



Press Release

Inbrew Beverages Private Limited (IBPL)

February 14, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Compl exity Indica tor
Non-Convertible Debenture (ISIN: INE696R07018)	685.00	IVR BB/ Stable (IVR Double B with Stable Outlook)	Upgraded and removed from Issuer Not Cooperating Category	Simple
Total	685.00 (Rupees Six Hundred Eight Five Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The upgradation in the ratings to the bank loan facilities of IBPL reflects significant improvement in revenue for FY23 and 1HFY24 coupled with improvement in EBITDA margins during 1HFY24. The rating upgrade also reflects completion of acquisition of United Spirits Limited's (USL) 32 brands and franchise of 11 other brands during FY23. The ratings continue to derive strength from experienced promoters and favourable demand outlook for alcohol industry. The ratings however constrained by leveraged capital structure with lower debt protection metrics, working capital intensive nature of business, significant refinancing risk and highly regulated business with high duties and taxes albeit high entry barriers benefitting the incumbents.

Key Rating Sensitivities:

Upward Factors



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- Improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.
- Deterioration in capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Stable operating profile expected to improve through FY24-FY26**

IBPL's revenue has increased to Rs.899.41 crore in FY23 a growth of 517% as compared to FY22 as during FY23. IBPL has completed acquisition of United Spirits Limited's (USL) 32 brands and franchise of 11 other brands. IBPL has reported revenue of Rs.842.45 crore in 1HFY24 with higher volume of bottles, revenue is expected to increase further with stable demand and expected price hike in State of Karnataka from where it derives 88% of the revenue.

EBITDA margins have improved to 5.96% in FY23 as compared to losses in FY22 driven by acquisition of brands of USL though benefits of this acquisition were only for six months as this acquisition was completed during September 22. EBITDA margins further improved to 11.14% in 1HFY24 with higher volume of bottles and EBITDA margins are expected to remain at the current levels with stable volume of bottles.

- **Favorable demand outlook for alcohol industry**

India is one of the fastest growing alcohol markets in the world. Rapid increase in urban population, sizable middle-class population with rising spending power, and a sound economy are certain significant reasons behind increase in consumption of alcohol in India.

- **Experienced promoters**



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Mr. Ravinder Singh Deol, Mr. Rajnikant Tirumala Sabnavis and Mr. G Pulla Reddy are the directors of IBPL. Mr. Ravinder Singh Deol is having around four decades of experience while, Mr. Rajnikant Tirumala Sabnavis and Mr. G Pulla Reddy are having more than two decades of experience in the liquor industry. They look after the day-to-day affairs of IBPL. Promoters are supported by a team of experienced and qualified professionals.

Key Rating Weaknesses

- **Leveraged capital structure with lower debt protection metrics**

Adjusted tangible net worth (after excluding intangibles) has actually increased and stood at Rs.381.01 crore in FY23 (FY22: Rs.158.23 crore), mainly on account of infusion through Compulsorily Convertible Debentures of Rs.71.61 crore, and equity infusion of Rs.204.92 crore. Infomerics have considered CCD's as equity as promoters are holders of this instrument and the same can be converted into equity shares anytime at the option of lender after expiry of six months from the date of the final redemption of the NCD. If the option is not exercised, the instrument shall automatically convert at the end of tenth year from the date of issue. Despite, addition of equity, overall gearing stood higher at 1.82x in FY23 (FY22: 0.03x) due to borrowings through NCD of Rs.685.00 crore. while TOL/TNW also stood high at 3.00x in FY23 against 0.31x in FY22. The debt protection metrics marked by interest coverage stood low at 0.84x in FY23 against -2.42x in FY22. The Total debt/GCA remained high at 76.32x in FY23 (FY22: -0.61x).

- **Working capital intensive nature of business**

The operations of IBPL remained working capital intensive. IBPL's net operating cycle increased to 90 days in FY23 (FY22: 77 days) due to increase in inventory days which stood at 59 days in FY23 (FY22: 47 days), the inventory days has increased mainly as IBPL had expected more demand for liquor in Q1FY24 and hence, it increased its inventory. The collection days improved and stood at 65 days in FY23 (FY22: 87 days), due to improved realization. Creditor days decreased and stood at 33 days in FY23 (FY22: 56 days).

- **Significant refinancing risk**



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IBPL faces significant refinancing risk during FY25 (P) and FY26 (P) due to lower-than-expected cash accruals against the scheduled repayments. As per management the shortfall will be refinanced through additional debt. The ability of the management to refinance its debt repayments would be key monitorable.

- **Intense competition from distributors of other liquor manufacturing principals**

IBPL faces intense competition from distributors of other liquor manufacturing principals. However, IBPL established presence more than four decades gives it some comfort. Further, the discretionary nature of the expenditure also may sometimes limit demand, especially in times of subdued incomes.

