

September 15, 2020

## Som Distilleries & Breweries Limited: Update on Material Event; ratings revised

### Summary of rating action

| Instrument*                  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                                            |
|------------------------------|--------------------------------------|-------------------------------------|----------------------------------------------------------|
| Fund Based - Working Capital | 71.38                                | 71.38                               | [ICRA]BBB (Negative); revised from [ICRA]BBB+ (Negative) |
| Fund Based - Term Loan       | 28.00                                | 28.00                               | [ICRA]BBB (Negative); revised from [ICRA]BBB+ (Negative) |
| Non-fund Based               | 18.00                                | 18.00                               | [ICRA]A3+; revised from [ICRA]A2                         |
| <b>Total</b>                 | <b>117.38</b>                        | <b>117.38</b>                       |                                                          |

\*Instrument details are provided in Annexure-1

### Material Event

Som Distilleries & Breweries Limited (SDBL) has published its Q1 FY2021 standalone and consolidated financial performance on Bombay Stock Exchange (BSE) on September 5, 2020. As a result of the novel coronavirus (Covid-19) pandemic, there has been a significant disruption of operations from mid-March to mid-May 2020 in the Group's key markets—Madhya Pradesh, Karnataka and Odisha.

### Impact of the Material Event and Rationale

For arriving at the ratings, ICRA has taken a consolidated view of 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 Group. The entities have strong financial, operational and management linkages.

The rating action is driven by the disruption in operations across the Group's key markets on account of the Covid-19 crisis. The pandemic impacted SDBL's sales in April-May 2020, and the Group's performance in Q1 FY2021 due to various restrictions, gradual reopening of the key markets and weak demand. The Group's profitability for Q1 FY2021 was impacted by inventory write-off (beer has a short shelf life) and revenue loss in peak season during Q1 FY2021. The expectation for entire FY2021 is also weaker compared to FY2020; however, some recovery is expected in Q4 FY2021 as peak season would start for the brewery players. The weaker-than-expected performance is reflected in the Group's key credit metrics in FY2020, with outside debt/OPBIDTA for FY2020 deteriorating to 3.14 times from 2.17 times in the prior year, DSCR declining to 1.18 times from 2.17 times and interest cover declining to 3.12 times from 4.19 times. The subdued cash flows resulted in a stretched liquidity position for the Group, with very limited cushion available in the working capital limits. ICRA would continue to monitor the ongoing GST investigation and uncertainty over its outcome on Som Distilleries Private Limited (SDPL), a promoter group company.

The ratings are also constrained by the significant capacity expansion, both organic and inorganic, undertaken by the Group, which has impacted its return indicators. The ratings also take into account the working capital-intensive nature of the operations. The ratings are also constrained by the intensely competitive and highly regulated alcohol industry, which can impact the Group's future growth and profit margins. The Group's ability to establish its brand and increase its market share in geographies it has recently entered into, is yet to be seen. Further, the Group's margins remain exposed to volatility in raw material prices.

The ratings continue to positively factor in the Group's increasing presence in the southern and eastern states of India through the establishment of two new companies—WDBPL in Hassan (Karnataka) and SDBOPL in Cuttack (Odisha). Earlier, the Group had established its presence only in the Madhya Pradesh market through its flagship company, SDBL, which is one of the largest players in the region's beer industry. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and the Group's established operational track record of over three decades.

The Negative outlook on the [ICRA]BBB rating reflects ICRA's opinion that SDBL's operational and financial profile is expected to remain under pressure in the near to medium term due to uncertainty over the impact of the Covid-19 pandemic.

## 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.

**Geographical diversification into southern and eastern states** - WDBL and SDBOPL commenced commercial production in FY2019 and FY2020; respectively. The target markets for the company are Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala Odisha, West Bengal, etc. These states are all-weather markets in terms of liquor consumption. Earlier, SDBL used to supply to these states from its Bhopal manufacturing facilities.

**Unutilised production capacity augurs well for the Group** - The Group has sizeable unutilised production capacity in WDBPL and SDBOPL in both beer and IMFL segment. These idle capacities augur well for the Group if they decide to diversify into new geographies once the consumer sentiment is back to normalcy post Covid-19 pandemic. The Group is also planning to commence the commercial production in Q4 FY2021, where in the capacity would be doubled at the Bhopal manufacturing unit.

### Credit challenges

**Decline in profitability in FY2020 and Q1 FY2021 due to Covid-19 pandemic** - The Group's operating and net profit margins declined to 10.34% and 3.24% in FY2020 from 13.23% and 5.01% in FY2019 due to inventory and revenue loss due to Covid-19. Further, the Group has reported negative operating and net profit margins in Q1 FY2021 due to substantial revenue loss and inventory loss due to short-shelf life of beer. The Group has reported ~Rs. 39 crore of operating income in Q1 FY2021 compared to ~Rs. 187 crore in Q1 FY2020. The Group's near-term performance is expected to remain weak due to the impact of the pandemic.

**Full utilisation of working capital limit and sizeable repayment of term loan** - The Group has been fully utilising its working capital limits. Any major deviation in working capital parameters may lead to a tight liquidity position. The Group also has sizeable term loan repayment in the near to medium term.

**High capital expenditure impacts return indicators** - WDBPL and SDBOPL incurred high capital expenditure in FY2018 and FY2019, which impacted the Group's return indicators. The Group also invested more than Rs. 150 crore in SDBL's existing manufacturing Bhopal unit to double the production capacity. If the Group is unable to achieve the envisaged sales, the profit margins and return indicators could deteriorate further in FY2021.

