

Press Release

Superior Industries Limited

November 02, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	123.48	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	123.48	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 123.48 Cr bank facilities of Superior Industries Limited (SIL). The outlook remains '**stable**'.

Rationale for rating reaffirmation

The reaffirmation is primarily driven by the improvement in scale of operations and profitability margins of the company in FY 2022. SIL has been able to grow its revenue in FY 2022 on the back of continuous and repetitive orders from its customers by recording an operating income of Rs. 181.75 Cr in FY 2022 (excluding the excise duty) as against Rs. 133.45 Cr in FY 2021 (excluding the excise duty); a growth of 36.20 percent. Further, the rating factors in the support from group entities in the form of corporate guarantee and funding support. The rating also considers the established track record of operations with experienced management. However, the rating is constrained by moderate financial risk profile as compared to the previous year of FY 2021 as company has undergone some debt-funded capex for expansion. Further, the working capital operations are intensive and company is prone to regulatory risks.

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 CocaCola 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 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 Corporate Guarantee from Udaipur Beverages Limited (CARE A-/Stable), and, unconditional and irrevocable personal guarantee of Mr. Pradeep Agarwal. 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.

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 has 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 FY 2022 which stood at Rs. 181.75 Cr (excluding the excise duty) as against Rs. 133.45 Cr in FY 2021. SIL's management focus is on the country liquor segment as U.P. is one of the major market in the country for the product. Acuité 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.

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, Udaipur Beverages Limited has extended Corporate Guarantee to the banking institution for the banking facilities availed and personal guarantee has been given by Mr. Pradeep Agarwal to the banking institution.

Acuité derives comfort from the guarantee of promoter and Corporate Guarantee extended by Udaipur Beverages Limited.

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 customers individually have contributed more than 20 percent to the total sales of the company in FY 2022. Top 10 customers of the company has been contributing nearly 42 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 suppliers individually has contributed more than 20 percent to the total purchases of the company. Top 10 suppliers of the company have been contributing nearly 52 percent of the total purchases in a given financial year.

Acuité 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 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 had begun in the month of September, 2021 and is expected to be completed by November 2022. 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 FY 2018, SIL had 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 plan. Acuité 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 Intensive operations

SIL's working capital operations are intensive marked by gross current assets (GCA) days in the range of 92-116 days over the last 3 years ending March 31, 2022. The GCA days are majorly marked by moderate inventory. The GCA days of 92 days as on March 31, 2022 is on account of decrease in the inventory to Rs. 14.68 Cr as of March 31, 2022 against Rs. 16.04 Cr in previous year of FY 2021. The inventory days in FY 2022 stood at 33 days, as against, 50 days in FY 2021. The company receives advance from its customers for the products offered, leading to debtor days of 1 day as on March 31, 2022. These are partially offset by moderate creditor days at 98 days as on March 31, 2022, leading to negative working capital cycle at (64) days. The moderate GCA cycle has led to moderate utilization of around 78 per cent of working capital requirement bank lines of Rs. 25.00 Cr over the past 15 months ending June, 2022. Acuité 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.

Moderate financial risk profile

SIL's financial risk profile is moderate, marked by a moderate network, gearing and debt protection metrics. The net worth of the company stood moderate at Rs. 21.02 Cr as on 31 March, 2022 as against Rs. 18.52 Cr as on 31 March, 2021. The improvement is on account of accretion of net profit in the reserves. The gearing level (debt-equity) has deteriorated as the company has availed term loans towards the capex of Rs 60 Cr in FY 2022 and stood at 5.53 times as on 31 March, 2022 as against 3.33 times as on 31 March, 2021. TOL/TNW (Total outside liabilities/Total net worth) has marginally deteriorated and stands high at 7.70 times as on 31 March, 2022 against 6.73 times in previous year of FY 2021.

The total debt of Rs. 116.25 Cr as on 31 March, 2022 consists of long-term debt of Rs. 47.63 Cr, USL from promoters/relatives/others of Rs. 37.61 Cr, short-term debt of Rs. 19.37 Cr and maturing portion of long term borrowings of Rs. 11.64 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.17 times in FY 2022 as against 0.17 times in FY 2021. Debt/EBITDA (Total debt to EBITDA) has deteriorated and stands at 4.45 times in FY 2022 as against 3.83 times in

FY 2021. The PAT margin of the company has improved to 1.37 per cent in FY 2022 against 0.89 per cent in FY 2021. 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 3.94 times and 1.53 times respectively in FY 2022 as against 3.28 and 1.42 times respectively in the previous year of FY 2021.

Acuité 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.

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. Acuité believes that any government regulation could have significant impact on the operating income and profitability of the company.

Rating Sensitivities

- Significant and sustainable improvement in the scale of operations
- Timely execution of capex project underway
- Any deterioration in working capital cycle and liquidity profile of the company.

Material covenants

None

Liquidity Position Adequate

SIL's liquidity is adequate marked by modest generation of net cash accruals in FY 2022 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 – 18.49 Cr during last three years ending FY 2022 as against its long term debt obligations of Rs. 6.07 – 11.64 Cr for the same period. Further, the company is expected to generate NCA in range of Rs. 23.50 - 25.29 Cr against maturing debt obligations in range of Rs. 19.57 – 20.53 Cr over the medium term. The company's working capital is moderately managed as evident from Gross Current Asset (GCA) of 92 days as on March, 2022 as compared to 116 days as on March 31, 2021. The current ratio stood at 0.73 times as on March 31, 2022 against 0.69 in previous year of FY 2021 and the fund based limit remains utilized at around 78.46 percent over the 15 months ended June, 2022. The company maintained unencumbered cash and bank balances of Rs. 0.40 Cr as on 31 March 31, 2022 against Rs. 5.43 Cr in previous year of FY 2021. SIL in FY 2022 availed an Overdraft limit against Fixed deposit of group entity amounting to Rs.10.00 Cr to meet its working capital requirement.

Acuité 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.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	181.75	133.45
PAT	Rs. Cr.	2.50	1.18
PAT Margin	(%)	1.37	0.89
Total Debt/Tangible Net Worth	Times	5.53	3.33
PBDIT/Interest	Times	3.94	3.28

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Oct 2021	Term Loan	Long Term	60.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	48.48	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
14 Sep 2021	Secured Overdraft	Long Term	25.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- (CE) Stable)
	Proposed Bank Facility	Long Term	16.54	ACUITE BBB Stable (Upgraded from ACUITE BBB- (CE) Stable)
	Term Loan	Long Term	48.46	ACUITE BBB Stable (Upgraded from ACUITE BBB- (CE) Stable)
01 Jul 2020	Proposed Bank Facility	Long Term	10.00	ACUITE BBB- (CE) Stable (Assigned)
	Term Loan	Long Term	55.00	ACUITE BBB- (CE) Stable (Assigned)
	Secured Overdraft	Long Term	25.00	ACUITE BBB- (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.47	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Oct 18 2018 12:00AM	8.90	Jul 1 2026 12:00AM	31.01	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Aug 23 2021 12:00AM	8.50	Aug 31 2027 12:00AM	60.00	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Vinit Vikamsey Analyst-Rating Operations Tel: 022-49294065 vinit.vikamsey@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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