

Press Release

Superior Industries Limited

September 14, 2021

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B 'minus'**) on the Rs.90.00 Cr bank facilities of Superior Industries Limited (SIL). The outlook is '**Stable**'.

Reason for Rating Upgrade

The rating upgrade is primarily driven by the improvement in scale of operations and profitability margins along with financial risk profile of the company in FY2021. SIL has been able to grow its revenue in FY2021 on the back of continuous and repetitive orders from its customers by recording an operating income of Rs.1,324.48 Cr (including the excise duty) as against Rs.958.32 Cr (including the excise duty) in the previous year. The Net sales stood at Rs.133.48 Cr in FY2021 (Prov) (excluding the excise duty) as against Rs.114.92 Cr in FY2020 (excluding the excise duty); a growth of 16.50 percent. The company has maintained its performance in FY2022 as evident from the revenue generated in Q1 of FY2022. The revenue was recorded at Rs.470.20 Cr (including the excise duty) in first quarter of FY2022 against Rs.233.56 Cr in Q1 of FY2021 (including the excise duty). Despite the slowdown in economy during the FY2021 due to the outbreak of Covid-19 pandemic, SIL has remained resilient and demonstrated improvement in its profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 11.60 per cent and 1.07 per cent respectively, in FY2021 (Prov) as against 5.11 percent and 0.03 per cent, respectively, in FY2020. Besides, there is an improvement in the debt-coverage indicators. The interest coverage ratio improved to 3.17 times as on March 31, 2021 (Prov) as against 2.91 times as on March 31, 2020. However, debt service coverage ratio deteriorated to 1.43 times as on March 31, 2021 (Prov) as against 2.24 times as on March 31, 2020. The working capital management of the company remained moderate in nature as evident from GCA days of 106 days, thereby, resulting in moderate dependence on working capital limits with average utilization being around ~70 percent over the past 7 months ending July, 2021. Net worth of the company improved and stood at Rs.18.77 Cr as on March 31, 2021 (Prov) as against Rs.8.67 Cr as on March 31, 2020 on account of continuous accretions of net profit to the reserves and infusion of equity during the period. The company has availed long term debt for capital expenditure into modernization of its machinery and expansion of operations. The leverage position of the company has improved as evident from the improvement in the gearing to 3.29 times as on March 31, 2021 (Prov) from 9.20 times as on March 31, 2020 on account of improvement in net worth due to equity infusion and reduction in total debt during the period. However, the gearing is expected to increase on account of debt-funded capex plan in progress for set-up of grain based plant in FY2022.

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 United Breweries (UB) Group in Faridabad and were engaged in the bottling of Kingfisher beer. Later in year 2003, SIL took over an alcohol manufacturing unit in Bareilly (U.P) and in 2016, the company sold its Faridabad unit. As of September, 2021, SIL is operating through its Bareilly unit and is engaged into manufacturing of molasses-based Country Liquor, Ethanol and IMFL. Currently, SIL has a licensed molasses-based capacity of kilo litre per day (74 KLPD) with installed capacity of 30 KLPD of Ethanol unit and 67 KLPD of ENA (Extra Neutral Alcohol) unit.

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, Acuite has considered the standalone business and financial risk profile of the Superior Industries Limited and subsequently notched up the standalone rating by factoring in support based on Letter of Comfort from Superior Group (SG) (ACUITE A-/Stable) which comprise of Superior Drinks Private Limited (SDPL), Narmada Drinks Private Limited (NDPL), Udaipur Beverages Limited (UBL) and Indo European Breweries Limited (IEBL). 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.

Change in suffix: The credit enhancement suffix "CE" will not be applicable in the current rating exercise in absence of a structured payment mechanism. The approach has been revised from a Credit Enhancement (CE) to a standalone rating with a notch up based on support from the group companies.

Key Rating Drivers

Strengths

• Established track record of operation in Uttar Pradesh (U.P) and experience promoters in Beverage and alcohol Industry

SIL was incorporated in 1999 as a private limited company. The company has established presence in the manufacturing and bottling of liquor business of more than two decades leading to longstanding relations with its customers and suppliers. The promoter of the company, Mr. Pradeep Agarwal have extensive experience in the beverages industry since 1990's as he initially started with Coca-Cola India through the franchise agreement for bottling and distribution of its soft drinks, juice and packaged drinking water. The top management is ably supported by a well-qualified and experienced second line of management. The extensive experience of the promoters has helped company to grow, which can be seen through increase in revenues in FY2021 (Prov) which stood at Rs. 133.48 Cr (excluding the excise duty) as against Rs. 114.92 Cr in FY2020. The revenue was recorded at Rs.470.20 Cr (including the excise duty) in first quarter of FY2022 against Rs.233.56 Cr in Q1 of FY2021. SIL's management focus on the country liquor segment as U.P. is one of the major market in the country for the product. SIL controls around 10.0 percent of the total market share of U.P.'s country liquor segment in the alcohol industry. SIL is among the top players with highest number of brands under its portfolio in Uttar Pradesh region with total 18 brands in 4 country liquor segments. Acuite believes that the promoter's extensive industry experience in beverage and alcohol industry, established relationships with its customers and suppliers, ongoing capex will aid SIL's business risk profile over the medium term.