**Highly regulated alcohol industry** - The liquor industry is highly regulated with the state government controlling 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 liquidity profile of the Group is **stretched** due to limited cushion available in working capital limits.

## Rating sensitivities

**Positive trigger:** Given the long-term rating is on a negative outlook, near term upgrade is unlikely. ICRA could revise the outlook to stable if the Group demonstrates a sustained improvement revenue and profitability leads to an improvement in credit metrics driven by favorable consumer sentiment and improvement in liquidity position.

**Negative trigger:** ICRA could downgrade the ratings in case of continued downward trend in revenue and profitability, which exert further pressure on its credit profile. Over and above, any adverse regulatory action could lead a downward rating action. In terms of specific credit metrics, in case DSCR less than 1.4 times of sustained basis, will be a negative trigger.

## Analytical approach

| Analytical Approach             | Comments                                                                       |
|---------------------------------|--------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>                            |
| 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, Madhya Pradesh-based Som Group. The company's shares are listed on BSE and NSE. It has a production capacity of 7.5 mcpa of beer and 1.2 mcpa of IMFL as of March 2019. SDBL has set up WDBPL, a 100% subsidiary, in Hassan, Karnataka, with a capacity of 3.2 mcpa of beer and 2.8 mcpa of IMFL. The commercial production from the Hassan unit commenced in June 2018. SDBL has also acquired a beer manufacturing unit in Odisha to cater to the 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 in March 2019. 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 utilised primarily for the acquisition and upgrade of the Odisha unit and capacity enhancement at SDBL's Bhopal manufacturing unit. On a consolidated basis, the Som Group (SDBL, WDBPL and SDBOPL) has the capacity to manufacture 14.9 mcpa beer and 4 mcpa of IMFL per annum.

### Key financial indicators (Audited)

|                                                      | FY2019 | FY2020 |
|------------------------------------------------------|--------|--------|
| Operating Income (Rs. crore)                         | 393.95 | 463.49 |
| PAT (Rs. crore)                                      | 19.75  | 15.02  |
| OPBDIT/OI (%)                                        | 13.23% | 10.34% |
| PAT/OI (%)                                           | 5.01%  | 3.24%  |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.22x  | 1.37x  |
| Outside Debt/OPBDIT (times)                          | 2.17x  | 3.14x  |
| Interest Coverage (times)                            | 4.19x  | 3.12x  |

Source: Company data, consolidated financial of SDBL

**Status of non-cooperation with previous CRA:** Brickworks has BWR BB+ (Stable)/A4+ issuer not cooperating ratings in September 2020.

**Any other information:** None

## Rating history for last three years

| Chronology of Rating History for the past 3 years |                |                         |                          |                                |                                  |                                        |                                       |                                      |                                       |                                           |                                           |
|---------------------------------------------------|----------------|-------------------------|--------------------------|--------------------------------|----------------------------------|----------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------------|-------------------------------------------|
| Instrument                                        |                | Current Rating (FY2021) |                          |                                |                                  |                                        |                                       |                                      |                                       |                                           |                                           |
|                                                   |                | Type                    | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating September 15, 2020 | Date & Rating in FY2021 August 7, 2020 | Date & Rating in FY2021 July 20, 2020 | Date & Rating in FY2021 July 7, 2020 | Date & Rating in FY2021 April 7, 2020 | Date & Rating in FY2020 February 27, 2020 | Date & Rating in FY2019 November 20, 2018 |
| 1                                                 | Cash Credit    | Long Term               | 28.00                    | -                              | [ICRA]BBB (Negative)             | [ICRA]BBB+ (Negative)                  | [ICRA]BBB+ (Negative)                 | [ICRA]BBB+ (Negative)                | -                                     | [ICRA]BBB+ (Stable)                       | [ICRA]BBB+ (Stable)                       |
| 2                                                 | Term Loans     | Long Term               | <b>71.38</b>             | 71.38                          | [ICRA]BBB (Negative)             | [ICRA]BBB+ (Negative)                  | [ICRA]BBB+ (Negative)                 | [ICRA]BBB+ (Negative)                | -                                     | [ICRA]BBB+ (Stable)                       | [ICRA]BBB+ (Stable)                       |
| 3                                                 | Bank Guarantee | Short Term              | 18.00                    | -                              | [ICRA]A3+                        | [ICRA]A2                               | [ICRA]A2                              | [ICRA]A2                             | -                                     | [ICRA]A2+                                 | [ICRA]A2+                                 |
| 4                                                 | Unallocated    | Long Term               | -                        | -                              | -                                | -                                      | -                                     | -                                    | -                                     | [ICRA]BBB+ (Stable)                       | [ICRA]BBB+ (Stable)                       |
| 5                                                 | Issuer Rating  | Long Term               | -                        | -                              | -                                | -                                      | -                                     | -                                    | [ICRA]BBB+ (Stable)#                  | [ICRA]BBB+ (Stable)*                      | [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](http://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 (Negative)       |
| NA      | Term Loans      | April 2017                  | -           | March 2023    | 71.38                    | [ICRA]BBB (Negative)       |
| NA      | Bank Guarantee  | -                           | -           | -             | 18.00                    | [ICRA]A3+                  |

Source: SDBL

## Annexure-2: List of entities considered for consolidation

| Company Name                                        | Ownership | Consolidation Approach |
|-----------------------------------------------------|-----------|------------------------|
| Som Distilleries & Breweries Limited                | NA        | Full consolidation     |
| Woodpecker Distilleries & Breweries Private Limited | 100%      | Full consolidation     |
| Som Distilleries & Breweries Odisha Private Limited | 100%      | Full consolidation     |

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