

## Mount Everest Breweries Limited

March 05, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	0.00 (reduced from 11.32)	-	Withdrawn #
Long Term / Short Term Bank Facilities	0.00 (reduced from 2.00)	-	Withdrawn #
Long Term Bank Facilities	45.51 (enhanced from 17.50)	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	Reaffirmed
Long Term/ Short Term Bank Facilities	5.50	<b>CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)</b>	Assigned
Short Term Bank Facilities	0.75	<b>CARE A3+ (A Three Plus)</b>	Assigned
<b>Total Facilities</b>	<b>51.76 (Rs. Fifty One Crore Seventy Six Lakhs Only)</b>		

# these bank facilities of Mount Everest Breweries Limited (MEBL) were earlier backed by unconditional and irrevocable corporate guarantee from Associated Alcohols & Breweries Limited (AABL; rated CARE A-; Stable/ CARE A2+). However, now MEBL's lenders have waived off the requirement of AABL's corporate guarantee and accordingly the said guarantee has fallen off and now there is no explicit credit enhancement from AABL. Consequently, these ratings are withdrawn.

Details of facilities in Annexure 1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MEBL continue to derive strength from the extensive experience of its promoters in the alcoholic beverages industry, established operations in the state of Madhya Pradesh along-with gradual expansion of its operations in other geographies, committed off-take arrangement with United Breweries Ltd. (UBL) for its 'Kingfisher' brand in Madhya Pradesh, improvement in proportion of sales from its own brands in its total sales resulting in improvement in its profitability, moderate capital structure & debt coverage indicators, adequate liquidity and favourable industry prospects in the medium-term.

The ratings, however, continue to remain constrained on account of geographical concentration of its operations, susceptibility of MEBL's profitability to volatile agro-based raw material prices, its presence in a highly regulated alcoholic beverages industry characterized by heavy duties & taxes and stringent government controls exposing the company to adverse regulatory changes. The ratings are further constrained by moderation in its scale of operations during FY20 & 9MFY21 on the back of coinciding of Covid induced lockdown with the peak sales season of the company. CARE also notes that MEBL availed moratorium on its debt servicing obligations from March 1, 2020 to August 31, 2020, as a Covid-19 relief measure, in line with Reserve Bank of India (RBI) guidelines.

### Rating Sensitivities

#### Positive factors

- Sustained growth in its scale of operations with TOI (total operating income) of more than Rs.400 crore while improving its overall gearing to below 0.50 times on a sustained basis
- Improvement in the PBILDT margin to more than 12% on a sustained basis
- Growth in proportion of the own brand sales in TOI of MEBL on a sustained basis

#### Negative Factors

- Decline in its scale of operations marked by TOI of less than Rs.200 crore
- Decline in the PBILDT margin to below 8% on a sustained basis leading to adverse impact on its debt coverage indicators
- Undertaking of any unplanned debt funded capex leading to moderation in the capital structure of the company marked by an overall gearing exceeding 1x on a sustained basis
- Any adverse regulatory action affecting its operations
- Any significant liability towards disputed matter of income tax impacting its liquidity

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Detailed description of the key rating drivers****Key Rating Strengths*****Experienced and resourceful promoter group***

MEBL was promoted by late Mr. Bhagwati Prasad Kedia. Mr. Gopal Agrawal, the executive director, is a management graduate and has an experience of more than eight years in the industry. He manages the entire operations of the company under the aegis of the promoter family. The promoters have a proven track record of business operations in the liquor industry through one of the group entities i.e. AABL which is engaged in manufacturing of Country Liquor (CL) and Indian Made Foreign Liquor (IMFL). Also, the promoters have supported MEBL during its stabilization phase by infusing unsecured loans. As on December 31, 2020, promoters' unsecured loans stood at Rs.22.31 crore.

***Established operations in beer segment of MP along-with gradual expansion to other geographies***

Within a short span of period, MEBL has established its presence in MP and has become one of the largest breweries in the state of MP. MEBL has a diverse portfolio of in-house brands of beer such as Mount's 6000, Le Mont and Dabang which have a strong presence in the beer segment in MP and Chhattisgarh. Further, during FY19, MEBL had expanded its operations in the state of Uttar Pradesh where MEBL was able to sell beer worth ~Rs.53 crore in the very first year of its operations.

