

Press Release

Superior Industries Limited

July 01, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.90.00 Cr.
Long Term Rating	ACUITE BBB- (CE) / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-(CE)**' (**read as ACUITE triple B minus (Credit Enhancement)**) on the Rs.90.00 crore bank facilities of SUPERIOR INDUSTRIES LIMITED. The outlook is '**Stable**'.

About the company

Superior Industries Limited (SIL) was incorporated in 1999 by Mr. Pradeep Agarwal and is engaged in the manufacturing and bottling of alcohol. It started its operations by taking over a beer manufacturing unit of UB Group in Faridabad and were engaged in the bottling of Kingfisher beer. Then in 2003, it took over an alcohol manufacturing unit in Bareilly (U.P.). Later, in 2016 the company sold the Faridabad unit, and currently are operating only through its Bareilly unit and are manufacturing molasses-based Country Liquor, Ethanol and IMFL. Presently it has an installed capacity of 74 KLPD of Rectified spirit, 30 KLPD of Ethanol and 67 KLPD of ENA (Extra Neutral Alcohol).

About the group

The group consist of Superior Drinks Private Limited, Narmada Drinks Private Limited, Indo European Breweries Limited and Udaipur Beverages Limited, together referred as Superior Group and they are engaged in processing and bottling of soft drinks and packaged water. Whereas, Superior Industries limited is engaged in manufacturing and bottling of potable and industrial liquor.

Analytical Approach

For arriving at this rating, Acuité has considered the standalone business and financial risk profile of the Superior Industries Limited and notched it up based on Letter of Comfort from Superior Group (SG) (ACUITE BBB+/Stable) which comprise of Superior Drinks Private Limited, Narmada Drinks Private Limited, Udaipur Beverages Limited and Indo European Breweries Limited. The rating of SG will be central to the rating of SIL and any further revision in the rating of SG will entail revision in the rating of SIL.

Unsupported (Standalone) Rating

ACUITE BB-/Stable

Key Rating Drivers

Strengths

- **Established market position and experienced management**

SIL was incorporated in 1999 and is engaged in the manufacturing and bottling of liquor. Having an operational track record of twenty-one years has helped the company to establish a strong market position as demonstrated by healthy operating levels. The promoters of SIL have extensive experience of over two decades in the alcohol industry, such a long stint in the industry provides them with a competitive edge in establishing strong relations with its customers and suppliers.

Acuité believes that the company will continue to derive benefit from its Promoters' experience and its market position.

- **Support from group entities**

Superior Group and Superior Industries Limited are been promoted by Mr. Pradeep Agarwal. Superior group consist of Superior Drinks Private Limited, Narmada Drinks Private Limited, Indo European Breweries Limited, and Udaipur Beverages Limited and they are engaged in processing and bottling of soft drinks and packaged water. SIL has received funding support in the form of equity capital from Superior Group and the promoter. Further, all the four entities in Superior Group have extended Letter

of Comfort to the banker and personal guarantee has been given by Mr. Pradeep Agarwal to the banker. Acuité derives comfort from the guarantee and Letter of Comfort.

- **Improved Operating income albeit deterioration in profitability**

The operating income of the company improved to Rs. 114.94 crore (Provisional) in FY2020 from Rs.67.85 crore in FY2019. Due to recent capital expenditure, the company had to shut the manufacturing of alcohol for around 6 months this led to procurement of readymade liquor which caused the raw material prices to rise thereby impacting the profitability margins. The operating margins of the company has reduced to 5.11 percent (Provisional) in FY2020 from 10.25 percent in FY2019.

Acuité believes that with the new plant getting operational from July, 2020, the operating margins are expected to improve in the near future.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the company is average marked by low net worth, high gearing levels and moderate debt protection metrics. However, the financial risk is offset by the support from the SG. The net worth stood at Rs.10.70 crore (Provisional) as on 31 March, 2020 as against Rs.8.30 crore in the previous year.

The gearing level (debt-equity) stood high at 7.16 times (Provisional) as on 31 March, 2020 as against 5.74 times as on 31 March, 2019. Total outside Liabilities-Total net worth (TOL/TNW) stood at 11.52 times (Provisional) as on 31 March, 2020 as against 9.68 times as on 31 March, 2019. The total debt of Rs.76.59 crore (Provisional) as on 31 March, 2020 consist of long term debt of Rs.53.62 crore and short-term debt of Rs.22.97 crore. Deterioration in operating levels in FY2020 led to slight reduction in the interest coverage metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.71 times (Provisional) and 2.43 times (Provisional) simultaneously in FY2020 as against 3.12 times and 2.76 times in FY2019.

Acuité believes that financial risk profile of the company is expected to remain average followed recent debt funded capital expenditure and working capital requirements, and moderate profitability.

- **Elongated Working Capital cycle**

Operations of SIL are working capital intensive marked by Gross Current Assets (GCA) of 119 days (Provisional) in FY2020 as against 171 days in FY2019. This is on the account of inventory holding period of 27 days (Provisional) in FY2020 as against 59 days in FY2019 and deposits with government bodies. Company enjoys credit of around 70-80 days from its suppliers. Further, the current ratio stands at 0.65 (Provisional) times in FY2020 as against 0.71 times in FY2019.

Rating Sensitivities

- Deterioration in the profitability of the company and working capital cycle.
- Improvement in operating income.

Material Covenants

None

Liquidity Position: Adequate

The liquidity position of the company is adequate followed by net cash accruals vis-à-vis maturing debt obligations and support from superior group. Company generated net cash accruals of Rs.4.05 crore (Provisional) in FY2020 as against repayment obligations of Rs.0.18 crore for the same period. The net cash accruals of the company are estimated to remain in the range of Rs.7.25 crore to Rs.12.24 crore during the FY2021-23 as against repayment obligations in the range of Rs.5.46 crore to Rs.9.30 crore for the same period. Average fund based working capital facility utilization stood at ~88 percent in the last 6 months ended May, 2020. Company maintained unencumbered cash and bank balances of Rs.6.36 crore (Provisional) as on 31 March, 2020.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals and support from SG.

Outlook: Stable

Acuité believes SIL will maintain a 'Stable' outlook over the medium term. The company will continue to benefit from its experienced management and support from SG. The outlook may be revised to

'Positive' in case the company registers higher-than-expected growth in revenues along with significant improvement in operating margins or improvement in capital structure of the company. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	114.94	67.85
PAT	Rs. Cr.	0.72	1.57
PAT Margin	(%)	0.62	2.31
Total Debt/Tangible Net Worth	Times	7.16	5.74
PBDIT/Interest	Times	2.71	3.12

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

Not Applicable

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>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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 (Up to last three years)

Not Applicable

*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	25.00	ACUITE BBB-/ Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	55.00	ACUITE BBB-/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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