Som Distilleries & Breweries Limited

November 20, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital	28.00	[ICRA]BBB+ (Stable); Assigned
Fund Based - Term Loan	35.00	[ICRA]BBB+ (Stable); Assigned
Non-fund Based - Bank Guarantee	18.00	[ICRA]A2+; Assigned
Unallocated	4.00	[ICRA]BBB+ (Stable); Assigned
Issuer Rating	-	[ICRA]BBB+ (Stable); Assigned
Total	**85.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 63-crore[1] fund-based facilities and the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 18-crore non-fund based facilities of Som Distilleries & Breweries Limited (SDBL)[2]. ICRA has also assigned [ICRA]BBB+ rating for Rs. 4-crore unallocated facilities of SDBL. ICRA has also assigned an Issuer rating of [ICRA]BBB+ to SDBL. The outlook on the long-term rating is Stable.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of SDBL along with its wholly-owned subsidiaries – Woodpecker Distilleries & Breweries Private Limited (WDBL) and Som Distilleries Odisha Private Limited (SDOPL) – together referred to as the Group, given the strong financial and management linkages between the entities.

ICRA's rating takes into account the Group's established presence in the Madhya Pradesh market, where it is one of the largest players in the beer industry. ICRA also notes that the demand outlook for the liquor industry remains favourable, driven by demographic profile, changing lifestyles and improving disposable income which supports the Group's growth prospects, as reflected in the healthy growth in operating income (OI) registered by the company over the past few years. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and Group's established operational track record of over three decades. The ratings are also supported by the comfortable financial profile of the Group characterised by low gearing levels and strong debt protection metrics. The Group's net worth has been bolstered by the recent equity infusion of Rs. 100 crore in August 2018. The successful commissioning of WDBL, a 100% subsidiary of SDBL in Hassan, Karnataka, will help improve its geographic diversity.

The rating, however, is constrained by the fact that the Group has undertaken a significant capacity expansion, both organic and inorganic, which might impact the return indicators in the near to medium term. ICRA also takes note of sizeable advances extended to the Group companies in the past for capital expenditure and to the retailers under a marketing arrangement. The rating is also constrained by the intensely competitive and highly regulated alcohol industry, which might impact growth and margins. The rating also takes into account the high geographical concentration with significant dependence on the Madhya Pradesh market, which exposes the Group to the risk of any unfavourable policy change in the state. However, ICRA takes note of the Group's efforts to expand and geographically diversify its markets going forward, by entering new states. This apart, SDBL's ability establish its brand and increase its market share

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

in states that it has recently entered, is yet to be seen. Further, the Group's margins remain exposed to volatility in raw material prices.

Going forward, the Group's ability to attain an improvement in scale while sustaining the profit margins and maintaining a prudent capital structure and optimal working capital intensity, will be the key rating sensitivity.

Outlook: Stable

ICRA believes that Group will continue to benefit from the extensive experience of its promoters and its established presence in the Madhya Pradesh market. The outlook may be revised to Positive if there is a substantial increase in the scale of operations as a result of increased market share in the new states that it has entered. The outlook may be revised to Negative if there is a loss of market share in Madhya Pradesh, or if increased market share in the new geographies takes longer than anticipated to fructify, or if there is significant unanticipated capital expenditure or acquisition.

Key rating drivers

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), is involved in manufacturing extra neutral alcohol (ENA) since 1986.

Equity infusion by private players to support organic and inorganic growth - The company has raised Rs. 100-crore fresh equity (under preferential allotment) capital through private placement under foreign direct investment (FDI) route from Karst Peak Asia Master Fund and Vermillion Peak Master Fund, a Hong Kong-based investor. The equity inflow has been utilised in the capacity expansion – both organic and inorganic. The company has acquired SDOPL, a beer manufacturing company in Odisha, as well it has proposed capacity expansion at the existing Bhopal unit.

Commercial production started in WDBL (Karnataka) - SDBL's 100% subsidiary WDBL has started commercial production in June 2018. The new company has the capacity to manufacture 3.2 million cases (mcs) of beer and 2.8 mcs of Indian-made foreign liquor (IMFL) annually. The target market for the company would be Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala. These states are all-weather markets of liquor consumption.

