

**Press Release**

**Master (India) Brewing Company**

**June 21, 2019**

**Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Long Term Bank Facilities	16.11	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	Assigned
<b>Total</b>	<b>16.11</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating assigned to the bank facilities of Master (India) Brewing Company (MIBC) derive comfort from its experienced partners, relationship with United Breweries Limited (UB) and high entry barriers. The rating also factors in its improving scale of operations. However, the strengths are partially offset by its partnership nature of constitution, low margin nature of business and lack of pricing power, dependence on third parties for supply of bottles, highly regulated nature of the industry, working capital intensive nature of operations and leveraged capital structure. Growth in operation while maintaining profitability, government regulations, maintenance of unsecured loan in the business, and gearing are the key rating sensitivities.

**List of Key Rating Drivers with detailed description**

**Key Rating Strengths**

*Experienced Partners*

The partners of MIBC, Mr. Jitendra Newatia, Mr. Rajesh Jalan, Mr. Dipak Barman are well experienced in IMFL/Beer industry in the state of Assam. Before entering into manufacturing of beer the partners were engaged in trading of various IMFL products. The day to day affairs is managed by all the partners.

*Relationships with United Breweries Limited*

MIBC is in agreement with UB since 2011 for job work and bottling of their beer brand “Kingfisher”. Since last two years they are also producing beer cans for the UB group. The on-going agreement is valid till 2020.

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### *High entry barriers*

Liquor policies governing its production and sale are entirely controlled by respective state governments. With all the alcohol consuming states/union territories having their own regulations, tax structures and entry-exit restrictions, it is very difficult for new entrants to get licenses; thus, providing a competitive advantage to the existing players.

### *Improving scale of operations*

The financial performance of the firm remained moderate over the past four years [FY16-FY19] whereby the total operating income (TOI) witnessed a CAGR of ~59% on the back of increased demand off Beer in Assam. Further, the firm also started selling Can beer from latter part of FY17 which also augmented the revenue in FY18 and FY19 (Prov.).

### **Key Rating Weaknesses**

#### *Partnership nature of constitution*

Being a partnership firm, the entity has less regulatory control and is exposed to the risk of withdrawal of capital.

#### *Low margin nature of business and lack of pricing power*

The liquor industry is controlled by the Central and State Governments and there are strict regulations in place with regards to distribution, taxes etc. which has a significant bearing on the pricing of the final product which curtails profitability to a large extent. Further, as per MIBC's understanding with its principal brand owners, its margins are fixed by the Principals (Brand Owners) on cost-plus mark-up basis which remains on the lower side. As a result, the firm's operating margins remained low and range bound over the last three years.

#### *Dependence on third parties for supply of bottles*

The firm is dependent on bottlers for supply of bottles and is therefore, exposed to the risk of irregularity in supply and higher bottling charges. Presently, the firm is procuring bottles from various local distributors. Absence of any written agreement risk of irregularity in supply cannot be ignored.

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### *Highly regulated industry*

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. The industry dynamics is also made complex by high taxation and heavy regulation.

### *Leveraged capital structure*

The capital structure of the firm remained leveraged as on the last three account closing dates. The long-term debt equity ratio and the overall gearing ratio was moderate as on March 31, 2019 (provisional) though improved from respectively as on March 31, 2018 (after considering unsecured loan aggregating to Rs.30 crore as subordinated to the bank facilities based on a undertaking given to INFOMERICS as neither debt nor equity). The debt protection parameters like interest coverage ratio and Total debt to gross cash accruals remained moderate in FY19.

### *Working capital intensive nature of operations*

The operations of the firm remained working capital intensive marked by its elongated operating cycle. The operating cycle deteriorated from 81 days in FY18 to 99 days in FY19. The firm has to procure and stock up bottles as and when available at competitive prices as the entire production of beer is depended on bottles which resulted in higher inventory period for the firm.

### **Analytical Approach:** Standalone.

Unsecured loans (aggregating to Rs.30.00 crore) extended to MIBC by the promoters have been treated as neither debt nor equity as these loans are expected to remain in the business over the medium term.

### **Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

### **Liquidity**

The current ratio and the quick ratio of the firm remained moderate at 1.17x and 0.75x respectively as on March 31, 2019 (Provisional). However, the average fund-based limit

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utilization of the firm remained high at around 90% in the past 12 months period ended on March, 2019 indicating a limited cushion. The liquidity position of the firm is expected to remain moderate in near to medium term and dependent on achievement of envisaged cash accruals.

### About the Company

Master India Brewing Co. (MIBC), a partnership firm, was established on February, 2008 (governed by the partnership deed dated February 11,2008) with equal partners Mr. Jitendra Newatia, Mr. Rajesh Jalan, Mr. Dipak Barman and M/s. Master (India) Brewing Company Limited (MBCL). MIBC is engaged in manufacture, marketing and sale of beers. The manufacturing facility of the firm is located at Silla, Sillasunderighopa, North Guwahati, Dist.- Kamrup, Assam with a capacity of 3600000 Cases per annum. The firm started its commercial operations from March,2010. MIBC entered into an agreement with United Breweries (UB) since April, 2011 for manufacturing and bottling of “Kingfisher” beers. The firm also manufactures its own brands brand namely, Spinner, 9000, Master 10000 and Kingsburg.

### Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	38.38	73.95
EBITDA	2.92	6.98
PAT	-5.08	0.23
Total Debt	72.31	63.17
Tangible Net worth	13.16	13.71
EBITDA Margin (%)	7.62	9.44
PAT Margin (%)	-13.15	0.30
Overall Gearing Ratio (x)	3.21	2.42

\*Classification as per Infomerics’ standards.

**Status of non-cooperation with previous CRA:** Not Available

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
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1.	Long Term Fund Based Limits – Cash Credit	Long Term	8.50	IVR B+/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	7.61*	IVR B+/Stable	-	-	-

\*outstanding as on March 20, 2019

**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](http://www.infomerics.com).

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### 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.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	8.50	IVR B+/Stable

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Term Loan	-	13.15%	March 2022	7.61	IVR B+/Stable