October 29, 2021

United Breweries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating action
Term loan – Long Term	510.0	510.0	[ICRA]AA+ (Stable); Reaffirmed
Fund based (inter-changeable) facilities – Long Term	720.0#	720.0#	[ICRA]AA+ (Stable); Reaffirmed
Non-fund based (inter-changeable) facilities – Long Term	150.0#	150.0#	[ICRA]AA+ (Stable); Reaffirmed
Fund based (inter-changeable) facilities – Short Term	720.0#	720.0#	[ICRA]A1+; Reaffirmed
Non-fund based (inter-changeable) facilities – Short Term	150.0#	150.0#	[ICRA]A1+; Reaffirmed
Commercial Paper – Short Term	500.0	500.0	[ICRA]A1+; Reaffirmed
Total	**1,880.00**	**1,880.00**	

**Instrument details are provided in Annexure-1;*

#The Rs.720.00 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. 1,880.00 crore

Rationale

The reaffirmation in ratings factors in UBL's strong market position in the domestic beer industry, driven by its strong product portfolio and complemented by a wide manufacturing and distribution footprint across the country. The ratings also favourably factor in UBL's strong financial profile, characterised by robust debt protection metrics, moderate working capital intensity and strong liquidity. Further, though the 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 providing competitive advantages to incumbents such as UBL. ICRA has also considered the positive long-term demand outlook for beer in the domestic market driven by favourable demographics.

The company's revenues were impacted adversely in H1 FY2021 (YoY revenue contraction was at 61.2%) following the Covid-19 led lockdown and the subsequent impact on the liquor industry. However, the company's revenue witnessed a strong revival with only ~-5.8% YoY revenue contraction in Q3 FY2021 and ~16.7% revenue growth in Q4 FY2021. While the company incurred net losses in H1 FY2021, with recovery in volumes and margins in H2 FY2021 with the opening up of on-trade premises and strong recovery in demand in many states, the company's operating margins in FY2021 stood at 9.0%, while the overall revenue decline was at 42.6% in the same period.

During Q1 FY2022, the UBL sales volume witnessed a sequential decline of 30%, owing to the second wave of Covid-19 and the resultant restrictions across various states for sale of alcoholic beverages (the restrictions were less stringent compared to last year, leading to partial functioning of the markets). Further, with Q1 being the peak season for UBL (because of summer), the company lost out on significant revenues and margins for two consecutive years, following the pandemic. However, going forward, the sales volumes of UBL are expected to recover to pre-pandemic levels in the subsequent quarters lockdown restrictions ease and vaccination rates pick up in India, leading to revival in demand.

In Q1 FY2022, UBL's operating margins were impacted on account of stringent restrictions in high realisation markets like Maharashtra and Karnataka, higher input cost with rise in price of barley and glass prices, in addition to subdued used bottle recycling owing to the restrictions in transportation. Going forward, the margins of UBL will remain a key rating monitorable with the rise in commodity and energy prices, which is likely to impact the direct and indirect costs in FY2022. However, the company has adopted various cost control and efficiency improvement measures, which will continue to support its margins.

In FY2021, despite decline in revenues and margins, the debt metrics remained strong with TD/OPBDITA at 0.7 times as on March 31, 2021 and interest cover of 16.8 times in FY2021. ICRA expects the debt metrics to continue to remain strong, going forward, with recovery in sales and decline in overall debt levels with improvement in operational cash accruals.

The company operates in a highly regulated industry with state-specific policies which continue to impact industry volumes in several markets. Going forward, unfavourable policy changes in key states continue to remain one of the key risk factors for the company and the industry. Further, even while UBL commands a strong market share (of 52% during FY2020) in the domestic market, presence of other large international players continues to impact the overall competitive scenario in the industry.

ICRA takes note of the order issued by CCI, directing UBL to pay ~Rs. 751.8 crore, alleging that UBL was engaged in price co-ordination in certain states and in cartelisation. In its announcement to the stock exchanges dated September 24, 2021, UBL has indicated that it shall evaluate filing of an appeal after examining the findings and grounds for appeal. ICRA will continue to monitor the developments in this regard to understand its impact on the business and financial profile of the company and will review the situation following further developments.

Heineken NV's (rated Moody's Baa1 / Stable) current shareholding in UBL is 61.52% while that of the Dr. Vijay Mallya Group's is 11.2%. Even while the UB Group promoter, Mr. Vijay Mallya, has ceased to be a part of the company's board, given the UB Group stake, the ongoing disputes between the UB Group promoters and certain financial institutions will continue to be monitored. However, ICRA notes that UBL has been operating independently, supported by its board of directors, and does not expect any adverse fallout for the company from the UB Group-related investigations. 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.

Key rating drivers and their description

Credit strengths

Strong market position supported by robust manufacturing & distribution network in addition to strong brand equity – UBL has a long track record of operations in the domestic beer industry and has a market share of 52% during FY2021. UBL's strong market position is supported by its pan-India manufacturing presence with 21 owned facilities and 11 contract manufacturing arrangements, a robust retail footprint and strong demand for its Kingfisher brand.