Increasing sales turnover and healthy profitability - SDBL's revenues has been increasing due to aggressive marketing in the past and supported by increasing consumption pattern in the domestic market. The sales turnover is expected to increase further in the current fiscal as the newly established WDBL has started commercial production. This apart, Odisha-based SDOPL, which has been recently acquired is expected to start commercial production in December 2018. The Group's profitability remained healthy with operating profit margin of 16.97%, net profit margin of 7.17% and return on capital employed of 33.25% in FY2018.

Healthy debt and interest coverage indicators - SDBL's gearing is low 0.61 times in FY2018 due to strong net worth. The interest cover and NCA/Total debt stood at 6.80 times and 31.1% in FY2018 on account of healthy profitability.

Credit challenges

High capital expenditure in FY2018 and FY2019 might impact returns during initial phase of operations - SDBL has incurred high capital expenditure during FY2018 and FY2019, which might impact its profitability and return indicators during initial phase of operation. It has incurred ~Rs. 122 crore in establishing WDBL and ~Rs. 75 crore for SDOPL. This apart, SDBL has proposed capital expenditure at the existing Bhopal manufacturing unit to increase its capacity. If the projected sales turnover is not achieved by the company, the profit margins and return indicators might decline in FY2019.

Limited geographical diversification - The company generates most of its revenues from Madhya Pradesh, Chhattisgarh and Delhi in the past. It is exposed to risk of any adverse policy changes in the state. However, the Group has diversified its business in the other states such as Karnataka and Odisha to expand its geographical presence expected to reduce the dependence on few markets.

Highly regulated alcohol industry - The liquor industry is highly regulated with the state government controlling the selling and distribution, which make the company susceptible to the changes in the government's 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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

SDBL, incorporated in 1993, is involved in brewing, fermentation, bottling, canning and blending of beer and IMFL. It is the flagship company of the Som Group, based in Bhopal, Madhya Pradesh. The company's shares are listed on BSE and NSE. It has a production capacity of 7.7 million cases of beer and 0.7 million cases of IMFL as on March 2018. SDBL has set up WDBL, a 100% subsidiary, in Hassan, Karnataka, with a capacity of 3.2 million cases of beer and 2.8 million cases of IMFL. The commercial production from the Hassan unit commenced in June 2018. The total project cost of Rs. 122 crore was funded by internal accruals of Rs 78 crore, term loans of Rs. 25 crore and interest-free unsecured loans from promoters amounting to Rs. 19 crore. SDBL has also acquired a beer manufacturing unit in Odisha to cater to the markets of Odisha and West Bengal for a purchase consideration of Rs. 46 crore. It will incur an additional capex of Rs. 30 crore for upgrade of the facilities. The acquired company, now known as Som Distilleries Odisha Private Limited (SDOPL), has a manufacturing capacity of 4.2 million cases per annum of beer and is likely to commence commercial production in Q4 FY2019. 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 being used primarily for the acquisition and upgrade of the Odisha unit. On a consolidated basis, the Som Group (SDBL, WDBL and SDOPL) has the capacity to manufacture 15.1 million cases of beer and 3.5 million cases of IMFL per annum.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	246.69	351.74
PAT (Rs. crore)	13.93	25.21
OPBDIT/OI (%)	15.09%	16.97%
RoCE (%)	17.25%	33.25%
Total Debt/TNW (times)	0.57x	0.61x
Total Debt/OPBDIT (times)	2.14x	1.64x
Interest Coverage (times)	3.29x	6.80x

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	-	-	-
1	Cash Credit	Long Term	28.00	-	[ICRA]BBB+ (Stable)	-	-	-
2	Term Loans	Long Term	35.00	**35.00**	[ICRA]BBB+ (Stable)	-	-	-
3	Bank Guarantee	Short Term	18.00	-	[ICRA]A2+	-	-	-
4	Unallocated	Long Term	4.00	-	[ICRA]BBB+ (Stable)	-	-	-
5	Issuer Rating	Long Term	-	-	[ICRA]BBB+ (Stable)	-	-	-

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+ (Stable)
NA	Term Loans	April 2017	-	March 2022	35.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	18.00	[ICRA]A2+
NA	Unallocated	-	-	-	4.00	[ICRA]BBB+ (Stable)
NA	Issuer Rating	-	-	-	-	[ICRA]BBB+ (Stable)

Source: Som Distilleries & Breweries Limited

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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.

For more information, visit www.icra.in

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