August 04, 2022

Som Distilleries & Breweries Limited: Ratings upgraded

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); upgraded from [ICRA]BBB- (Stable)
Fund-based – Term Loans	44.58	39.74	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Non-fund Based	15.00	15.00	[ICRA]A3+; upgraded from [ICRA]A3
Unallocated	18.74	23.58	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Total	**106.32**	**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 or Group. The entities have strong financial and operational linkages, selling products under the same brands and sharing a common management.

The ratings upgrade factors in the company's strong performance in Q1 FY2023, the peak season for a fiscal, after witnessing two consecutive summer seasons of weak performance amid the Covid-19 pandemic. The company has reported a ~25% increase in beer sales volumes in Q1 FY2023, compared to the company's previous best in Q1 FY2020. While SDBL has regained its leading position in Madhya Pradesh's beer industry with its established presence, the healthy expansion of its market share in Karnataka and Odisha has supported its volume growth. Moreover, favourable change in the excise policy in Madhya Pradesh, which contributes a large part of the company's volumes, a government mandated increase in points of sale (POS) for beer, as well as reduction in the maximum selling price (MRP) has supported the demand in the state. 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 return coverage metrics owing to high capex and weaker than usual performance in the past. Moreover, the company's operations remain working capital-intensive, rendering it highly dependent on working capital limits. While its cash accruals and coverage metrics are expected to improve in the current fiscal, ICRA notes the further plan of raising equity via preferential equity warrants. Both these factors would support SDBL's growth funding requirements. The company's margins remain exposed to volatility in raw material prices. The rating is further constrained by the intensely competitive and highly regulated alcobev industry in India.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company continue to benefit from its sizeable capacities and continuing demand revival in the beer segment.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in industry - The promoters have been involved in the alcobev 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), Indian made Indian liquor (IMIL), and Indian made foreign liquor (IMFL) since 1986. The promoter also has other companies operating in the same business segment.

Strong revenue and profitability in Q1 FY2023 – The company has reported a strong performance in Q1 FY2023 on account of the strong volume growth in the key markets, which include Madhya Pradesh, Karnataka and Odisha. The company has reported Rs. 256 crore operating income (OI) with an operating profit margin of ~14%. In terms of volume, it has reported 4.7 million cases of beer in Q1 FY2023, a growth of ~25% over 3.8 million cases in Q1 FY2020, the company's previous best. The OI is higher by ~36% in Q1 FY2023 over its previous best in Q1 FY2020 led by the volume growth and price revisions. After facing two consecutive weak summers marred by the pandemic, the recent strong performance will help improve its credit metrics for FY2023.

Improving geographical diversification with healthy market share – The company's geographical footprint has been improving with Madhya Pradesh driving ~55% of its sales volume, followed by Karnataka (~26%) and Odisha (~15%) during Q1 FY2023 over ~39%, ~27% and 14%, respectively, in FY2022. The company has enjoyed a strong market share in the Madhya Pradesh beer market for three decades. For FY2023, there have been favourable regulatory changes in the state. As per the revised excise policy, effective from April 1, 2022, the state government has allowed the sale of beer at country liquor shops as well. In addition, it has reduced the excise duty and maximum retail price by ~10% each, which has increased the alcobev consumer base and driven demand. In its other key markets, SDBL has witnessed a sizeable increase in market share. In Karnataka, an increasing acceptance of its brands and a widening distribution network have resulted in a market share gain of ~800 basis points (11.5%) in Q1 FY2023 over FY2020 (3.5%).

Credit challenges

Working capital intensive nature of operations – SDBL's operations are working capital intensive due to its requirement of excise duty payment upfront and high inventory holding. This has led to a high dependence of working capital limit. The working capital utilisation has been ~90-95% in the past 15 months. However, the company has taken substantial advances from its group companies in the past 3-4 years to support the working capital requirement and capex. ICRA notes that planned preferential issue and limit enhancement, in addition to improved cash accruals for the fiscal, would support the company's growth funding requirements.

Modest returns and coverage indicators, vulnerability to raw material price increases – The rise in input costs (barley, packaging, new bottles and freight) over the last one year have kept SDBL's profit margins under check. The low 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 and FY2022. 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 for working capital requirements and repayments, as and when needed, have lent comfort. However, with a good Q1 FY2023 performance, the company's coverage metrics for the fiscal are likely to improve.

Highly regulated alcohol industry - The Indian alcobev 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, taxation, and state excise duty, or any material changes in the duty structure, may impact the industry as well as the company.

Liquidity position: Adequate

SDBL's liquidity is **adequate** on account of healthy cash generation from business in Q1 FY2023. In addition, it also maintains Rs. 8-10 crore free cash in business at a time. However, the company has been utilising its cash credit limit of ~90-95% over the last 15 months as the same is relatively lower than its scale. The company is also looking to enhance its cash limit by Rs. 20-25 crore in the current year. While there are no major capex plans in near to medium term, the cash generation from its business and proposed enhancement in its cash credit are likely to remain comfortable for its additional working capital requirements, if any, and repayment of its existing term loan, which is ~Rs. 18-19 crore each for the next three years.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company continues to demonstrate a sustained revenue and profitability improvement supported by its growing geographical presence and strengthening brand position, leading to an improvement in credit metrics. Improvement in its liquidity position will also be a positive rating trigger.

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 less than 1.4 times on a sustained basis could be a negative rating 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 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 the BSE and NSE. SDBL set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a manufacturing 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. The acquired company, now known as SDBOPL, has a manufacturing capacity of 4.2 mcpa of beer and 0.5 mcpa of IMFL, commenced commercial production from March 2019. On a consolidated basis, the Group has a production capacity of 22.6 mcpa of beer and 3.4 mcpa of IMFL per annum.

Key financial indicators (audited/unaudited)

SDBL Consolidated	FY2021	FY2022	Q1 FY2023*
Operating Income (Rs. crore)	290.2	365.5	256.1
PAT (Rs. crore)	(38.0)	19.6	35.9
OPBDIT/OI (%)	(2.4%)	5.4%	14.0%
PAT/OI (%)	(13.1%)	(2.7%)	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.5x	1.4x	-
Total Debt/OPBDIT (times)	(38.8x)	13.4x	-
Interest Coverage (times)	(0.4x)	1.3x	10.2x

*Source: Company; Note: *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- (Stable) /A4 via press release dated August 1, 2022

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
					Aug 4, 2022	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 - (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	39.74	39.74	[ICRA]BBB (Stable)	[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]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	23.58	-	[ICRA]BBB (Stable)	[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 June 30, 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	39.74	[ICRA]BBB (Stable)
NA	Bank Guarantee	-	-	-	15.00	[ICRA]A3+
NA	Unallocated	-	-	-	23.58	[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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