- **Highly regulated business with high duties and taxes albeit high entry barriers benefitting the incumbents**

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently including control on pricing. Beside this, there is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. The complexity of the industry further lies in the different types of distribution models followed in various states like government-controlled agencies, private distribution system and auction. The uncertainty evolving around any regulatory norms make the industry vulnerable and profitability susceptible to any unforeseen changes.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition](#)

[Criteria of assigning Rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Stretched



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The liquidity of the company remains adequate marked by free cash and cash equivalents balance stood at Rs.93.36 crore as on September 30, 2023. Current ratio stood at 1.62x as on September 30, 2023. IBPL faces significant refinancing risk during FY25 (P) and FY26 (P) due to lower-than-expected cash accruals against the scheduled repayments. As per management any shortfall will be refinanced through additional debt. Ability of the management to refinance its debt repayments would be key monitorable.

About the Company

IBPL was incorporated in the year 1972. IBPL is engaged in manufacturing wide range of alcoholic beverages (beer and spirits). In the year FY23, IBPL has completed acquisition of United Spirits Limited's (USL) 32 brands and franchise of 11 other brands. Mr. Ravinder Singh Deol, Mr. Rajnikant Tirumala Sabnavis and Mr. G Pulla Reddy are the directors of IBPL.

Financials (Standalone)*:

	(Rs. Crore)	
For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)
Total Operating Income	143.93	899.41
EBITDA	-9.70	53.60
PAT	-29.10	-53.30
Total Debt	5.23	693.74
Adjusted Net worth #	158.23	381.01
EBITDA Margin (%)	-6.74	5.96
PAT Margin (%)	-19.55	-5.80
Overall Gearing Ratio (Adjusted) (times)	0.03	1.82

After excluding intangibles. The intangibles are mainly includes brands, franchisee relationships, distributor network, licensing agreements and franchisee rights. The same is related to business acquisition dated September 30, 2022 associated with 32 brands and franchisee of 11 other brands from USL.

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:



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S. No	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Non-Convertible Debenture (ISIN: INE696R07018)	Long Term	685.00	IVR BB/ Stable	IVR BB-/Negative; Issuer Not Cooperating	IVR BB/ Stable (September 12, 2022) • IVR BB/ Stable (September 6, 2022)	--	--

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.



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Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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 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 Instrument

Name of Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Non-Convertible Debenture (ISIN: INE696R07018)	September 29, 2022	12.50%	September 28, 2025	685.00	IVR BB/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Particulars	Terms & conditions
Security Name	12.50% INR 685,00,00,000 listed and rated senior secured non-convertible debentures
ISIN	INE696R07018
Issuance / Type of Instrument	Senior, Secured, Listed, Rated, Redeemable, Non-Convertible Debentures
Nature of Instrument	Secured
Seniority	Senior



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Particulars	Terms & conditions
Mode of Issuance of Debentures	Private Placement
Issued amount	Rs.685.00 crore
Minimum Subscription	Rs.10,00,000/-
Debenture Trustee	Catalyst Trusteeship Limited
Use of Proceeds	(i) payment in part of the Acquisition Consideration; (ii) financing the payment (or reimbursement) of the Acquisition Costs; (iii) payment of any fees, costs and expenses in connection with the transactions contemplated under the Finance Documents (including under Clause 18 (Indemnity and Costs and Expenses)) of the Deed; and (iv) any other purpose expressly agreed by the Debentures (acting on the instructions of all the Debenture Holders).
Tenor	36 months
Coupon Type	Fixed
Coupon Rate	12.50% p.a.
Coupon Payment Frequency	Monthly
Coupon Payment Dates	Coupon Payment Date means: (a) the last day of each Interest Period; (b) each Scheduled Redemption Date; and (c) the Final Redemption Date.
Default Interest	17.50% per annum (Being 12.5% as the Coupon Rate and 5% as the Default Interest)
All Covenants to the Issue	Financial statements The Issuer shall supply to the Debenture Trustee in sufficient copies for all the Debenture Holders: (a) as soon as they become available, but in any event within 120 days after the end of each of Issuer's Financial Years (or, in respect of its Financial Year ending on 31 March 2022, 150 days), the audited annual consolidated financial statements of the Issuer for that Financial Year; and (b) as soon as they become available, but in any event within 30 days after the end of each of its Financial Quarters, the unaudited quarterly consolidated financial statements of the Issuer for that Financial Quarter. 2. Compliance Certificate



