

Mount Everest Breweries Limited (Revised)

August 19, 2022

Ratings

Facilities/ Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	42.65	CARE BBB (CWD) (Triple B) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	6.25	CARE BBB / CARE A3+ (CWD) (Triple B/ A Three Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	0.75	CARE A3+ (CWD) (A Three Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	49.65 (₹ Forty-Nine Crore and Sixty-Five Lakh Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Mount Everest Breweries Limited (MEBL) have been placed on Credit Watch with Developing Implications in the view of the recent announcement made by its group company i.e. Associated Alcohols and Breweries Limited [AABL; rated CARE A- (CWD)/ CARE A2+ (CWD)] for approval of scheme of amalgamation by AABL's board of directors for merger of AABL into MEBL subject to receipt of necessary approvals from regulators and stakeholders. CARE Ratings is monitoring developments in this regard and shall review the rating once clarity emerges on the same.

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 with an established operation in the state of Madhya Pradesh through committed off-take arrangement with United Breweries Ltd. (UBL) for its 'Kingfisher' brand and continuous growth in sales and its own brands and favourable industry prospects in the medium-term.

The ratings also take cognizance of faster realisation from the MP Government leading to healthy cash flow from operations during FY22 (FY refers to the period from April 01 to March 31), MEBL's comfortable capital structure & debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of MEBL's moderate scale of operations in a highly regulated alcoholic beverages industry characterized by heavy duties & taxes and stringent government controls, and geographical concentration of its operations in one state. The ratings also take cognizance of susceptibility of MEBL's profitability to volatile agro-based raw material prices, which has resulted in moderation in profitability margins in FY22.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in sale of MEBL's inhouse brands leading to TOI of more than Rs.300 crore along with improvement in the PBILDT margin to more than 9% on a sustained basis.
- Improvement in its overall gearing to below 0.50 times on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in its scale of operations marked by TOI of less than Rs.200 crore or PBILDT margin to below 5% on a sustained basis
- Undertaking of any unplanned debt funded capex leading to moderation in the capital structure of the company marked by an overall gearing exceeding above unity.
- Any adverse regulatory action affecting its operations.
- Crystallization of disputed service tax/ income tax liability resulting in deterioration of its liquidity.

Detailed description of the key rating drivers

Proposed amalgamation of its group company AABL into MEBL:

AABL has made an announcement for approval of scheme of amalgamation by its board of directors for merger of AABL into MEBL, subject to necessary approvals from regulators and stakeholders. Pursuant to scheme of amalgamation, AABL shall get merged into MEBL, effective date would be April 01, 2022. The exchange ratio in consideration of amalgamation determined by

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

AABL at allotment of 773 equity shares of MEBL [Face Value (FV) of Rs.10 each] for every 1000 equity shares of AABL (FV of Rs.10 each). The primary rationale behind the proposed scheme of amalgamation is consolidation of product segment of both the companies i.e. Spirit and Beer into a single entity. Pending clarity on exact implication of the above on credit risk profile of MEBL, CARE has placed the ratings of the bank facilities of AABL on 'Credit Watch with Developing Implications'.

Key rating strengths

Experienced and resourceful promoter group: MEBL was promoted by late Mr. Bhagwati Prasad Kedia. Mr. Gopal Agrawal 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. Associated Alcohols & Breweries Limited [AABL; rated CARE A- (CWD)/ CARE A2+ (CWD)] which is engaged in manufacturing of Country Liquor (CL), Extra Nutrified Alcohol (ENA) and Indian Made Foreign Liquor (IMFL). Also, the promoters have supported MEBL during its stabilization phase by infusing unsecured loans.

Increased focus on proprietary brands: Within a short span, MEBL has established its presence across 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. Sale of inhouse brands accounted for around 70% of the total sales of FY21 (FY20:69%); and consequently, MEBL has reduced its contracted off-take with UBL from 18 lakh-cases per annum to 10 lakh-cases per annum to cater the increased demand of its own brands during the peak season.

Significant entry barriers and favourable medium-term prospects for the alcoholic beverage market in India:

Liquor policies governing its production and sale are entirely controlled by the respective state government wherein it is very difficult for new entrants to get the licenses, providing a competitive edge to existing players like MEBL. Moreover, the state governments have been reasonably flexible in granting expansion of existing capacity to meet demands. This acts in favour of incumbents as new players find it difficult to enter in the industry. India is amongst the largest alcoholic beverage producers and the third largest liquor market in the world. Key demand drivers of the industry have been growing disposable income, favourable demographics in the country wherein India is expected to add a sizeable population to the legal drinking age each year, changing lifestyle & societal norms with increasing acceptability of alcohol on social occasions, urbanization along with increasing number of pubs and bars in the country. Outbreak of second phase of COVID pandemic and subsequent lockdown announced by GoMP, had adversely affected the entire liquor supply chain with halting of production and retail sales. However, consumption levels improved with relaxation of covid led restriction, medium term prospects of alcoholic beverages in India is expected to be favourable.