***Increased focus on proprietary brands resulting in improvement in profitability***

MEBL has an assured off take arrangement to the extent of 10 lakh-cases of beer in FY21 (18 lakh-cases per annum till FY20) with United Breweries Ltd. (UBL) for its 'Kingfisher' brand. However, MEBL has been focusing more on its own brand beers, depicted by increase in the proportion of the own brand beers in the total sales from 32% in FY18 to 69% in FY20; and consequently, MEBL has reduced its contracted off-take with UBL from 18 lakh-cases per annum to 10 lakh-cases per annum, in order to cater the increased demand of its own brands during peak season. Consequently, MEBL's operating profitability marked by PBILDT margin improved from 6.36% in FY18 to 8.78% in FY20. With the stabilization of MEBL's operations and improved prospects of its own brands, lenders have also waived off requirement of corporate guarantee of AABL for the sanctioned bank facilities of MEBL.

***Moderate capital structure and debt coverage indicators***

MEBL's capital structure continued to remain moderate with overall gearing of 1.08x as on March 31, 2020 (0.92x as on March 31, 2019) on account of higher utilization of sanctioned fund based working capital limits and higher unsecured loans from the promoter at the year-end due to Covid-19 induced lockdown at the year end. Further, the debt coverage indicators remained moderate marked by interest coverage of 4.80x (FY19: 5.69x) in FY20 and total debt to GCA of 5.12 years (FY19: 3.69 years) as on March 31, 2020.

***Liquidity: Adequate***

MEBL's adequate liquidity is characterized by sufficient cushion in cash accruals vis-à-vis term loan repayment obligations along with its modular capex requirements. The average month-end utilization of its fund-based working capital facilities remained low at ~51% during trailing twelve months ended December 2020, although it remains on the higher side during the peak season. However, its operating cycle elongated from 39 days in FY19 to 71 days in FY20 on account of higher inventory holding as on March 31, 2020, due to COVID-19 disruptions, which has reduced subsequently during 9MFY21. Upon coincidence of Covid-19 induced lockdown with MEBL's peak season sales, MEBL availed moratorium on its debt servicing obligations from March 1, 2020 to August 31, 2020, as a Covid-19 relief measure, in line with Reserve Bank of India (RBI) guidelines.

***High entry barriers & favourable medium-term prospects for the alcoholic beverages market in India***

Liquor policies governing its production and sale are entirely controlled by respective state governments wherein it is very difficult for new entrants to get licenses thus providing a competitive edge to existing players. However, the states have been reasonably flexible in granting expansion of existing capacity to meet increasing demand, which acts in favour of incumbents as new players find it difficult to enter in the industry. India is amongst the largest alcoholic beverages producers and the third largest liquor market in the world. Growing disposable incomes, rapid urbanization, greater acceptance of social drinking and a higher proportion of young population entering the drinking age, cumulatively have a favourable effect for liquor manufacturers. Moreover, per capita beer consumption in India is still very low compared to other countries in the world and hence, beer demand in the domestic market could witness substantial growth in the medium term owing to the shift from hard liquor to beer consumption by consumers in India.

Outbreak of COVID-19 pandemic and subsequent lockdown announced by GOI, adversely affected the entire liquor supply chain during Q1FY21, a peak demand season for beer manufactures, with halting of production and retail sales of liquor. However, gradual recovery has been witnessed after easing of lockdown and medium term prospects of alcoholic beverages in India are still expected to be favourable.

**Key Rating Weaknesses*****Presence in highly regulated industry***

The alcoholic beverage industry is highly regulated in India with each state government controlling its policy on production, distribution, retailing and duty structure independently. As a result, there are difficulties in transfer of production from one state to another, along with huge burden of duties and taxes. Furthermore, in the recent past, few state governments have also banned sale of liquor in their state, including Bihar government in September 2016. Given the strategic role of state government in the alcoholic beverage industry, the company remains exposed to risks associated with regulatory changes.

***Volatility in input prices with limited pricing power***

MEBL's main raw materials are non-food grade grains which contain higher percentage of starch. Production of food grains in India is dependent upon the vagaries of monsoon and consequently the prices remain volatile. The food grain prices are also controlled by the government through setting of minimum support prices. On the other hand, the prices of the main product of MEBL, viz. Beer, are normally fixed for one year. Hence, MEBL's production costs are vulnerable to the agricultural commodity price cycles.

***Regional concentration risk***

In spite of gradual diversification by MEBL, out of its total sales during FY20, MP contributed ~83% of the gross sales whereas Chhattisgarh and Uttar Pradesh contributed ~11% and ~6% respectively to the gross sales reflecting its regional concentration.

