

May 16, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan (proposed)	84.17	SMERA BB-/Stable (Assigned)
Cash Credit (proposed)	3.00	SMERA BB-/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BB-'** (read as **SMERA double B minus**) to the abovementioned bank facilities of The Mohan Goldwater Breweries Limited (TMGBL). The outlook is '**Stable**'. The rating is constrained by the company's exposure to project implementation risk in a highly regulated liquor industry. The rating is also constrained by the company's high dependence on United Breweries Limited (UBL). However, the rating draws comfort from the company's experienced management and moderate financial risk profile.

TMGBL was incorporated in 1969. In May 2010, the company was acquired by the Chaddha Group (50 per cent stakeholder), Tilak Raj Sharma and family (30 per cent stakeholders) and Har Prasad Jaiswal and family (20 per cent stakeholders). TMGBL is engaged in manufacturing Kingfisher beer (under an exclusive agreement with UBL) since 2000.

TMGBL is exposed to significant project implementation risk as the company's proposed brewery is in the nascent stage. While TMGBL has acquired land for the project, the civil construction work is yet to start. The company operates in a highly regulated industry. Liquor manufacturers in India often face lengthy processes to obtain licenses for production, distribution and sale of alcohol. However, TMGBL has received the requisite licenses and permissions, including shifting permission from the Uttar Pradesh Excise Department for relocation of the existing brewery, and Form B-20 license for establishing a new brewery at Unnao.

TMGBL is highly dependent on UBL; however, the off-take risk is mitigated by supply constraint of beer in Uttar Pradesh. Moreover, TMGBL's existing manufacturing facility is reserved for Kingfisher beer under a contract manufacturing agreement with UBL.

TMGBL benefits from its experienced management. Mr. Tilak Raj Sharma, director of TMGBL, is a commerce graduate with 25 years of experience in the liquor industry. Mr. Tilak Raj Sharma is also the Managing Director of Unnao Distilleries and Breweries Limited (a company engaged in bottling liquor for USL) and the Chairman and Director of Rajasthan Liquors Limited (a company engaged in bottling liquor for Seagrams and Radico Khaitan).

TMGBL's moderate financial risk profile is marked by net worth of Rs.13.56 crore as on March 31, 2013. The promoters have infused equity capital of Rs.32.86 crore during FY2012-13 (refers to financial year, April 01 to March 31). The company had accumulated losses of Rs.22.38 crore as on March 31, 2013. Presently, TMGBL does not have any external debt on its books. As on March 31, 2014, the promoters infused share application money of Rs.6.88 crore in the company.

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Rating sensitivity factors

- Renewal of contract manufacturing agreement and price revision by UBL
- Timely completion of the Unnao project without cost overruns
- Efficient working capital management
- Changes in government regulations
- Brand building and acceptance of Mohan Gold beer

Outlook: Stable

SMERA believes TMGBL will benefit over the medium term from its experienced management and established association with UBL. The outlook may be revised to 'Positive' in case TMGBL reports higher-than-expected growth in revenues and net cash accruals upon timely implementation of its project. Conversely, the outlook may be revised to 'Negative' in case the company reports lower-than-expected growth in revenues or profitability, or in case of deterioration in the company's financial risk profile and liquidity position on account of delays in implementation of the ongoing project. The outlook may also be adversely affected in case the company undertakes larger-than-expected debt funded capex, or in case of stretch in the company's liquidity position.

About the project

TMGBL is setting up a greenfield brewery for manufacturing beer in Unnao Industrial Area, Uttar Pradesh. The proposed brewery is likely to have total installed capacity of 50 million litres (close to 60 lakh cases; 1 case equals to 12 bottles of 650 ml each). The production capacity is expandable to 70 million litres, i.e. 84 lakh cases. The commercial operations at the upcoming brewery are likely to start by April 2015.

TMGBL proposes to enter into a contract manufacturing agreement with UBL. As per the proposed agreement, 75 per cent of the beer production will be sold to UBL and the balance production will be sold under TMGBL's own brand, 'Mohan Gold'. As per the existing agreement between UBL and TMGBL, UBL shall have the first right to utilise TMGBL's production capacities in Unnao. Moreover, the raw material and packing material (cans, bottles and packing cases) required for production of Kingfisher beer will be supplied by UBL. However, TMGBL will have to procure raw materials (malt, rice flakes, sugar, hop pellets, hop extract and chemicals) for its own beer brand.

The total cost of the project is estimated at Rs.128.74 crore, which is likely to be funded through a bank loan of Rs.84.00 crore and equity capital of Rs.44.74 crore. The debt-equity ratio of the proposed project is likely to be 1.88 times. TMGBL has acquired 10 acres of land for setting up the brewery. The company has received shifting permission from the Uttar Pradesh Excise Department (UPED) for relocating the existing brewery. TMGBL has also received Form B-20 license from UPED for establishing a new brewery at Unnao.

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About the company

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TMGBL is engaged in manufacturing Kingfisher beer (under an exclusive agreement with UBL) since 2000. TMGBL receives contract manufacturing charge (service charge) of Rs.36 per case of beer. The company also receives power and fuel cost reimbursement at the rate of Rs.15 per case. The brewery (located in Lucknow, Uttar Pradesh) has total production capacity of 9.36 million litres (equivalent to 12 lakh cases). TMGBL is planning to shift the entire facility to a new unit in Unnao (Uttar Pradesh) by March 2015. The current contract manufacturing agreement is valid till March 31, 2015. Subsequently, TMGBL will enter into a new contract manufacturing agreement with UBL, after the new brewery is operational. Currently, TMGBL is operating from rented factory premises (of Mohan Meakin Limited, Daliganj, Lucknow) and the lease rental agreement is valid till May 31, 2015.

For FY2012-13, TMGBL reported net profit of Rs.0.11 crore on operating income of Rs.2.91 crore, as compared with net loss of Rs.1.06 crore on operating income of Rs.2.91 crore for FY2011-12. Further, the company reported net loss of Rs.0.08 crore (provisional) on operating income of Rs.5.58 crore (provisional) for FY2013-14. TMGBL's tangible net worth stood at Rs.19.22 crore (provisional) as on March 31, 2014, as compared with Rs.13.56 crore a year earlier.

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