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Particulars	Terms & conditions
	<p>(a) The Issuer shall supply to the Debenture Trustee, with each set of financial statements delivered pursuant to paragraphs (a) and (b) of paragraph 1 (Financial statements), of Part A (Information Undertakings) of schedule 4 (Covenants and undertakings) of the Deed, a Compliance Certificate setting out:</p> <p>(i) (in reasonable detail) computations as to compliance with paragraph 2 (Financial Condition) of Part B of schedule 4 (Covenants and undertakings) for any applicable Relevant Period but only to the extent such Relevant Period ends on a Test Date as at which those financial statements were drawn up; and</p> <p>(ii) that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it),</p> <p>(a) provided that acceptance of the Compliance Certificate by the Debenture Trustee shall not constitute waiver of any Default specified therein.</p> <p>(b) Each Compliance Certificate shall be signed by a director of the Issuer.</p> <p>3. Requirements as to financial statements</p> <p>(a) Each set of financial statements delivered by the Issuer pursuant to paragraph 1 (Financial statements) of Part A (Information Undertakings) of schedule 4 (Covenants and undertakings) of the Deed shall be certified by a director of the relevant company to which the financial statements relate, in each case, as giving a true and fair view of (in the case of any such financial statements which are audited) or fairly representing (in the case of any such financial statements which are unaudited) the financial condition of such company as at the date as at which those financial statements were drawn up.</p> <p>(b) The Issuer shall procure that each set of financial statements delivered pursuant to paragraph 1 (Financial statements) of Part A (Information Undertakings) of schedule 4 (Covenants and undertakings) of the Deed is prepared using the applicable GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the applicable Original Financial Statements unless, in relation to any set of financial statements, it notifies the Debenture Trustee that there</p>



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Particulars	Terms & conditions
	<p>has been a change in the applicable GAAP, the accounting practices or reference periods and its auditors (or, if appropriate, the auditors of that person) deliver to the Debenture Trustee:</p> <p>(i) a description of any change necessary for those financial statements to reflect the applicable GAAP, accounting practices and reference periods upon which that person's Original Financial Statements were prepared; and</p> <p>(ii) sufficient information, in form and substance as may be reasonably required by the Debenture Trustee, to enable the Secured Parties to determine whether paragraph 2 (Financial Condition) of Part B of schedule 4 (Covenants and undertakings) of the Deed has been complied with and to make an accurate comparison between the financial position indicated in those financial statements and that person's Original Financial Statements.</p> <p>(b) Any reference in the Deed to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.</p> <p>(c) The Issuer shall procure that each set of financial statements delivered pursuant to paragraph 1 (Financial statements) of Part A (Information Undertakings) of schedule 4 (Covenants and undertakings) of the Deed of the Deed includes a balance sheet, profit and loss account and cashflow statement.</p> <p>Financial condition The Issuer must ensure that, in respect of each Relevant Period ending on a Test Date that falls on or after the First Test Date, Onshore Net Leverage for that Relevant Period is not greater than 4.25:1.0.</p> <p>(Further details of entire debenture trust deed is mentioned on part of the rating note as annexure)</p>
Covenants	
Events of Default	<p>Each of the events and circumstances set out below will independently constitute an Event of Default.</p> <p>1. Non-payment</p>



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Particulars	Terms & conditions
	<p>A Transaction Obligor or Aheadco Services does not pay on the due date any amount payable pursuant to a Finance Document, at the place and in the currency in which it is expressed to be payable unless:</p> <ul style="list-style-type: none">(a) its failure to pay is caused by:<ul style="list-style-type: none">(i) administrative or technical error; or(ii) a Disruption Event; and(b) payment is made within three Business Days of its due date. <p>2. Financial Covenants and other key undertakings</p> <ul style="list-style-type: none">(a) Subject to paragraph 4 (Equity Cure) of Part B of schedule 4 (Covenants and undertakings) and paragraph 5 (Deemed Remedy) of Part B of schedule 4 (Covenants and undertakings), any requirement of Part B (Financial Covenants) of schedule 4 (Covenants and undertakings) is not satisfied.(b) The Issuer does not comply with any provision of paragraph 4 (Negative pledge), paragraphs 5 (Disposals) to 8 (Loans and guarantees) (inclusive), paragraph 15 (No share issue, distributions or dividends), paragraph 18 (Anti-Corruption Laws) to paragraph 20 (Anti-Money Laundering) (inclusive), paragraph 27 (Authorised Signatories), paragraph 32 (Filings with the Stock Exchange) or paragraph 34 (Conditions Subsequent) of Part C of schedule 4 (Covenants and undertakings).(c) Any requirement under paragraph 1 (Financial statements) and paragraph 2 (Compliance certificate) of Part A (Information undertakings) of schedule 4 (Covenants and undertakings) is not satisfied within the timelines set out therein. <p>3. Other obligations</p> <ul style="list-style-type: none">(a) A Transaction Obligor or Aheadco Services does not comply with any provision of the Finance Documents (other than those referred to in paragraphs 1 (Non-payment) and 2 (Financial covenants and other key undertakings)).(b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within fifteen days of the earlier of (i) the Debenture Trustee giving notice to the Issuer and (ii) the relevant Transaction Obligor or Aheadco Services or the Parent becoming aware, of the failure to comply. <p>4. Misrepresentation</p> <ul style="list-style-type: none">(a) Any representation or statement made or deemed to be made by any Transaction Obligor or Aheadco Services in the Finance Documents or any other document delivered by or on behalf of any Transaction Obligor or Aheadco Services under or in



