



The Mohan Goldwater Breweries Limited (TMGBL)

*Rating
Rationale*

SMERA RATINGS LIMITED

September 16, 2015

Facilities	Amount (Rs. Crore)	Rating
Term Loan	84.00	SMERA BB-/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Long Term Bank Facility (Proposed)	3.17	SMERA BB-/Positive (Outlook revised from 'Stable' and rating reaffirmed)

SMERA has revised the rating outlook on the long-term bank facilities of The Mohan Goldwater Breweries Limited to **“Positive”** from “Stable”, while reaffirming the rating at **“SMERA BB-”** for the total bank facilities of Rs.87.17 crore.

The outlook revision reflects the likelihood of improvement in the TMGBL’s business risk profile and financial risk profile going forward. The outlook revision also factors successful commissioning of the brewery at Unnao, Uttar Pradesh without cost and time overrun, and with healthy off-take from Carlsberg India Private Limited (Carlsberg) under a take-or-pay arrangement.

The rating continue to reflect the company’s established market position in Uttar Pradesh supported by its strong promoter group, extensive industry experience of its promoters and healthy revenue visibility over the medium term. The rating also factor in the company’s comfortable net worth driven by infusion of equity on regular basis. These rating strengths are partially offset by the company’s exposure to the political scenario within the state, as well as stringent government controls and regulations prevalent in the liquor industry, wherein; any change in the market dynamics and regulatory environment may impact the company’s revenues as well as profitability.

Going forward, generation of adequate cash accruals from the new project and repayment of debt obligations will be the key rating sensitivities.

Outlook: Positive

SMERA believes that the company’s business risk profile is likely to improve over the medium term driven by healthy off-take from Carlsberg under a take-or-pay arrangement. The company is also expected to maintain its financial risk profile over this period in the absence of any debt-funded working capital requirement or capex programme. The rating may be upgraded if the company stabilizes its operations and register expected revenues with adequate operating profitability from the brewery. Conversely, the outlook may be revised to 'Stable' in case the company fails to achieve

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expected revenues and operating profitability, or in case there is significant deterioration in its capital structure.

About the project

TMGBL has successfully commissioned the brewery at Unnao. The company commenced commercial operations in August 2015 with the installed capacity of 7 hectolitre per annum (HPA).

The initial project cost was Rs.128.74 crore for a capacity of 5 HPA. Later, the scope of work changed to 7 HPA. Due to change in scope of work, the project cost was revised to Rs.180.00 crore, of which Rs.84.00 crore was funded by a term loan and the rest through equity capital and unsecured loans from promoters.

TMGBL signed an exclusive contract manufacturing agreement with Carlsberg. The contract manufacturing agreement between both the parties has been executed for 10 years which is renewed on yearly basis.

As per agreement, the raw materials and consumables required for the production of beer will be provided by Carlsberg. Similarly, the packing material (cans, bottles and packing cases) and excise duty/taxes will also be borne by Carlsberg. However, TMGBL will have to make the arrangement of raw materials (malt, rice flakes, sugar, hop pellets, hop extract and chemicals) from local market for the smooth manufacturing process. The payments to suppliers will be directly made by Carlsberg.

TMGBL is expected to receive contract manufacturing charge (service charge) of Rs.55 per case (for bottles) and Rs.80.00 (for cans). The company is also expected to receive power and fuel cost reimbursement at the rate of Rs.15 per case (bottles/cans). Carlsberg guarantees to TMGBL that minimum Rs.40.00 crore will be paid by way of charges as an "Annual Revenue Guarantee" in case there is no production plan by Carlsberg during any contracted year.

About the company

TMGBL was incorporated in 1969. In May 2010, the company was acquired by the Chaddha Group, Tilak Raj Sharma and Har Prasad Jaiswal. Currently, the promoter group hold ~47 per cent, ~19 per cent and ~11 per cent stake in the company respectively. TMGBL has commenced commercial operations in August 2015 and has an installed capacity of 7 HPA. The company has entered into an exclusive contract manufacturing agreement with Carlsberg for brewing beer brands like Tuborg Strong, Tuborg Mild, Carlsberg Green, Carlsberg Elephant or any other brands as maybe agreed between both the parties.

For FY2014–15, TMGBL reported net loss of Rs.4.58 crore on operating income of Rs.37.91 crore, as compared with net profit of Rs.4.75 crore (after considering deferred tax adjustment of Rs.5.55

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crore) on operating income of Rs.33.17 crore for FY2013–14. TMGBL's tangible net worth stood at Rs.60.71 crore (provisional) as on March 31, 2015, as compared with Rs.24.54 crore a year earlier.

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