• Moderate financial risk profile

SIL's financial risk profile is moderate, marked by a moderate network, improving gearing and moderate debt protection metrics. The EBITDA margins of the company improved to 11.60 per cent in FY2021 (Prov) against 5.11 in FY2020. The improvement is attributable to improvement in realizations by the company. The PAT margins of the company has improved to 1.07 per cent in FY2021 (Prov) against 0.03 per cent in FY2020. The improvement in the profit margin levels has led to marginal improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.17 times and 1.43 times respectively in FY2021 (Prov) as against 2.91 and 2.24 times respectively in the previous year. The deterioration in DSCR is on account of increase in maturing portion of long term borrowings from Rs.6.07 Cr in FY2020 to Rs.9.84 Cr in FY2021 (Prov).

The net worth of the company stood at Rs.18.77 Cr as on 31 March, 2021 (Prov) as against Rs.8.67 Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves and infusion of equity capital of Rs.8.67 Cr during the period. The gearing level (debt-equity) stands improved at 3.29 times as on 31 March, 2021 (Prov) as against 9.20 times as on 31 March, 2020, on account of improvement in net worth due to equity infusion and reduction in total debt during the period. TOL/TNW (Total outside liabilities/Total net worth) has marginally improved and stands high at 6.59 times as on 31 March, 2021 (Prov) against 14.39 times in previous year. High TOL/TNW is on account of presence of security deposit of Rs.33.85 Cr. These are the deposits that company takes from its distributors and dealers and are interest free. This money is deposited with SIL till the tenure of the agreement with the distributors.

The total debt of Rs.61.76 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.38.39 Cr, USL from promoters/relatives/others of Rs.13.38 Cr, short-term debt of Rs.0.15 Cr and maturing portion of long term borrowings of Rs.9.84 Cr. NCA/TD (Net cash accruals to total debt) stands low but improved at 0.18 times in FY2021 (Prov) as against 0.04 times in FY2020. Debt/EBITDA (Total debt to EBITDA) has improved and stands at 3.82 times in FY2021 (Prov) as against 11.27 times in FY2020. Acuite expects the financial risk profile to remain

moderate over the medium to long term period on account of improvement in scale of operations and moderately leveraged capital structure on account of debt-funded capex plans.

• **Support from group entities**

Superior Group and Superior Industries Limited are being 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 are engaged in processing and bottling of soft drinks and packaged water for Coca-Cola India. 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 banking institution for the banking facilities availed and personal guarantee has been given by Mr. Pradeep Agarwal to the banking institution. Acuite derives comfort from the guarantee of promoter and Letter of Comfort extended by the Superior Group.

• **Low customer and supplier concentration risk in revenue profile**

SIL has been successfully able to diversify its geographical coverage by catering to the demand of domestic customers across various districts in U.P. None of the single customer out of has contributed more than 20 percent to the total sales of the company in FY2021 (Prov). Top 10 customers of the company has been contributing nearly 40 percent of the total sales in a given financial year. The current suppliers are associated with the operations of the firm for nearly 3-10 years now. None of the single supplier of SIL has contributed more than 20 percent to the total purchases of the company. Top 10 suppliers of the company has been contributing nearly 40 percent of the total purchases in a given financial year. Acuite believes that SIL has low risk towards its revenue profile in terms of customer and supplier concentration.

• **Low project risk associated with the capex underway for set-up of grain-based plant**

SIL is incurring a capex of Rs.76.01 Cr for setting-up of grain-based plant and will be funded by term loan of Rs.60.00 Cr from the primary banking institution and remaining through internal accruals, equity and unsecured loans. Funding risk is low given the company has already tied up for the project finance. SIL is venturing into manufacturing of Grain based fuel ethanol/Extra Neutral Alcohol (ENA)/ Pharma grade Ethanol and its other by-products like CO₂, DDGS and aims to maximize the utilization of surplus Steam & Captive Power being generated at present in the manufacturing unit. This additional 60 KLPD Grain Project will be based on Waste / Damaged Grains like Broken Rice, Maize, etc. for utilization of their starch to manufacture bio-ethanol/ENA and other constituents like protein & fiber to produce value added cattle feed. The proposed Grain Distillery- Process Plant is proposed to be set up within the existing Molasses Distillery Plant Premises situated on the Rampur-Bareilly Road, Bareilly, UP. The implementation of capex will begin in the month of September, 2021 and is expected to be completed in short time frame of 4 to 5 months. The demand risk stands low as SIL has been witnessing high demand from the domestic markets and to cater to the need of growing ethanol demand, the capex is being incurred. According to the Government of India's Ethanol Blending Programme (EBP), India aims to achieve 20 per cent ethanol blending in petrol by 2030. Thus ethanol from waste grains, unfit for human consumption, would be a great boost to the EBP plan execution. Currently, the company has 120 KLPD grain based license and is incurring capex for installation of 60 KLPD grain based plant.