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Particulars	Terms & conditions
	<p>connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made by reference to the facts and circumstances then existing.</p> <p>(b) No Event of Default under paragraph (a) above will occur if the circumstances or event giving rise to the misrepresentation is capable of remedy and is remedied within 15 days of the earlier of (i) the Debenture Trustee giving notice to the Issuer and (ii) the relevant Transaction Obligor or Aheadco Services becoming aware, of the misrepresentation.</p> <p>5. Cross-default</p> <p>(a) Any of the following occurs in respect of any Transaction Obligor or Aheadco Services or Group Member:</p> <p>(i) any Financial Indebtedness is not paid when due nor within any originally applicable grace period;</p> <p>(ii) any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity date as a result of an event of default (howsoever described);</p> <p>(iii) any commitment for any Financial Indebtedness is cancelled or suspended by a creditor of any Transaction Obligor or Aheadco Services or Group Member as a result of an event of default (however described);</p> <p>(iv) any creditor of any Transaction Obligor or or Aheadco Services Group Member or the Parent becomes entitled to declare any Financial Indebtedness of any Transaction Obligor or Aheadco Services or Group Member due and payable prior to its specified maturity as a result of an event of default (however described); or</p> <p>(v) any Event of Default occurs and is continuing under (and as defined in) the Offshore Note Subscription Agreement.</p> <p>(b) No Event of Default will occur under subparagraphs (a)(i) to (iv) (inclusive) of paragraph 5 if:</p> <p>(i) the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraph (a) is less than USD 2,500,000 (or its equivalent in other currencies);</p> <p>(ii) it is in respect of Financial Indebtedness subordinated pursuant to the Intercreditor Agreement; or</p> <p>(iii) it is in respect of Financial Indebtedness owed between Group Members.</p> <p>6. Insolvency</p> <p>(a) A Transaction Obligor or Aheadco Services or any Group Member:</p>



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Particulars	Terms & conditions
	<p>(i) is or will be unable or admits inability to pay its debts as they fall due (in each case other than solely as a result of balance sheet liabilities exceeding its balance sheet assets);</p> <p>(ii) is deemed to, or is declared to, be unable to pay its debts under applicable law;</p> <p>(iii) suspends making payments on any of its debts; or</p> <p>(iv) by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors (excluding any Holder in its capacity as such) with a view to rescheduling any of its indebtedness.</p> <p>(b) A moratorium takes effect by operation of law or is declared in respect of any indebtedness of any Transaction Obligor or Aheadco Services or Group Member. If a moratorium occurs or is declared, the ending of the moratorium will not remedy any Event of Default caused by that moratorium.</p> <p>(c) The value of the assets of any Transaction Obligor or Aheadco Services is less than its liabilities (taking into account contingent and prospective liabilities).</p> <p>Insolvency proceedings</p> <p>(a) Any corporate action, legal proceedings or other procedure or step is taken in relation to:</p> <p>(i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration, provisional supervision or reorganisation (by voluntary arrangement, scheme of arrangement or otherwise) of any Transaction Obligor or Aheadco Services or Group Member;</p> <p>(ii) a composition, compromise, assignment or arrangement with any creditor of any Transaction Obligor or Aheadco Services or Group Member, or an assignment for the benefit of creditors generally of any Transaction obligor or Aheadco Services or Group Member, or a class of such creditors;</p> <p>(iii) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager, provisional supervisor, resolution professional, interim resolution professional, provisional supervisor or other similar officer in respect of any Transaction Obligor or Aheadco Services or Group Member, or any of their respective assets;</p>



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Particulars	Terms & conditions
	<p>(iv) subject to the qualifications set out in paragraph (c) below, the filing of an application for the initiation of an insolvency resolution process under IBC or any other analogous law or regulation in respect of any Transaction Obligor or Aheadco Services by any person;</p> <p>(v) the admission of an application for the initiation of an insolvency resolution process under IBC or any other analogous law or regulation in respect of the Issuer;</p> <p>(vi) a demand notice under the SARFAESI Act or any other analogous law or regulation is issued to any Transaction Obligor or Aheadco Services;</p> <p>(vii) preparation of a resolution plan for the Issuer or any other Transaction Obligor or Aheadco Services, pursuant to the Resolution of Stressed Assets – Revised</p>

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.