Strong financial profile – UBL's financial profile is characterised by robust, debt protection metrics (gearing of 0.1x as on March 31, 2021, TD/OPBDITA of 0.7x and interest coverage of 16.8x during FY2021), moderate working capital intensity (~28% during FY2021) and strong liquidity position, given the significant headroom available in the form of cash balance and unutilised sanctioned limits. Further, the debt metrics and the liquidity are expected to remain strong supported by decline in overall debt levels with improvement in operational cash accruals, going forward.

High entry barriers – While the highly regulated nature of the industry with extensive Government controls on advertising and taxes restrict growth to a certain extent, the same creates entry barriers for new players, thereby favouring incumbents such as UBL.

Favourable long-term demand outlook – The long-term demand outlook for beer in the domestic market remains positive with favourable demographics, rising disposable incomes and urbanisation expected to drive growth of the Indian beer industry. This is also supported by the relatively lower per capita consumption of beer in the country, compared to the Asian and global average.

Credit challenges

Revenue and margin decline in FY2021 following the pandemic: UBL's revenue and margin declined in FY2021 following the pandemic induced lockdown adversely impacting sales volumes during H1 FY2021. Further, during H1 FY2021, several states had introduced Covid-related duties, which in turn impacted demand during H1 FY2021. While, the revenue and margins recovered in H2 FY2021, following the recovery in sales volume with the easing of the restrictions and almost all states rolling back (except Telangana), sales was again impacted in Q1 FY2022 following the second wave of Covid pandemic and the resultant lockdown impacting demand. Going forward, ICRA expects the sales volume to recover to pre-Covid levels in subsequent quarters of FY2022 which will support the growth in revenues and margins for UBL.

Highly regulated nature of the industry and state-specific events continue to impact the industry volumes – Extensive government control, ban on advertising, and the varying tax structures in states pose challenges restricting growth of the industry. The industry has witnessed excise hikes in several states in FY2020 and FY2021, which increased consumer prices thus impacting the volumes to a certain extent. Further, UBL's volumes also continue to remain vulnerable to macro events such as demonetisation, general economic slowdown, the pandemic and specific policy changes such as ban on sale of liquor near highways etc.

Exposure to input cost volatility; rising raw material cost in FY2022 a cause for concern – Given the industry structure wherein pricing is regulated by the state governments, the industry players do not have the flexibility to pass on increasing raw material costs to customers immediately. This makes the company's operating margins vulnerable to raw material price trends. The company's operating margin remains a key rating monitorable, going forward, with sharp increase in commodity prices and energy cost which may impact direct and indirect cost of the company. However, the company has taken cost control and efficiency improvement measures during Q4 FY2021 and Q1 FY2022 which are likely to support its margins.

Increasing competitive intensity and options available to the consumer – Expansion plans and significant market share of some international majors in the Indian beer market is expected to increase competition in the premium and mainstream segments for the company in the medium to long term. Further, spike in the number of microbreweries and craft beer brands across major metros is increasing the overall basket of beer options available to the consumer. UBL had launched - Kingfisher Ultra Witbier - during FY2020 to compete in the craft beer segment. Further, strong market share and consequent scale of economies, in addition to its strong product portfolio, is expected to support UBL's business prospects going forward.

Liquidity position: Strong

UBL's liquidity remains strong with undrawn working capital limits of ~Rs. 1,858.0 crore as on September 30, 2021 and cash balances and liquid investments of ~Rs. 500.0 crore as on date. In addition to unutilised working capital facilities, the company enjoys healthy financial flexibility, enabling it to raise debt at short notice. UBL has a term loan repayment of ~Rs. 94.0 crore in FY2022 and ~Rs. 125.0 crore in FY2023. The company is planning to incur a capex of ~Rs. 250.0-300.0 crore in FY2022 and FY2023 towards maintenance and replacement to increase efficiency across its facilities. ICRA expects UBL to meet the upcoming term loan repayments and near-term capex commitments through its internal accruals. However, in case the capex is significantly higher than estimates, the company's healthy financial flexibility will support any incremental borrowings at competitive interest rates, in line with current trends

Rating sensitivities

Positive factors – UBL's ratings could be upgraded if there is significant, sustainable improvement in the company's scale accompanied by healthy margins and debt protection metrics.

Negative factors – Negative pressure on UBL's ratings could arise if there is any deterioration in margins and, debt-funded capex, acquisitions or regulatory measures lead to weakening of the company's credit profile with Net Debt/OPBDITA>1.0x on a sustained basis. Deterioration in credit profile of the company's parent, Heineken B.V., will also lead to a review of the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UBL

About the company

UBL manufactures, markets and distributes beer. It continued to remain the market leader with a share of about 52% of the Indian beer market during FY2020. The company markets its products under various brands under its iconic brand Kingfisher and some popular brands like Kingfisher Ultra, Kingfisher Premium, Kingfisher Strong, Kingfisher Storm, UB Export Lager, London Pilsner, Kalyani Black Label Premium and Kalyani Black Label Strong. The company also manufactures Heineken beer in its breweries in India and supplies the same to some of the major markets in India. UBL currently owns 21 units (including one non-alcoholic beer/products manufacturing unit) and has 11 contract brewing arrangements with other brewers. A joint venture between Indian promoters (Dr. Vijay Mallya Group) and Heineken, the former holds 11.20% shares and the latter has 61.52% shareholding in UBL as on September 30, 2021.

