



Press Release

Sona Beverages Private Limited (SBPL)

March 12, 2021

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	50.00*	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed
2.	Long Term Fund Based Facility – Term Loan	25.00**	IVR BBB-/ Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed
	Total	75.00		

* Includes proposed limit of INR5.00 crore

**Includes proposed limit of INR7.60 crore

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating to the bank facilities of Sona Beverages Private Limited (SBPL) continues to derive strength from its experienced promoters and management team, strong market position in the state of Chhattisgarh with the growing demand of the in-house brand 'Simba', steady revenue growth, comfortable debt protection metrics and operating margin. However, geographical concentration risk, which is however improving, profitability margins being exposed to volatility in prices of raw materials and vulnerability faced with respect to adverse regulatory charges are the rating constraints.

Key Rating Sensitivities:

Upward rating factor(s):

- Substantial growth in scale of operations coupled with reduction in geographical concentration while maintaining/improving the profitability and debt protection on a sustained basis.

Downward rating factor(s)

- Deterioration in scale of operation coupled with deterioration in profitability and/or impairment in liquidity position.
- Any regulatory changes impacting the business risk profile of the company.



Press Release

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and management

SBPL's promoters have a long track record of more than four decades in liquor manufacturing and distribution segment. Initially was engaged in the business of retail and distribution of liquor, and gradually moved into manufacturing by getting into a contract bottling agreement with English brand SABMiller. The company launched its own craft beer brand 'Simba' in 2016. SBPL's CEO, Mr. Prabhtej Singh Bhatia, has a degree in Economics from the University of Exeter and is well versed with the intricacies of the liquor industry. He is well supported in the day-to-day operations by Mr. Gurpreet Singh Bhatia and Mr. Satpal Singh Bhatia.

Strong market position in the state of Chhattisgarh and growing demand of the in-house brand

SBPL, as a manufacturer of beer, has strong market position in the state of Chhattisgarh. It manufactures beer under its own brand "Simba". As the sale of alcohol in Chhattisgarh is controlled by the state government, major portion of company sales is to Chhattisgarh State Beverages Corporation Ltd. The company is also gradually trying to establish its in other states such as Jharkhand, Madhya Pradesh, Assam, Goa, Karnataka, Maharashtra, West Bengal and Delhi and other north-eastern states.

Steady revenue growth

The company's top line has seen a steady growth for the past two years, the top line in FY20 stood at INR130.18 Crore (FY19: INR126.77 Crore) despite Covid-19 related disruptions in the month of March 2020. The company's operating revenue increased from INR33.7 Crore in FY17 to INR130.97 Crore in FY20, with a CAGR of ~57%. The increase in sales were on the back of increased demand for the Simba Brand and Carlsberg Brand in the Chhattisgarh along with the expansion in new states. In 9MFY21 it has achieved the revenue of INR72.81 Crore

Comfortable debt protection metrics and operating margin

In FY20, overall gearing of SBPL was 1.56x (FY19 : 2.15x), TOL/TNW stands at 2.17x (FY19: 2.70x) and interest coverage ratio at 2.28x (FY19: 3.13x) . The company's credit profile is



Press Release

expected to remain comfortable in the medium term, aided by improving operational performance and scheduled repayments. EBITDA margin and PAT margin stands at 12.85% in FY20 (FY19:14.19%) and 6.49% in FY20 (FY19:3.91%). EBITDA Margin has shown a decline in FY20 as the company focused on venturing into different states to reduce the concentration risk and improve its marketing presence. This led to a dent in the margin with an increase in transportation cost & different tax regimes imposed in other states.

Capex and its benefits

The company has planned capex, to increase the installed capacity from 36,00,000 cases to 72,00,000 cases in FY21-22 with the installation of Canning Line and increasing the Bottling plant capacity. The foundation work of the same is completed and the project line activity will start from Q1FY22 onwards. With the installation of the canning plant, the company will be able to increase its marketing presence specially in the states of Jharkhand and North – Eastern States.

Key Rating Weaknesses

Geographical concentration risk albeit improving

About 85% of SBPL's revenue comes from the state of Chhattisgarh, that too to a single government body - Chhattisgarh State Beverages Corporation Ltd (CSBC), as the sale of retail alcohol in Chhattisgarh is controlled by the state government. However, the company has started expanding its geographical base. Therefore, moving forward the company will reduce its customer concentration risk by improving its geographical presence.

Profitability margins exposed to volatility in prices of key raw material

Malt, barley and broken rice are the key raw materials for SBPL. These agricultural commodities have exhibited considerable volatility in the recent past due to various reasons, such as government policies, effects of monsoon, demand-supply scenario, etc. Profitability margins of liquor manufacturers are exposed to adverse movement in the prices of these commodities, thus, any unprecedented increase in the raw material prices going forward, may impact SBPL profitability.



Press Release

Vulnerability to adverse regulatory changes

SBPL remains vulnerable to any un-favorable government regulation with respect to aerated drinks industry, along with rising environmental concerns in the country regarding water depletion and discharge of effluents by bottling plants. Furthermore, evolving concerns related to disposal of plastic may impact the beverages industry.

Analytical Approach &Applicable Criteria:

Standalone

Rating methodology for manufacturing companies

Financial ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company is earning comfortable level of GCA and the same is expected to increase with increase in scale of operations and level of margin. This indicates adequate degree of liquidity of the company in meeting its interest obligations. Working capital limit of the company remained utilized to the extent of ~91% during the past 12 months ended January 31, 2021. The free cash & cash equivalent was INR1.49 Crore as on March 31, 2020. Liquidity is expected to remain adequate.

About the Company:

Sona Beverages Private Limited (SBPL) was incorporated in 2006. The group and the promoters have been present in the alcohol distribution and manufacturing business for more than 30 years. The group has a presence in various other segments like fisheries, hotels, real estate etc. The company set up its beer manufacturing unit with a capacity of manufacturing 18,00,000 cases per annum in 2014 which later on increased to 36,00,000 as on date cases. Since FY16, SBPL commenced manufacturing of craft beer under its own brand "Simba" which at present constitutes almost the entire revenues of the company. The company has also entered into a contract for manufacturing and selling beers under the "Carlsberg" brand in the state of Chhattisgarh.



Press Release

Financials:

(INR. Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	127.33	130.97
EBITDA	18.07	16.83
PAT	5.00	8.58
Total Debt	61.02	57.57
Tangible Net-worth	28.33	36.93
EBITDA Margin (%)	14.19	12.85
PAT Margin (%)	3.91	6.49
Overall Gearing Ratio (x)	2.15	1.56

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with Brickworks rating at BWR B (Downgraded from BWR BB-/Stable; Issuer Not Cooperating) on December 28, 2020

Any other information: N.A.

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (December 14, 2019)	Date(s) & Rating(s) assigned in 2018-19 (August 6, 2018)	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	50.00	IVR BBB-/ Stable outlook	IVR BBB-/ Stable outlook	IVR BB/Stable Outlook	--
2.	Long Term Fund Based Facility – Term Loan	Long Term	25.00	IVR BBB-/ Stable outlook	IVR BBB-/ Stable outlook	IVR BB/Stable Outlook	--
	Total		75.00				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



Press Release

Name and Contact Details of the Rating Team:

Name: Jayshree Purohit

Tel: (022) 62396023

Email: jpurohit@infomerics.com

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuaniania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	50.00*	IVR BBB-/ Stable outlook
Long Term Fund Based Facility – Term Loan	NA	NA	Up to June, 2023	25.00**	IVR BBB-/ Stable outlook

*Includes proposed limit of INR5.00 crore

**Includes proposed limit of INR7.60 crore