

Press Release**Sona Beverages Pvt Ltd (SBPL)****August 06, 2018****Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities	7.00	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)	Assigned
2	Long Term Debt- Term Loan	23.50	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1**Detailed Rationale**

The ratings derive strength from the experienced promoters and management, monopoly in beer manufacturing in the State of Chhattisgarh along with increasing sales under the company's own brand. The ratings further derive comfort from the growth in scale of operation and improvement in profitability margins in FY18. The ratings, however, are tempered by moderate capital structure, small scale of operations, high liquidity requirements, concentration risk, susceptibility of profitability to key raw material prices and exposure to regulatory norms.

Growth in scale of operation and profitability as envisaged, capital structure and efficient management of working capital are the key rating sensitivities.

List of Key Rating Drivers

- *Experienced promoters and management*
- *Monopoly in beer manufacturing in Chhattisgarh*
- *Upcoming brand*
- *Growth in scale of operations*
- *Improvement in profitability margins in FY18*
- *Moderate Capital Structure*
- *Small Scale of Operations*
- *High Liquidity Requirements*

- *Concentration Risk*
- *Profitability margins exposed to volatility in prices of key raw material*
- *Exposure to regulatory norms*

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management

SBPL's promoters have a long track record of more than three decades in the beer and liquor manufacturing and distribution segment. The company initially started operation as a contract bottling unit for SAB Miller and is today engaged in the manufacture of beer under its own brand. The company'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, who are related uncles.

Monopoly in beer manufacturing in Chhatisgarh

SBPL is the sole manufacturer of beer in the state of Chhatisgarh. It manufactures beer under its own brand, "Simba" in the state of Chhatisgarh. Majority of the sales of the company are to Chhatisgarh State Beverages Corporation Ltd, since the sale of retail alcohol in Chhatisgarh is controlled by the state Government.

Upcoming brand

In FY16, the company launched its own brand "Simba", which it presently offers in 4 variants: Wit, Stout, Light and Strong. The company had spent heavily on promoting and advertising its brand by various means during the past 2 years. At present, the company has a presence in Chhatisgarh, Jharkhand, Haryana, Rajasthan, Goa, Assam and Madhya Pradesh. Also the company plans to introduce its brand in the states of Maharashtra and Goa going forward. The company's topline has more than doubled on account of increasing volumes under its own brand "Simba".

Growth in scale of operations

The company's topline has more than doubled from Rs.33.70 crore in FY17 to Rs.74.38 crore in FY18 on account of increasing volumes under "Simba" brand. During FY18, the company produced 9.01 lac cases under its own brand, as compared to 1.89 lac cases during the same time. However, the cases produced for SAB Miller declined from 10.69 lac cases in FY17 to 0.47 lac cases in FY18, on account of various reasons like delay in renewal of license by SAB Miller in Chhatisgarh, anarchy amongst the top management at SAB Miller etc, as indicated by the management. At present, the company does not undertake any manufacturing for SAB Miller

Improvement in profitability margins in FY18

The company's EBITDA margin had declined from 14.07% in FY16 to 7.37% had on account of promotional expenses like rebates, discounts, marketing expenses and incentives to dealers for its brand. However, the company's EBITDA margin improved from 7.37% in FY17 to 25.39% in FY18 on account of high proportion of sales under its own brand, which is more margin accretive than the contract bottling arrangement with SAB Miller, wherein the company used to get a fixed amount per case sold to the principal. Further, reduction in promotional expenses like rebates, discounts and incentives to dealers also contributed to the higher margins as the brand stabilized. Subsequently, the company's PAT margin has also improved.

Key Rating Weaknesses

Moderate Capital Structure

The company has a moderate capital structure marked by an overall gearing ratio (excluding subordinated debt) of 1.63x as on March 31, 2018 as against 2.67x as on March 31, 2017. Most of the debt consists of term debt taken for building the brewery unit in the past. The promoters/relatives have regularly infused unsecured loans in the business, to support the growth in the operations of the company..

Small Scale of Operations

The company's topline, although increasing is relatively on the lower side as compared to its peers, marked by a total operating income of Rs.74.38 crore during FY18.

High Liquidity Requirements

The company's operations are working capital intensive marked by 80.12% average utilisation of fund based limits during the past 12 months ended June 2018. Also, the company has regularly been availing a TOD of Rs.1 crore from PNB to support its scale of operation.

Concentration Risk

About 80% of SBPL's revenues accrue from sale of liquor to Chhattisgarh State Beverages Corporation Ltd, since the sale of retail alcohol in Chhattisgarh is controlled by the state Government, leading to geographical concentration of revenues.

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. However, higher EBITDA margin of the products mitigates the risk to some extent.

Exposure to regulatory norms

SBPL, like other players in the liquor business, remains exposed to changes in the legal and regulatory environment such as revision of tax rates, ban on liquor sale etc.

Analytical Approach & Applicable criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition & Post-Default Curing Period

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. Also, the group has a presence in various other segments like fisheries, hotels, real estate etc.

Initially, the company did not have any significant operations as it was looking to get various regulatory approvals for its beer manufacturing unit. In 2014, the company set up its beer manufacturing unit with a capacity of manufacturing 18,00,000 cases per annum. Also in the same year, the company had entered into a contract bottling arrangement (CBA) with SAB Miller. Since FY16, it commenced the manufacture of craft beer under its own brand "Simba", which at present constitutes almost the entire revenues of the company. The company also has entered into a contract for manufacturing and selling beers under the "Carlsberg" brand in the state of Chhatisgarh. The company is expected to commence this activity from September 2018. The company's brand is sold in various states like Chhatisgarh, Jharkhand, Haryana, Rajasthan, Goa, Assam and Madhya Pradesh.

Financials

(Rs. crores)

For the year ended / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	33.70	74.38
EBITDA	2.49	18.92
PAT	-0.59	3.27
Total Debt	41.73	38.52
Tangible Networth	15.63	23.66
EBITDA Margin (%)	7.37	25.39
PAT Margin (%)	Neg	4.39
Overall Gearing Ratio (x)	2.67	1.63

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Debt-Term Loan	Long Term	23.50	IVR BB/ Stable Outlook	--	--	--
2.	Long Term Fund Based Facilities	Long Term	7.00	IVR BB/ Stable Outlook			

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.

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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
Long Term Debt-Term Loan	NA	NA	March 2023	23.50	IVR BB/ Stable Outlook
Long Term Fund based facilities-Cash Credit	NA	NA	N.A	7.00	IVR BB/ Stable Outlook