Key financial indicators (audited)

UBL (Consolidated)	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	6,475.4	6,509.2	4,243.1
PAT (Rs. crore)	563.3	428.3	113.8
OPBDIT/OI (%)	17.6%	13.5%	9.0%
RoCE (%)	30.0%	18.0%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6	0.6
Total Debt/OPBDIT (times)	0.2	0.3	0.7
Interest Coverage (times)	36.5	28.3	16.8
DSCR (times)	9.9	4.4	3.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Oct 29, 2021	Oct 05, 2021	Oct 21, 2020	Sep 25, 2020	Aug 23, 2019	July 19, 2018
1	Term Loan	Long Term	510.0	250.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund-based	Long Term/ Short Term	720.0#	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Non-Fund Based	Long Term/Short Term	150.0#	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
4	Commercial Paper	Short Term	500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

#The Rs.720.00 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. 1,880.00 crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Term Loan	Very Simple
Fund-based – Long Term/Short Term	Simple
Fund-based – Long Term/Short Term	Simple
Commercial Paper – Short Term	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	Term Loans	NA	NA	FY2024	510.0	[ICRA]AA+ (Stable)
NA	Fund-based	NA	NA	NA	720.0#	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Non-Fund Based	NA	NA	NA	150.0#	[ICRA]AA+ (Stable)/ [ICRA]A1+
Unutilised	Commercial Paper	NA	NA	7-365 days	500.0	[ICRA]A1+

Source: *Company;*

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Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Maltex Masters Limited	51.00%	Full Consolidation

Source: *UBL*

Note: *ICRA has taken a consolidated view of the parent (UBL), its subsidiaries and associates while assigning the ratings*

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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.

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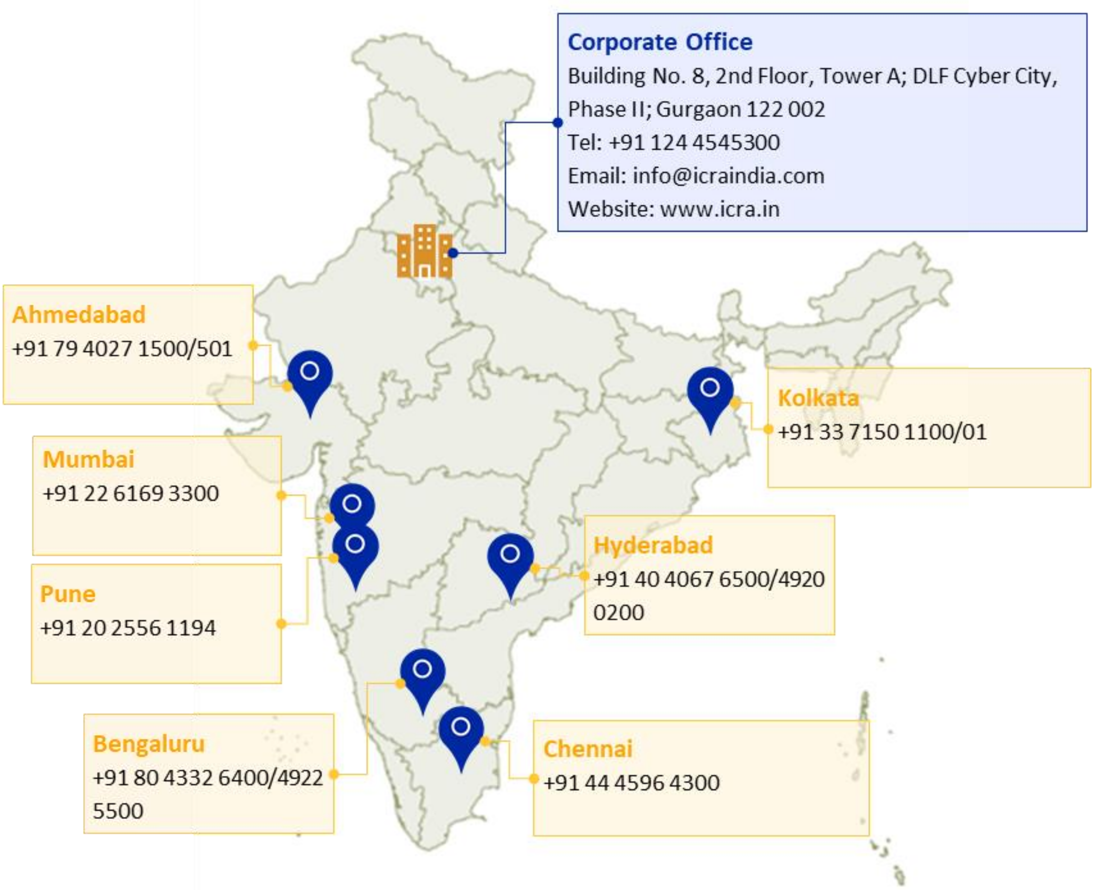

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