In FY2018, SIL has incurred capex for installing 6.00 MW turbine in Bareilly unit, out of which around 2.50 MW capacity is being utilized. The un-utilized capacity will be directed towards the new grain-based distillery plant. SIL in FY2020, incurred capex for project towards Extra Neutral Plant with 60 KLPD capacity of amount Rs.71.52 Cr and witnessed increase in operating income to Rs.133.48 Cr in FY2021 (Prov) as against Rs.114.92 Cr in FY2020. Acuite believes that with an ongoing growth in demand in the industry backed by repeated orders from the customers, capex underway and the improvement demonstrated in operating income, the business risk profile of the company is expected to improve over the medium term.

Weaknesses

• **Working capital operations marked by moderate GCA days**

SIL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 106-171 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by moderate inventory. The GCA days of 106 days as on March 31, 2021 (Provisional) is on account of increase in the inventory to Rs.16.15 Cr as of March 31, 2021 (Prov) against Rs.8.53 Cr in previous year. The company receives advance from its customers for the products offered, leading to debtors' days of 2 days as on March 31, 2021 (Provisional). These are partially offset by moderate creditor days at 66 days as on March 31, 2021 (provisional), leading to negative working capital cycle at (14) days. The moderate GCA cycle has led to moderate utilization of around 70.6 per cent of working capital requirement bank lines of Rs.25.00 Cr over the past 7 months ending July, 2021. Acuite believes that the operations of the company will remain moderately working capital intensive on account of presence of moderate level of credit period from suppliers, moderate inventory holding period on account of the company's nature of business line.

• Exposure to high regulatory risk

Indian liquor industry is a highly government regulated industry, with regulations ranging from licensing, production, distribution, inter-state exports, raw material availability and advertisements. There have been continuous regulatory changes in terms of state government's policies towards liquor consumption. The industry is expected to remain highly regulated by the government going forward, exposing the business risk profile to adverse regulatory changes. Furthermore, players within the industry are susceptible to high excise duties. Acuite believes that any government regulation could have significant impact on the operating income and profitability of the company.

• High leverage position

SIL in the past has availed long term borrowing in terms of term loan of amount Rs.55.00 Cr for capex towards upgradation of plants. The company in FY2022, has availed a term loan of Rs.60.00 Cr for capex towards set-up of grain-based distillery. The increase in long-term debt on account of continuous capex is expected to result in deterioration in the gearing levels (debt to equity ratio) and TOL/TNW in FY2022. The debt protection metrics such as interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are also expected to be impacted in FY2022. Acuite believes that the ability of the company to improve its financial risk profile by reducing debt by timely repayment will be a key monitorable in the near to medium term.

Liquidity Position: Adequate

SIL's liquidity is adequate marked by modest generation of net cash accruals in FY2021 (Prov) to its maturing debt obligations, moderate level of unencumbered cash and bank balance and moderate bank limit utilization. The company has generated cash accruals in the range of Rs.3.43-10.89 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.0.18-6.07 Cr for the same period. The company's working capital is moderately managed as evident from Gross Current Asset (GCA) of 106 days as on March, 2021 (Prov) as compared to 110 days as on March, 2020. The moderate GCA days as on March 31, 2021 (Provisional) is on account of presence of inventory amounting to nearly Rs.16.15 Cr. The current ratio stood at 1.30 times as on 31 March 31 2021 (Prov) against 0.77 in previous year and the fund based limit remains utilized at around 70.60 percent over the 7 months ended July, 2021. The company maintained unencumbered cash and bank balances of Rs.1.14 Cr as on 31 March 31 2021 (Prov) against Rs.6.36 Cr in previous year. The company has fixed deposit of Rs.10.88 Cr as on March 31, 2021 (Prov) and are 100 per cent unencumbered. SIL in FY2021 has to avail an Overdraft limit against Fixed deposit of group entity amounting to Rs.10.00 Cr to meet its working capital requirement during the pandemic period. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of increasing scale of operations, capex underway and expected improvement in demand in the industry. However, timely execution of capex project, winning the ethanol orders and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the company. The company is expected to generate NCA in range of Rs.14.35-23.49 Cr against maturing debt obligations in range of Rs.9.84-21.48 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Timely execution of capex project underway

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any deterioration in volume and realization from the products offered by the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuite believes that SIL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, capex underway for set-up of additional plant. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and improvement in realizations from products offered by the company leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SIL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	133.48	114.92
PAT	Rs. Cr.	1.43	0.03
PAT Margin	(%)	1.07	0.03
Total Debt/Tangible Net Worth	Times	3.29	9.20
PBDIT/Interest	Times	3.17	2.91

The operating income above mentioned is net sales after deduction of excise duty.

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
01 July, 2020	Overdraft	Long Term	25.00	ACUITE BBB- (CE) /Stable (Assigned)
	Term Loan	Long Term	55.00	ACUITE BBB- (CE) /Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE BBB- (CE) /Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Yes Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable (Upgraded)
Yes Bank	Term Loan	18-10-2018	8.90%	01-07-2026	48.46	ACUITE BBB/Stable (Upgraded)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	16.54	ACUITE BBB/Stable (Upgraded)

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About Acuité Ratings & Research:

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