

Press Release

Indo European Breweries Limited

April 19, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.7.00 Cr.
Long Term Rating	ACUITE A-/ Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.7.00 crore bank facilities of Indo European Breweries Limited (IEBL). The outlook is '**Stable**'.

Reason for rating upgrade

The rating upgrade is driven mainly by the sustained scale of operations marked by the significant improvement in the profitability margins, improvement in financial risk profile and strong liquidity position of the company. Superior Group (SG) has been able to sustain its operations in the FY2020 on the back of continuous and repetitive orders from the customers with an operating income of Rs.456.94 Cr. as against Rs.434.94 Cr. in FY2019. SG has also booked revenue of Rs.242.16 Cr. in 9MFY2021 despite having low sales in Q1FY2021 on account of lockdown due to Covid-19 pandemic. Despite the slowdown in economy during the FY2021, SG has maintained its profitability margins and recorded operating profit (EBITDA) margin and net profit margin at 15.90 percent and 8.79 percent respectively in 9MFY2021 as against 11.15 percent and 5.95 percent respectively in 9MFY2020. Further, there is a significant improvement in overall financial risk profile on account of healthy net worth, improving gearing and debt-coverage indicators. Net worth stood healthy at Rs.58.11 Cr. as on March 31, 2020 as against Rs.33.07 Cr. as on March 31, 2019. Gearing improved to 1.24 times as on March 31, 2020 from 2.08 times as on March 31, 2019 supported by improvement in interest coverage ratio to 10.07 times as on March 31, 2020 as against 8.05 times as on March 31, 2019 and debt service coverage ratio to 6.72 times as on March 31, 2020 as against 4.71 times as on March 31, 2019. The rating upgrade also derives comfort from a strong liquidity position of the company as evident from healthy net cash accruals of Rs.54.56 Cr. in FY2020 against maturing debt obligations amounting to Rs.1.03 Cr. for the same period, thereby resulting in lower dependence on working capital limits with average utilization being as low as ~35 percent.

About the company

Maharashtra-based Indo European Breweries Limited (IEBL) was incorporated in 1990 and is promoted by Mr. Pradeep Agarwal. The company is part of Superior Group and is engaged in the manufacturing of soft drinks and juices. It has a co-pact agreement with the Hindustan Coca-Cola Beverages Private Limited (HCCB) and only does bottling work for HCCB. It has its bottling unit located in Aurangabad with a capacity of 600 bottles per minute (BPM) of Returnable Glass Bottle (RGB)-Glass bottle.

About the Group

Superior Group (SG), promoted by Mr. Pradeep Agarwal has a franchisee bottling agreement with Coca-Cola India for manufacturing and distribution of its soft drinks, juices, and packaged water for a period of 29 years. Superior group has its presence in Vidarbha and Nagpur region in Maharashtra through Superior Drinks Private Limited (SDPL), Chhattisgarh through Narmada Drinks Private Limited (NDPL), Mahakoshal and Jabalpur region in Madhya Pradesh through Udaipur Beverages Limited (UBL) and Aurangabad region in Maharashtra through Indo European Breweries Limited (IEBL).

Analytical Approach

For arriving at this rating, Acuité has consolidated the business and financial risk profiles of Superior Drinks Private Limited (SDPL), Narmada Drinks Private Limited (NDPL), Udaipur Beverages Limited (UBL), and Indo European Breweries Limited (IBPL) together referred to as the 'Superior Group' (SG). The consolidation is in the view of common management, strong operational and financial linkages between the entities and management stated posture of extension of support with the group companies. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experience Management and long-term exclusive franchise agreement with Coca-Cola India mitigating its demand risk and price risk**

SG is promoted by Mr. Pradeep Agarwal who has been associated with the group since its inception, this has helped the group to establish strong market presence. Further, the group has a long standing association with Coca-Cola India since 1992, through the franchise agreement for bottling and distribution of its soft drinks, juice and packaged drinking water for Vidarbha, Nagpur, Aurangabad, Chhattisgarh, Jabalpur and Mahakoshal region. The exclusive franchise agreement has helped the group to maintain healthy revenue growth. The revenues of the group have grown at a CAGR of ~12 per cent for last three years ending FY2020. The operating income has increased to Rs.456.94 Cr. in FY2020 from Rs.434.94 Cr. in FY2019, further, the group has achieved revenues of Rs.242.16 Cr for 9MFY2021. The group operates at healthy operating margins marked by operating margin (EBITDA) of 10.78 percent in FY2020 which has remained stable in comparison with the previous year. Acuite believes that the group will continue to derive benefit from its promoter's experience, and its exclusive franchise agreement with Coca-Cola India for six regions providing healthy revenue visibility in medium term.

- **Healthy debt protection metrics albeit average capital structure**

SG's financial risk profile is healthy, marked by a healthy networth, improving gearing and healthy debt protection metrics. The EBITDA margins of the group remained stable to 10.78 percent in FY2020. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 10.07 times and 6.72 times respectively in FY2020 as against 8.05 and 4.71 times respectively in the previous year.

The net worth of the group stood at Rs.58.11 Cr. as on 31 March, 2020 as against Rs.33.07 Cr. as on 31 March, 2019. This improvement is on the account of healthy accretion to reserves. The gearing level (debt-equity) stands average at 1.24 times as on 31 March, 2020 as against 2.07 times as on 31 March, 2019, the improvement is on the account of repayment of term loan and accretion of reserves. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 8.11 times as on 31 March, 2020 against 13.82 times in previous year. High TOL/TNW is on account of deposits received from its suppliers which stood at Rs.263.43 Cr. as on 31 March 2020. The deposits received by the group has been maintained in form of Fixed Deposits by the group. The total unencumbered Fixed Deposits stood at Rs.233.92 Cr. as on 31 March 2020.

