Blossom Industries Limited

April 09, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	75.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Total Facilities	**75.00 (Rupees Seventy-five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Blossom Industries Limited (BIL), CARE has taken a combined view of BIL and its trading arm M/s. K H Khemani & Sons (KHK) due to their financial, managerial and operational linkages. Together, they are referred to as Blossom group. The ratings also take cognisance of a family settlement agreement to be executed between the promoters of the Khemani family, under which one of the promoter family shall exit the various businesses.

The ratings assigned to the bank facilities of BIL derive strength from its experienced promoters, BIL's long record in alcoholic beverages industry, established manufacturing facilities in Daman (U.T.), committed off-take arrangement with reputed player of alcoholic beverages Industry viz. United Breweries Limited (UBL) and its geographically diversified sales territory. The ratings also factor in group's moderate scale of operations, healthy profit margins and moderation capital structure and debt coverage indicators, and favourable outlook for alcoholic beverages in India and its adequate liquidity.

The ratings are, however, constrained on account of large size exposure in the form of loans and advances to unrelated party, risk associated with timely renewal of off-take agreements and its presence in highly regulated alcoholic beverages industry characterized by heavy duties & taxes and stringent government controls, exposing the group to any adverse regulatory changes. The ratings are further constrained by moderation in its scale of operations and profitability during FY20 (FY; refers to period April 1 to March) & 9MFY21 on the back of coinciding of Covid-19 induced lockdown with the peak sales season of the company.

Rating Sensitivities

Positive Factors

- Sustained increase in group's scale of operations with a total operating income of above Rs.300 crore with improvement in PBILDT margins to above 16% on a sustained basis
- Recovery of loans and advances extended to Shree Naman Developers Limited (Naman Developers)

Negative Factors

- Any major adverse changes in contract terms with UBL or termination of agreement with UBL, impacting group's financial risk profile
- Significant decline in group's total operating income or profitability
- Any major debt funded capex adversely impacting the capital structure and debt coverage indicators of the group
- Significant changes in the terms of Family Settlement Agreement

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established presence in the alcoholic beverages industry

The Khemani family businesses, based in the U.T. of Daman and Diu have been promoted by two brothers viz. Mr. Ashok Khemani and Mr. Suresh Khemani. These promoters have over the years set up various entities in the distillery and brewery industry. The first entity of the group named Royal Distilleries Private Limited (RDPL) was set up in 1983 to manufacture own brands of Indian-made Foreign Liquor (IMFL) and Country Liquor (CL). Subsequently, they established other entities majorly including Khemani Distilleries Private Limited (KDPL; engaged into manufacturing of IMFL), BIL- engaged into manufacturing of beer and Perfunova International Limited (PIL; engaged into manufacturing of perfumes), amongst others. Both these brothers possess a vast industrial experience for more than three decades in the alcohol industry. They are well assisted by the second-generation family members, viz. Mr. Amit Khemani, along with an experienced management team who looks after the day-to-day operations of the group.

Established manufacturing facilities

The brewery facility of BIL, located at Daman (U.T.), is equipped with the latest technology and machineries which enabled the company to cater to the growing demand of both Indian and overseas markets. It is equipped with fully automatic brew

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

house and Cleaning in Place (CIP) cycles. Also, the de-aeration plant is brought in from Norit (Netherlands) wherein BIL uses the de-aerated water for various process applications to ensure that the dissolved oxygen level in the beer remains very low thereby reducing the oxidation of beer.
BIL has two types of packaging line i.e. Bottle Line and Can Line. Both the line has the capacity to produce 6 lakh cases of beer per month. Further, BIL has an Effluent Treatment Plant (ETP) with an installed capacity of 1,250 kilo litre per day (KLPD) which lowers the risk associated with environment. BIL's average utilization of installed brewing capacity remained at around 75-80% during the last there years ended FY20.

Off-take arrangement with reputed player along with geographically diversified sales
BIL has entered into license agreement with UBL for manufacturing & sale of beer for its various brands since 2004 and entered into agreement of bottling and brewing with AB InBev for its various brands since 2014. The long-term association with a key player in the alcohol industry reflects the company's ability to provide quality products and standardized manufacturing processes. BIL produces around 65-75 lakh cases of beer annually which comprises around 50-60 lakh cases of UBL brand beer and around 12-15 lakh cases of AB InBev brand beer. Further, KHK acts as a distributor for these reputed players in Daman, Diu, Silvassa region. Moreover, under the contract manufacturing arrangement, the raw material cost is entirely pass through in nature and hence insulates BIL from any volatility in raw material prices.
The agreements with these players are valid for two-three years and generally also have track record of being renewed from time to time. The agreement with AB InBev was, however, terminated with effect from December 2020 due to reduced demand of AB InBev's products in light of Covid-19 whereas its latest agreement with UBL is valid till 2022. Further, its agreement with UBL has been renewed regularly for more than 15 years and BIL is one of the key suppliers of UBL**.** Hence, continuity of the agreements at favourable terms remains crucial from the revenue profile of the group.
Apart from contract manufacturing for UBL's brands, group also sells beer under its own brands like 'Bell Bird' and 'TAG'. Further, group also exports beer to various countries. However, share of own brands in total sales is very limited which lead to high dependency on contract manufacturing. Further, revenue profile of group is geographically diversified with domestic sales contributes around of 75-80% of total sales while balance is contributed by export sales.