***Moderation in scale of operations during FY20 & 9MFY21 along-with moderation in profitability during 9MFY21***

MEBL's scale of operations marked by TOI declined by ~13% y-o-y to Rs.251.75 crore during FY20 on account of lower sales in Chhattisgarh and Uttar Pradesh and stagnant sales in MP partly due to COVID-19 related disruptions in March 2020. MEBL's TOI further moderated to Rs.141.81 crore during 9MFY21 amidst halting of its operations during April & May 2020 due to lockdown and gradual recovery in demand thereafter. Production and sale of beer was impacted due to COVID-19 outbreak and subsequent lockdown on account of March to June being peak demand season for beer manufactures.

Operating profitability marked by PBILDT margin moderated to 4.72% during 9MFY21 mainly due to decline in scale of operations along-with additional cost associated with upgradation of glass bottles used for packaging of beer. MEBL had started upgradation of glass bottles which are used for packaging of beer from January 2020 onwards. MEBL normally gets back ~75% of glass bottles sold in the market which are recycled at minimal charges for their reuse in packaging whereas rest ~25% of glass bottles are newly manufactured bottles which carry higher packaging cost to the company. Due to lower sales in March 2020 due to COVID disruptions and halting of operations during Q1FY21, there was little recovery of new glass bottles which compelled MEBL to manufacture new bottles for its requirement till December 2020. Going forward, now it is expected that new bottle manufacturing would be significantly on the lower side upon recovery of used bottles from its sales of 9MFY21 leading to significant saving in packaiga cost from Q4FY21 onwards.

**Analytical Approach:** Standalone

**Applicable Criteria**

**Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings**

**CARE's Policy on Default Recognition**

**Criteria for Short Term Instruments**

**CARE's Methodology for Manufacturing Companies**

**Financial ratios - Non- Financial Sector**

**Liquidity Analysis of Non-Financial Sector Entities**

**Policy on Withdrawal of ratings**

**About the Company**

In 2009, Kedia group setup a brewery unit under MEBL which undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands. MEBL has an assured off take arrangement to the extent of 10 lakh cases of beer per annum. MEBL has an installed capacity of 10 lakh Hectolitres (120 lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP.

Brief Financials (Rs. Crore)	FY19(A)	FY20(A)
Total operating income	288.98	251.75
PBILDT	24.03	22.10
PAT	8.94	8.33
Overall gearing (times)	0.92	1.08
PBILDT Interest coverage (times)	5.69	4.80

A – Audited

During 9MFY21 (prov.), MEBL reported TOI of Rs.141.81 crore with losses before tax of Rs.3.94 crore.

**Status of non-cooperation with previous CRA:** CRISIL suspended its rating vide press release dated May 17, 2016 on account of non-cooperation by MEBL with CRISIL's effort to undertake a review of the outstanding ratings.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure 2

**Covenants of rated instrument/facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Annexure 3

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	December 2025	20.51	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB; Stable
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	5.50	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.75	CARE A3+

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A- (CE); Stable (06-Apr-20)	-	1)CARE A- (SO); Stable (06-Mar-19)	1)CARE A- (SO); Stable (05-Jan-18)
2.	Term Loan-Long Term	LT	-	-	1)Withdrawn (06-Apr-20)	-	1)CARE A- (SO); Stable (06-Mar-19)	1)CARE A- (SO); Stable (05-Jan-18)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	1)CARE A- (CE); Stable / CARE A2+ (CE) (06-Apr-20)	-	1)CARE A- (SO); Stable / CARE A2+ (SO) (06-Mar-19)	1)CARE A- (SO); Stable / CARE A2+ (SO) (05-Jan-18)
4.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (06-Apr-20)	-	1)CARE A- (SO); Stable	1)CARE A- (SO); Stable

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
							(06-Mar-19)	(05-Jan-18)
5.	Term Loan-Long Term	LT	-	-	1)CARE A- (CE); Stable (06-Apr-20)	-	1)CARE A- (SO); Stable (06-Mar-19)	1)CARE A- (SO); Stable (05-Jan-18)
6.	Fund-based - LT-Term Loan	LT	20.51	CARE BBB; Stable	1)CARE BBB; Stable (06-Apr-20)	-	-	-
7.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	1)CARE BBB; Stable (06-Apr-20)	-	-	-
8.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	1)CARE BBB / CARE A3+ (06-Apr-20)	-	-	-
9.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.50	CARE BBB; Stable / CARE A3+	-	-	-	-
10.	Non-fund-based - ST-Credit Exposure Limit	ST	0.75	CARE A3+	-	-	-	-

**Annexure-3: Complexity Level of various facilities rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple
5.	Term Loan-Long Term	Simple
6.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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