October 31, 2022

United Breweries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	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 considers United Breweries Limited's (UBL) strong brand portfolio and market position, complemented by a wide manufacturing and distribution footprint across the country. The ratings also factor UBL's strong parentage with the company being a 61.52% subsidiary of Heineken NV (Heineken; rated Moody's Baa1 / Stable). UBL will continue to benefit from the strong operational and management support, which complements its large scale of operations. The ratings also continue to 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 witnessed strong revival in both volume and value terms in FY2022. The revenue growth of the company stood at 38% YoY in FY2022, on the back of strong demand recovery post the second wave, which impacted the company's sales in Q1 FY2022. With the opening of on-trade premises and strong recovery in demand in many states in H2 FY2022, the company's operating margins in FY2022 stood at 11.9% against 9.0% in FY2021. During Q1 FY2023, UBL witnessed YoY revenue growth of 118%, supported by a normal peak season after two years of adverse impact of Covid-19 on peak-season sales. In Q1 FY2023, UBL's operating margins were impacted on account of high raw material prices and relatively lower growth in margin-accretive states such as Karnataka and Maharashtra. While the company has adopted various cost control and efficiency improvement measures to support its margins, the trend in operating margins will remain a key rating monitorable.

As on March 31, 2022, UBL was debt-free following prepayment of terms loans in FY2022 (the company now has only lease liabilities). The debt metrics remained strong with Net Debt/OPBDITA at -0.6 times as on March 31, 2022, and interest cover of 47.1 times in FY2022. ICRA expects the debt metrics to remain strong, given recovery in sales and expected healthy cash accruals. Going forward, the quantum of dividend pay-outs and debt raised for capital expenditure (if any) will remain key monitorables for the company.

UBL operates in a highly regulated industry with state-specific policies which continue to impact industry volumes in several markets. Going forward, any 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 in the domestic beer market, the 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. On December 8, 2021, the company filed an appeal against the aforesaid CCI order. 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 15.63%. 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.

Key rating drivers and their description

Credit strengths

Strong parentage with Heineken NV - With UBL being a 61.52% subsidiary of Heineken, it enjoys strong operational and management support which will continue to support the company's business prospects, going forward.

Strong brand portfolio and market position supported by robust manufacturing and distribution infrastructure – UBL has a long track record of operations in the domestic beer industry and has a healthy market share, on the back of its strong brand portfolio. UBL's market position is also 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.

High entry barriers in the industry favouring the incumbent; favourable long-term demand outlook – 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. 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 with the Asian and global average.

Strong financial profile with healthy margins, robust debt protection metrics and moderate working capital intensity – UBL's financial profile is characterised by nil debt and robust debt protection metrics, moderate working capital intensity (13.6% in FY2022) 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 strong cash accruals, going forward.

Credit challenges

Volatility in raw material prices and thereby margins; high barley prices likely to impact margins in FY2023 – Given the industry structure wherein pricing is regulated by the state governments, industry players do not have the flexibility to pass on the increase in raw material costs to customers immediately. This makes the company's operating margins vulnerable to raw material price trends. With sharp increase in prices of barley, which is a key raw material for the company, UBL's gross margins witnessed contraction in Q1 FY2023 (operating margins contracted by 440bps on a QoQ basis despite it being peak season with significantly high volumes). While the company is adopting cost control and efficiency improvement measures, the margin trajectory of the company amidst high input costs will remain a key monitorable.

Highly regulated nature of the industry; state-specific events are likely to impact overall volumes of the company and the industry - 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, which increased consumer prices, thus, impacting the volumes to a certain extent. Further, UBL's volumes continue to be 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.

Increasing competitive intensity and options available to customers – The competitive intensity in the industry continues to be high, given the presence of both international majors and other domestic players. 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. Going forward, a strong market share and consequent scale of economies, in addition to its strong product portfolio, are expected to support UBL's business prospects.

Liquidity position: Strong

UBL's liquidity remains strong, with undrawn working capital limits of ~Rs. 1,025.0 crore and cash balances and liquid investments of ~Rs. 778.97 crore as on September 30, 2022. In addition to unutilised working capital facilities, the company enjoys healthy financial flexibility, enabling it to raise debt at short notice. UBL plans to incur a capex of ~Rs. 300-400 crore each in FY2023 and FY2024 towards expansion, maintenance and replacement capex across its manufacturing facilities. In case the capex is significantly higher than the estimates, the company's healthy financial flexibility will support any incremental borrowings at competitive interest rates, in line with current trends.

Environmental and Social Risks

UBL is one of the largest brewing companies in India, with 21 owned manufacturing units and 11 contract manufacturing units. Environmental risks for industry players include risks during discharge of hazardous and pollutant wastes. All breweries of UBL are equipped with wastewater treatment to ensure treatment of wastewater before any kind of discharge. The company has taken up rainwater harvesting, watershed development, and restoration and has active water conservation projects in several states. The company aims to incorporate sustainable packaging materials and invest in recycling of such materials. Further, UBL ensures appropriate segregation of hazardous and non-hazardous waste and the wastes that the company cannot dispose as a business on their own, are transferred to the respective authorities or management bodies at a local or regional level.

UBL is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, but also evolving regulatory and societal attitudes towards alcohol-containing products, which can affect demand for its products. Further, UBL has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2022 annual report indicates that UBL has worked on several initiatives to enhance and improve safety practices.

Rating sensitivities

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

Negative factors – Pressure on UBL's ratings could arise, if there is any material deterioration in margins and, debt-funded capex, acquisitions or regulatory measures lead to weakening of the company's credit profile with Net Debt/OPBDITA>1.0 times, 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 be the market leader with a share of about 54% of the Indian beer market during FY2022. 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. At present, UBL owns 21 units (including one non-alcoholic beer/products manufacturing unit) and has 11 contract brewing arrangements with other brewers.

Key financial indicators (audited)

UBL (Consolidated)	FY2020	FY2021	FY2022
Operating income (Rs. crore)	6,509.2	4,243.1	5,838.4
PAT (Rs. crore)	428.3	113.8	366.1
OPBDIT/OI (%)	13.5%	9.0%	11.9%
RoCE (%)	18.0%	5.3%	13.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6	0.5
Total Debt/OPBDIT (times)	0.3	0.7	0.0
Interest Coverage (times)	28.3	16.8	47.1
DSCR (times)	4.4	3.4	5.5

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 (FY2023) Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023 31-Oct-22	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022 29-Oct-21	Date & Rating in FY2022 5-Oct-21	Date & Rating in FY2021 21-Oct-20	Date & Rating in FY2021 25-Sep-20	Date & Rating in FY2020 23-Aug-19
1	Term Loan	Long Term	510	-*	[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	-	[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; *the company did not have any outstanding term loans as on March 31, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Term Loan	Very Simple
Fund-based – Long Term/Short Term	Simple
Non-Fund-based – Long Term/Short Term	Very 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, are 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	-*	-*	-*	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;*

*#The Rs.720.00-crore fund-based facilities and the Rs.150.00-crore non-fund-based facilities may be utilised either as long-term or as short-term facilities. Total amount rated by ICRA is Rs. 1,880.00 crore; *the company did not have any outstanding term loans*

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*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 937922486
kinjal.shah@icraindia.com

Mythri Macherla
+91 9701191490
mythri.macherla@icraindia.com

Akshara Raghu
+91 8606170476
akshara.raghu@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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.