Moderate capital stature and debt coverage indicators
BIL has funded its past capex (maintenance) and working capital requirement by internal accruals/promoters' funds and the group had not availed any bank limits in recent past. Hence, the capital structure of Blossom group remained comfortable during the last three years ended FY20 in the absence of major debt and healthy capital base. However, it is expected to deteriorate on the back of drawal of term debt of around Rs.75 crore to facilitate the payment to retiring partners i.e. Mr. Suresh Khemani and Suresh Khemani HUF. Further, the capital base is expected to decline owing to withdrawal of capital by retiring partners. Despite drawal of term debt and withdrawal of capital by partners, the capital structure is expected to remain moderate in near term. The debt coverage indicators of Blossom group, too, is expected to moderate despite increase in interest expenses upon drawal of term debt.

High entry barriers & favourable prospects for the alcoholic beverage market in India
Liquor policies governing the 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. Also, 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 with an estimated market size of ~USD 35 billion. Growing disposable incomes, rapid urbanization, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, cumulatively have a favourable effect for liquor manufacturers.
The outbreak of COVID-19 pandemic and subsequent lockdown announced by GOI adversely affected the entire liquor supply chain mainly during Q1FY21 with halting of production and retail sales of liquor. With gradual recovery has been witnessed after easing of lockdown. However, complete recovery in the near term depends upon containment of resurgence of the virus. Nevertheless, long term prospects of the alcoholic beverages in India is expected to remain favourable.

Liquidity: Adequate
The liquidity of the group is expected to remain adequate backed by steady cash accruals and absence of term debt repayment obligation in near future. The term debt repayments obligation is expected to commence from FY25 which shall provide cushion to liquidity. Further, the group operates with lean operating cycle and reliance on working capital borrowings is minimum. Generally, under the contract manufacturing arrangement with brand owners, they fund the working capital requirement of BIL and reliance on external borrowing is minimum. During past three years ended FY20, the liquidity is supported by a lean operating cycle of 5-10 days and healthy annual gross cash accruals of Rs.35-40 crore.

The group also has an unencumbered cash and bank balance of Rs.15.75 crore as on February 28, 2021 which further aids its liquidity. Further, BIL did not avail any moratorium, provided by the Reserve Bank of India RBI as a Covid-19 pandemic relief measure, for its debt servicing.

Key Rating Weaknesses

Moderate scale of operations with moderation in profitability during FY20 and 9MFY21

The scale of operations of Blossom group marked by TOI declined by 7% to Rs.376 crore in FY20 as against Rs.405 crore in FY19 on account of COVID-19 related disruptions in March 2020. The sales volume declined by nearly 10% in FY20 which was partly offset by increase in average sales realisation restricting decline in TOI to 7% during the period. Further, the PBILDT margin too declined to 13.78% in FY20 (PY: 16.95%) due to decline in scale of operation apart from increase in overhead cost. Moreover, the TOI of the group further moderated to around Rs.171 crore in 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.

Large size exposure in the form of loans and advances to unrelated party

BIL has extended loans and advances of Rs.112.90 crore as on March 31, 2020 to Naman Developers, a real estate developer based out of Mumbai. The exposure is significant given the networth base of the group (58% of its tangible net worth as on March 31, 2020). Excluding these loans and advances the tangible net worth of the group stood at Rs.82.03 crore as on March 31, 2020. The recoverability of such loans remains crucial from credit perspective and such large size exposure restricts the financial flexibility of the group.

Presence in a highly regulated industry and short-term challenges due to Covid-19

The liquor 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. Given the strategic role of state government in the liquor industry, the company remains exposed to risks associated with regulatory changes. Further, Indian Government has declared a nationwide lock down in the last week of March 2020 as a measure to check the spread of Covid-19 pandemic. The Government has cancelled all of its non-official visas offered and advised to curb all non-essential travels across the country in the view of preventing the spread of corona virus. Hence, the demand of alcohol industry is expected to impact adversely for a short term.

Analytical approach: Combined

For arriving at the ratings of BIL, CARE has taken a combined view of BIL and its trading arm, KHK, as these entities operates under common management platform and have significant financial and operational linkages (KHK distributes beer manufactured by BIL in Diu and Daman market). They are together referred as Blossom group.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology -Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Consolidation

About the Company

Blossom Industries Limited (BIL), Daman (U.T.) based closely held public limited company, was acquired by the Khemani family members in the year 2000. BIL was originally incorporated in 1989 as Blossom Breweries Private Limited. Presently, BIL is a part of Khemani group formed in 1983. BIL is engaged in the manufacturing of Beer at its brewery facility located at Daman with an installed capacity of around 120 lakh cases per annum (i.e. 10 lakh hectoliters (HL)). It undertakes contract manufacturing for various brands of beer for reputed players of alcoholic beverages industry as per the off-take arrangement agreed with them. It also manufactures and sells its own brands of beer.

Brief Financials (Rs. crore)	Combined (Blossom Group)		Standalone BIL	
	FY19 (UA)	FY20 (UA)	FY19 (A)	FY20 (A)
Total operating income	404.77	376.00	365.63	346.57
PBILDT	68.59	51.79	40.27	28.74
PAT	43.69	35.64	24.68	20.78
Overall gearing (times)*	0.06	0.05	0.00	0.00

Brief Financials (Rs. crore)	Combined (Blossom Group)		Standalone BIL	
	FY19 (UA)	FY20 (UA)	FY19 (A)	FY20 (A)
Interest coverage (times)	59.13	20.65	Not Meaningful	16.29

A: Audited, UA: Unaudited: *on the basis of the net debt
As per the provisional results for 9MFY21, the Blossom group reported TOI of Rs.171.36 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this Company : Please refer 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-Term Loan	Not Applicable	Not Applicable	March, 2028	75.00	CARE BBB-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	75.00	CARE BBB-; Stable	-	-	-	-

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

Sr. No.	Name of the Instrument	Complexity level
1.	Fund-based - LT-Term Loan	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful

place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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