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Sona Beverages Pvt Ltd (SBPL)

September 05, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Cash Credit	45.00*	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised and removed from Issuer Not Cooperating	Simple
Long Term Bank Facilities – Term Loan	13.12	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised and removed from Issuer Not Cooperating	Simple
Total	58.12 (Rupees Fifty-Eight Crore and Twelve Lakh only)			

*Rs. 45 Crores Working Capital Demand Loan – Sublimit of CC

Details of Facilities are in Annexure 1

Detailed Rationale:

The aforesaid rating to the bank facilities of Sona Beverages Private Limited continues to derive strength from its experienced promoters and management team, steady growth in operations and profits, moderate capital structure and debt protection metrics and strong market position in Chhattisgarh with growing demand of its inhouse brand 'Simba'. The rating is however constrained by geographical concentration risk, profit margins being exposed to volatility in prices of raw materials, high exposure to group entity and vulnerability faced with respect to adverse regulatory charges.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in revenues leading to improvement in profitability.
- Improvement in capital structure and debt protection metrics



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- Improvement in liquidity profile of the company

Downward Factors

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

List of 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, it 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 SAB Miller. 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 inhouse 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's sales is to Chhattisgarh State Beverages Corporation Ltd. The company is also gradually trying to establish itself in other states such as Jharkhand, Madhya Pradesh, Assam, Goa, Karnataka, Maharashtra, West Bengal and Delhi and other north-eastern states.

- **Steady Growth in operating income and profits**

The company's total operating income has seen a steady growth in past four years, growing at a CAGR of 18%. The total income in FY22 (P) stood at Rs 148.67 crore as



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compared to Rs 115.00 crore in FY21, improved on account of better demand recovery and increase in liquor consumption since the lockdown restrictions were lifted. The increase in sales were on the back of increased demand for the Simba Brand and Carlsberg Brand in Chhattisgarh along with entry in new markets. Profitability margins remained moderate with EBITDA margin of 19.48% in FY22 (P) against 20.77% in FY21 and PAT margin of 10.48% in FY22(P) against 9.02% in FY21. The company generated a GCA of Rs 23.23 crore in FY 22 (P) against 17.16 in FY21.

- **Moderate capital structure and Debt protection metrics**

As on March 31, 2022 (P), overall gearing of SBPL stood at 0.95x (1.12x as on March 31, 2021), TOL/TNW stood at 1.43x on March 31, 2022 (P) (1.66x as on March 31, 2021) and interest coverage ratio at 6.24x in FY22 which improved from 4.09x in FY21 with an improvement in operating profitability. The company's credit profile is expected to remain moderate in the medium term, aided by improving operational performance and scheduled debt repayments.

Key Rating Weaknesses

- **Geographical Concentration risk albeit improving**

About 66% of SBPL's revenue is generated 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. However, the proportion of sales to CSBC has reduced over the period from 88% in FY20 to 72% in FY21 and further to 62.67% in FY22. The company has expanded to other geographies like Andhra Pradesh, Punjab, Meghalaya, Assam, Kerala, Tripura. The company aims to further reduce its geographical concentration going forward.

- **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



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prices of these commodities, thus, any unprecedented increase in the raw material prices going forward, may impact SBPL's profitability.

- **Vulnerability to adverse regulatory changes**

The liquor industry is highly regulated with the state government controlling selling and distribution. Any change in government policies with respect to production and distribution or any material change in the duty may impact the liquor industry and therefore the company in adverse way.

- **High exposure to group entity**

The company has high exposure of Rs.32.50 crore to its group entity as on March 31, 2022, which has increased from Rs. 20.27 crore as on March 31, 2021.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning Rating Outlook](#)

Liquidity –Adequate

The company's liquidity is adequate marked by sufficient cushion in cash accruals vis-à-vis debt repayments. Sona Beverages Private Limited reported a GCA of Rs 23.23 Crore in FY22 (prov.) and has repayment obligation of Rs 4.88 Crore in FY23. Bank limits of the company remained utilized to the extent of ~94% during the past 12 months ended March 2022 indicating high utilisation. The company has a current Ratio of 1.20x as of March 31, 2022. The free cash & cash equivalent was Rs 0.39 Crore as on March 31, 2022. The company operating cycle stood moderate at 56 days as on March 31, 2022 improving from 65 days as on March 31, 2021.



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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.

Financials (Standalone):

For the year ended/as on*	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Operating Income	112.00	145.19
EBITDA	23.26	28.29
PAT	10.38	15.58
Total Debt	53.05	60.24
Tangible Net Worth	47.46	63.13
EBIDTA Margin (%)	20.77	19.48
PAT Margin (%)	9.02	10.48
Overall Gearing	1.12	0.95

Status of non-cooperation with previous CRA:

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Rating (June 07, 2022)	Date(s) & Rating(s) assigned in 2021-22 (March 12, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-2020 (Dec 14, 2019)
1.	Long Term Bank Facility – Cash Credit	Long Term	45.00*	IVR BBB-; Stable	IVR BB+ (INC)	IVR BBB-	--	IVR BBB-
2.	Long Term Bank Facility – term Loan	Long Term	13.12	IVR BBB-; Stable	IVR BB+ (INC)	IVR BBB-	--	IVR BBB-

*Rs. 45 Crores Working Capital Demand Loan – Sublimit of CC

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About Infomerics:

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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 (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	--	-	45.00	IVR BBB-; Stable
Term Loan	-	--	June 2023	2.01	IVR BBB-; Stable
Term Loan	-	--	March 2025	11.11	IVR BBB-; Stable

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Sona-Beverages-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.