The total debt of Rs.71.93 Cr. as on 31 March, 2020 consist of long-term debt of Rs.53.73 Cr., short term debt of Rs.16.67 Cr. and unsecured loans of Rs.0.51 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.76 times in FY2020 as against 0.73 times in FY2019. Acuite believes that the group's reliance of external borrowings continues to remain moderate on account of advances received from glass bottles and chillers dealers. Acuite also draws comfort from the high level of unencumbered Fixed Deposits maintained by the group and healthy order book position leading to healthy net cash accruals in near to medium-term.

- **Working capital efficient nature of operations**

The sales in beverage industry is seasonal in nature, with majority sales is achieved during March to June. This leads to high working capital requirements at the end of the year, as the group has to procure its raw materials to meet the seasonal demand. However, the group operates in comfortable working capital operates marked by Gross Current Assets (GCA) of 104 days in FY2020 as against 106 days in the previous year. This is majorly on the account of inventory holding period 53 days in FY2019 as against 49 days in the previous year. The group gets a credit period of around 94-98 days from its suppliers. The average fund based working capital utilization stood around 35 percent for the last 6 months ended February, 2021. Further, the current ratio stands healthy at 2.38 times as on 31 March, 2020. Acuite expects the working capital operations of the SG to remain efficient on account of the level of inventory maintained and the credit period given by the suppliers.

• **Moderate project risk associated with the huge capital expenditure underway**

SG is in process of acquiring Affordable Small Sparkling Package (ASSP) bottle technology directly from KHS GmbH, Germany which will enable the group to manufacture 250 ml PET bottle with comparable lower plastic usage, reduced carbon footprint and extended product shelf life to five or more months from earlier shelf life of around 3 months. The project cost is expected to be around Rs.190.00 Cr. with the manufacturing facility having an installed capacity of 766 bottles per minute contributing to 90 lakhs cases capacity of 28 bottles per case. The funding risk of the project is moderate as major proportion of the capital requirement will be funded through a term loan of amount Rs.150 Cr and further capital requirement will be funded through equity contribution, promoter contribution and internal accruals. SG has submitted the loan proposal with the concerned bank and the sanction process is underway. The project is expected to be completed in within a year by Q4FY2022 on account of existing infrastructure available with the group aiding in moderate implementation risk of the project. The demand risk of the project is low with the presence of existing high demand of the product in the industry. Acuite believes that the revenue profile of the group will showcase significant growth in FY2023 on account of the capital expenditure underway and contribute towards strong business risk profile in long-term period.

Weaknesses

• **Vulnerability to adverse regulatory changes and change in customer preference**

The beverage industry remains susceptible to changes in government regulations regarding content of soft drinks, and to increasing environmental concerns in India about ground water depletion and discharge of effluents by bottling plants. Further, the beverage industry is susceptible to changes in consumer preferences. Since the group generates ~70 percent of its sales from aerated drinks, the cash flows may be impacted with consumers shifting their preference to non-aerated drinks for health reasons.

• **Moderate customer concentration risk on revenue profile**

SG have been successfully able to increase its geographical coverage by dealing with more than 100 dealers in the regions of Maharashtra, Madhya Pradesh and Chhattisgarh. On standalone basis, it is observed that few single customers of SG have contributed more than 20% to the total sales of the standalone group company. Acuite believes that SG has moderate risk towards its revenue profile in terms of customer concentration.

Rating Sensitivities

Positive

- Significant improvement in the scale of operations
- Significant improvement in the profitability of the group.
- Sustainable improvement in Profitability, Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group.
- Any weakening of financial risk profile of the group.

Material Covenants

None

Liquidity Position: Strong

The group has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. SG generates net cash accruals of Rs.54.56 Cr. in FY2020 as against debt obligations of Rs.2.09 Cr. in FY2020. The cash accruals of the group are estimated to remain in the range of around Rs.57.31 Cr. to Rs.65.50 Cr. during FY2021-23 against repayment obligation in the range of Rs.1.03 Cr. to Rs.26.64 Cr. for the same period. The average fund based working capital utilization stood around 35 percent for the last 6 months ended February, 2021. The group maintained unencumbered cash and bank balances of Rs.11.09 Cr. as on 31 March, 2020. The current ratio stands healthy at 2.38 times as on 31 March, 2020.

Acuite believes that the liquidity of the group is likely to remain healthy over the medium term on account of healthy cash accruals and working capital requirements been funded by security deposits from its suppliers.

Outlook: Stable

Acuite believes SG will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management, moderate revenue visibility, and comfortable debt protection metrics. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues while significant improvement in operating margins or significant improvement in capital structure of the group. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	456.94	434.94
PAT	Rs. Cr.	25.03	16.74
PAT Margin	(%)	5.48	3.85
Total Debt/Tangible Net Worth	Times	1.24	2.08
PBDIT/Interest	Times	10.07	8.05

For the period Q3FY2021, SG, has reported a profit after tax (PAT) of Rs.21.29 Cr. on total operating income of Rs.242.16 Cr.

Status of non-cooperation with previous CRA (if applicable)

CRISIL Ratings vide its press release dated November 18, 2020 had denoted the rating of Indo European Breweries Limited as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required to conduct the rating exercise.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-May-2020	Cash Credit	Long term	1.30	ACUITE BBB+/ Stable (Assigned)
	Proposed Cash Credit	Long term	0.70	ACUITE BBB+/ Stable (Assigned)
	Proposed Term Loans	Long term	5.00	ACUITE BBB+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE A-/ Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A-/ Stable (Upgraded)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/ Stable (Upgraded)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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