

Press Release

Sona Beverages Pvt. Ltd.

December 14, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Fund Based Facilities-Cash Credit	50.00*	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB /Stable Outlook (IVR Double B with Stable Outlook)
2.	Term Loan	25.00&		
	Total	75.00		

* - Enhanced from earlier value of Rs. 7.00 crore and includes proposed facility of Rs. 6.50 crore

& - Enhanced from earlier value of Rs. 23.50 crore and includes proposed facility of Rs. 13.00 crore

Details of facilities are in Annexure 1

Rating Rationale

The revision in rating is on account of the company's improvement in financial profile during FY19. It derives strength from company's experienced promoters, the monopoly that it has in state of Chhattisgarh, the growing demand for its own brand and the operational growth. The rating however is constrained by customer concentration risk, future uncertainty in the home state and the volatility in prices of key raw material.

Key Rating Sensitivities:

- **Upward Rating Factor** - Continued growth in scale of operations accompanied by diversification in terms of its customer base would help the company to increase its profitability while mitigating the concentrations risk and would call for a positive rating action.
- **Downward Rating Factor** - Any adverse development pertaining to liquor policy in the state of Chhattisgarh by the current regime would impact the revenues severely and would call for a negative rating action.

Detailed Description of Key Rating Drivers

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 in the business of retail and distribution of liquor, the company 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, who are related uncles.

Monopoly in Chhattisgarh state and growing demand of the in-house brand

SBPL, as a manufacturer of beer, has monopoly 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 had spent heavily on promoting and advertising Simba brand by various means during the past 2 years. At present, the company has a presence in Chhattisgarh, Jharkhand, Madhya Pradesh, Assam, Goa, Karnataka, Maharashtra, West Bengal and Delhi. Also the company plans to introduce its brand in other states going forward.

Growth in scale of operation

The company's top line has seen a strong growth for the past two years. From Rs.33.7 crore in FY17, the sales have reported growth at a CAGR of ~56% to Rs. 127.33 crore in FY19. The increase in sales were on the back of increased demand for the Simba brand in the Chhattisgarh and the expansion in new states

Key Rating Weaknesses

Customer concentration risk aggravated by future uncertainty

About 85% of SBPL's revenue comes from sale of liquor in 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. The current dispensation, in run up to the state assembly election, 2018 had

promised ban on sale of liquor in its election manifesto. After coming to power, committees have been set by the government to look into the proposed ban. The excise minister has also reiterated government's intent in public media numerous times. The company's growth will see a major setback if the ruling is enacted and hence is a key rating sensitivity.

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

Liquidity:

The company is earning a healthy level of GCA since past two years and the same is expected to increase with increase in scale of operations and level of margin. This indicates adequate degree of liquidity support to the company in meeting its interest obligations.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

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 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 Chhatisgarh.

Financials (Standalone)
(Rs. Crore)

For the year ended / As on	31-Mar-18	31-Mar-19
	Audited	Audited
Total Operating Income	74.53	127.33
EBITDA	18.92	18.07
PAT	3.27	5.00
Total Debt	48.77	61.02
Tangible Net worth	23.66	28.66
EBIDTA Margin (%)	25.39	14.19
PAT Margin (%)	4.39	3.91
Overall Gearing ratio (x)	2.06	2.13

* Classification as per Infomerics' standards

Any other information: N.A

Details of Non Cooperation with any other CRA:

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Cash Credit	50.00	IVR BBB-/ Stable Outlook	IVR BB/Stable Outlook (August 06, 2018)	--	--
Fund Based Facilities	Term Loan	25.00	IVR BBB-/ Stable Outlook	IVR BB/Stable Outlook (August 06, 2018)	--	--
	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.

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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

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	50.00*	IVR BBB-/ Stable Outlook
2	Long Term Loan	--	--	--	25.00&	
Total					75.00	

* - Includes proposed facility of Rs.6.50 crore

& - Includes proposed facility of Rs.13.00 crore