April 07, 2022

Som Distilleries & Breweries Limited: Ratings reaffirmed, outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	28.00	28.00	[ICRA]BBB- (Stable); reaffirmed, outlook revised from Negative
Fund-based – Term Loans	71.38	44.58	[ICRA]BBB- (Stable); reaffirmed, outlook revised from Negative
Non-fund Based	18.00	15.00	[ICRA]A3; reaffirmed
Unallocated	0.00	18.74	[ICRA]BBB- (Stable); reaffirmed, outlook revised from Negative
Total	**117.38**	**106.32**	

**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 company. The entities have strong financial and operational linkages, selling product under the same brands and sharing a common management.

While revising the outlook to Stable from Negative, ICRA considers the revival in beer demand in the domestic market from Q3 FY2022 after two summer seasons of weak performance amid the Covid-19 pandemic. The revival is likely to continue in the ongoing season supported by its growing footprint in Karnataka. The company's market position remains healthy in Madhya Pradesh, significant expansion in distribution network and reduction in excise duties augur well for the company. The ratings draw comfort from the Group's established presence in the alcobev industry through its flagship entity, SDBL, its subsidiaries and other promoter companies in similar business segments.

The ratings, however, are constrained by the modest coverage metrics and working capital intensive nature of operations, resulting in high utilisation of working capital limits. ICRA notes that the recent rights issue and continued funding support from the Group aids the company's cash flow position. The Group's margins remain exposed to volatility in raw material prices. The rating is further constrained by the intensely competitive and highly regulated alcohol industry, which might impact the Group's growth and margins.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of the promoters and its established track record in the liquor industry.

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. The promoter also has other companies in the same business segment.

Improving geographical diversification – The company has a strong market share in Madhya Pradesh's beer market, with a presence for three decades. Further, target markets of Karnataka, Kerala, and Odisha are all-weather markets in terms of liquor consumption. The company has increased its market share in Karnataka and Odisha's beer industry over the last one year, thus strengthening its geographical presence.

Healthy demand outlook – As per the revised excise policy of Madhya Pradesh, effective from April 1, 2022, the state government has allowed the sale of beer at country liquor shops as well. In addition, the state government has reduced the excise duty by 20%, which will increase the liquor consumer base. The company was in capex mode during FY2019-FY2021 and has built up sizeable unutilised production capacity in all the three companies (Madhya Pradesh, Karnataka and Odisha), in both beer and Indian made foreign liquor (IMFL) segments, which it can ramp up in line with the healthy demand outlook of beer in the domestic market.

Completion of right issue in February 2022 – SDBL has completed the right issue exercise in February 2022 to the tune ~Rs. 17.50 crore, which would support the working capital requirement in the ongoing peak season. Additionally, the promoters have a track record of funding support, as when needed.

Credit challenges

Weak revenue and profitability in FY2021 and 6M FY2022 due to pandemic – The Group's revenues and profitability were lower in FY2021 and 6M FY2022 due to the impact of the pandemic on demand, inventory write-off (beer has a short shelf life), heavy discount offered to retailers and substantial under-absorption of overheads. However, the company has reported improvement in revenue in 9M FY2022 over 9M FY2021 with a gradual demand revival led by a ~21% volumetric growth.

Weak coverage indicators, vulnerability to raw material price increases –Rise in the input cost (barley, packaging, new bottles and freight) has kept profit margins under pressure for the company. Weaker cash accruals amid sizeable capex related debt repayments have resulted in modest coverage metrics as reflected by high Debt/EBIDTA and below average DSCR in FY2021. While part of the input cost rise has been compensated by selling price increase, regular fund infusions by promoters and Group companies, all through the pandemic as well as when needed, for working capital requirements and repayments, lend comfort. The company's working capital requirements are high, led by its requirement to maintain inventory across its plants, resulting in high utilisation of working capital limits.

Highly regulated alcohol industry - The liquor industry is highly regulated by state governments, who control 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 company's liquidity position is **stretched** on account of high utilisation of working capital limit, low cash accruals from business and sizeable repayment in the near to medium term. However, there has been a regular fund infusion in the form of unsecured loan from Group companies and promoters in addition to recent rights issue to fund the working capital requirement and repayment liability. The company also maintains moderate levels of cash for immediate requirements. There are no major capex plans since the company has expanded its capacity over the last few years. ICRA expects accruals to improve, going forward, as beer demand revives.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a significant improvement in 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 substantial decline in revenue and profitability or a stretch in liquidity and debt coverage metrics. In terms of specific credit metrics, DSCR of less than 1.2 times on a 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-based Som Group, with a production capacity of 15.2 mcpa (doubled from 7.5 mcpa in FY2021) of beer and 0.6 mcpa of IMFL. The company's shares are listed on BSE and NSE. SDBL has set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a capacity of 3.8 mcpa of beer and 2.8 mcpa of IMFL. The commercial production from the Hassan unit commenced from June 2018. SDBL has also acquired a beer manufacturing unit in Odisha for the eastern 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 from March 2019. On a consolidated basis, the Group has a production capacity of 23.2 mcpa of beer and 3.4 mcpa of IMFL per annum.

Key financial indicators (audited)

SDBL Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	463.5	290.2	219.6
PAT (Rs. crore)	15.0	(38.0)	(16.2)
OPBDIT/OI (%)	10.3%	(2.4%)	3.6%
PAT/OI (%)	3.2%	(13.1%)	(7.4%)
Total Outside Liabilities/Tangible Net Worth (times)	1.4x	1.5x	-
Total Debt/OPBDIT (times)	5.6x	(38.8x)	-
Interest Coverage (times)	3.1x	(0.4x)	0.7x

Source: Company, unaudited

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

Status of non-cooperation with previous CRA: Brickworks has kept the ratings under ISSUER NOT COOPERATING category at BWR BB (Negative) /A4 via press release dated July 5, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				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 FY2020	Date & Rating in FY2019
					Apr 7, 2022	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 - (Stable)	[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	44.58	44.58	[ICRA]BBB - (Stable)	[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	15.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	18.74	-	[ICRA]BBB - (Stable)	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable
5	Issuer Rating	Long Term	-	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable) Withdrawn	[ICRA]BBB+ (Stable)# Notice of Withdrawal	[ICRA]BBB+ (Stable)

Source: Company, , as on , January 31, 2022, #put on notice of withdrawal for 1 month,*

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Short Term – Bank Guarantee	Very Simple
Long Term – Unallocated	NA

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 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 - (Stable)
NA	Term Loans	April 2017	-	March 2026	44.58	[ICRA]BBB - (Stable)
NA	Bank Guarantee	-	-	-	15.00	[ICRA]A3
NA	Unallocated	-	-	-	18.74	[ICRA]BBB - (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	SDBL Ownership	Consolidation Approach
Som Distilleries & Breweries Limited (Parent company)	NA	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:

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.

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