretched** due to limited cushion available in working capital limits and substantial repayment liability in the near to medium term.

Rating sensitivities

Positive factors - Given the long-term rating is on a Negative outlook, a near-term upgrade is unlikely. ICRA could revise the outlook to Stable if the Group demonstrates a sustained improvement revenues and profitability, leading to an improvement in credit metrics driven by favourable consumer sentiment and improvement in liquidity position.

Negative factors - ICRA could downgrade the ratings in case of continued decline in revenues and profitability, which exert further pressure on its credit profile. Over and above, any adverse regulatory action could lead a downward rating action. In terms of specific credit metrics, DSCR less than 1.2 times of sustained basis will be a negative 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 of beer and IMFL. It is the flagship company of the Bhopal, Madhya Pradesh-based Som Group. The company's shares are listed on BSE and NSE. It has a production capacity of 7.5 mcpa of beer and 1.2 mcpa of IMFL as of March 2019. SDBL has set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a capacity of 3.2 mcpa of beer and 2.8 mcpa of IMFL. The commercial production from the Hassan unit commenced in June 2018. SDBL has also acquired a beer manufacturing unit in Odisha to cater to the markets of Odisha and West Bengal. The acquired company, now known as SDBOPL, has a manufacturing capacity of 4.2 mcpa of beer and commenced commercial production in March 2019. SDBL has raised Rs. 100-crore fresh equity (preferential allotment) capital through private placement under the FDI route from Hong Kong-based investors, Karst Peak Asia Master Fund and Vermillion Peak Master Fund, which is utilised primarily for the acquisition and upgrade of the Odisha unit and capacity enhancement at SDBL's Bhopal manufacturing unit. The Group has the capacity to manufacture 14.9 mcpa beer and 4 mcpa of IMFL per annum.

Key financial indicators (audited/provisional)

SDBL Consolidated	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	393.95	463.49	181.18
PAT (Rs. crore)	19.75	15.02	(41.77)
OPBDIT/OI (%)	13.23%	10.34%	(8.91%)
PAT/OI (%)	5.01%	3.24%	(23.05%)
Total Outside Liabilities/Tangible Net Worth (times)	1.22x	1.37x	
Total Debt/OPBDIT (times)	4.32x	5.65x	
Interest Coverage (times)	4.19x	3.12x	

*Source: Company; ICRA research, *provisional financial statement published on BSE.*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2021	**Date & Rating in FY2021**	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 23, 2021	Sep 15, 2020	Aug 7, 2020	**July 20, 2020**	July 7, 2020	April 7, 2020	Feb 27, 2020	Nov 20, 2018
1	Cash Credit	Long Term	28.00	-	**[ICRA]BBB - (Negative)**	**[ICRA]BBB (Negative)**	[ICRA]BBB+ (Negative)	**[ICRA]BBB+ (Negative)**	[ICRA]BBB+ (Negative)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loans	Long Term	71.38	71.38	**[ICRA]BBB- (Negative)**	**[ICRA]BBB (Negative)**	[ICRA]BBB+ (Negative)	**[ICRA]BBB+ (Negative)**	[ICRA]BBB+ (Negative)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Bank Guarantee	Short Term	18.00	-	**[ICRA]A3**	**[ICRA]A3+**	[ICRA]A2	**[ICRA]A2**	[ICRA]A2	-	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	-	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable
5	Issuer Rating	Long Term	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)#	[ICRA]BBB+ (Stable)*	[ICRA]BBB+ (Stable)

*Source: Company, *put on notice of withdrawal for 1 month, # rating withdrawn*

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	Cash Credit	-	-	-	28.00	[ICRA]BBB -(Negative)
NA	Term Loans	April 2017	-	March 2023	71.38	[ICRA]BBB- (Negative)
NA	Bank Guarantee	-	-	-	18.00	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	SDBL Ownership	Consolidation Approach
Som Distilleries & Breweries Limited (Parent company)	100%	Full consolidation
Woodpecker Distilleries & Breweries Private Limited	100%	Full consolidation
Som Distilleries & Breweries Odisha Private Limited	100%	Full consolidation

Source: Company

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About ICRA Limited:

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