Comfortable capital structure and debt coverage indicators: MEBL's capital structure continued to remain moderate marked by overall gearing of 0.65x as on FY22 end (0.98x as on FY21 end) on account of lower utilisation of working capital limits as on the balance sheet date. Debt coverage indicators also remained moderate marked by interest coverage of 4.60x in FY22 (3.48x in FY21) and total debt to GCA of 4.33 years in FY22 (6.45 years in FY21).

Liquidity: Adequate

MEBL's adequate liquidity is characterized by sufficient cushion available in cash accruals vis-à-vis moderate LT debt repayment obligations along with its modular capex requirements. Increase in cash flow from operations due to reduction in collection period was utilized to repay unsecured loans infused by promoters, working capital assistance received from UBL as well as reduce reliance on bank borrowings for working capital requirements. Average month-end utilization of its fund-based working capital facilities remained low at around 32% during trailing twelve months ended December 2021, although it remains on the higher side during the peak season. MEBL's operating cycle stood at 56 days in FY22 (91 days in FY21) owing to faster payment made by the MP Excise Department and reduced holding period of Inventory.

Key rating weaknesses

Moderate scale of operations: MEBL's scale of operations grew by 19% y-o-y to Rs.286.36 crore in FY22 (Rs.243.08 crore during FY21) on account disruptions caused during Q1FY22 due to second phase of Covid-19 during peak demand season and y-o-y reduction in sales in Chhattisgarh and Uttar Pradesh.

Moderation in profitability due to variation in raw material prices: Raw materials (barley malt and hops) constitute a major portion of MEBL's cost of sales. Production of food grains in India is dependent upon the vagaries of monsoon and consequently the prices remain volatile. While MEBL has a limited pricing flexibility for beer, raw material prices remain volatile and has reflected an increasing trend since the beginning of FY22. Hence, MEBL's production costs are vulnerable to the agricultural commodity price cycles. This apart, decline in scale of operations, due to Covid-19 disruptions lead to lower absorption of fixed costs. Consequently, MEBL's PBILDT margin moderated by 153 bps y-o-y to 5.76% in FY22 (7.29% in

FY21). However, due to reduction of interest costs PAT margin improved marginally by 41 bps to 1.41% in FY22 (1.00% in FY21).

Presence in highly regulated industry resulting in high geographical concentration The liquor industry is highly regulated in India with each state government controlling its policy on production, distribution, retailing and duty structure independently. Further, in the recent past, state governments have taken multiple steps from banning sale of liquor, running social awareness & anti-alcohol campaigns, increasing excise duty y-o-y on other state produces to promote their own breweries or to dissuade growth in consumption of alcohol in the state. As a repercussion of changing government policies, MP contributed ~94% of the gross sales during FY21 (FY20:83%) whereas share of Chhattisgarh and Uttar Pradesh in MEBL's total sales substantially declined to ~4% (FY20: 11%) and ~2% (FY20: 6%) respectively, reflecting high geographical concentration.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (P)
Total operating income	243.08	286.36	NA
PBILDT	17.72	16.49	NA
PAT	2.43	4.04	NA
Overall gearing (times)	0.98	0.65	NA
Interest coverage (times)	3.48	4.60	NA

A: Audited; P: Provisional; NA: Not Available

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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September, 2026	17.65	CARE BBB (CWD)
Fund-based - LT-Cash Credit	-	-	-	-	25.00	CARE BBB (CWD)
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	6.25	CARE BBB/ CARE A3+ (CWD)
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	0.75	CARE A3+ (CWD)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (05-Mar-21) 2)CARE A-(CE); Stable (06-Apr-20)	-
2	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Apr-20)	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	-	-	-	-	1)Withdrawn (05-Mar-21) 2)CARE A-(CE); Stable / CARE A2+(CE) (06-Apr-20)	-
4	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (06-Apr-20)	-
5	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (05-Mar-21) 2)CARE A-(CE); Stable (06-Apr-20)	-
6	Fund-based - LT-Term Loan	LT	17.65	CARE BBB (CWD)	-	1)CARE BBB; Stable (21-Mar-22)	1)CARE BBB; Stable (05-Mar-21) 2)CARE BBB; Stable (06-Apr-20)	-
7	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB (CWD)	-	1)CARE BBB; Stable (21-Mar-22)	1)CARE BBB; Stable (05-Mar-21) 2)CARE BBB; Stable (06-Apr-20)	-
8	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	-	1)Withdrawn (05-Mar-21) 2)CARE BBB / CARE A3+ (06-Apr-20)	-
9	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	6.25	CARE BBB / CARE A3+ (CWD)	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-22)	1)CARE BBB; Stable / CARE A3+ (05-Mar-21)	-
10	Non-fund-based - ST-Credit Exposure Limit	ST	0.75	CARE A3+ (CWD)	-	1)CARE A3+ (21-Mar-22)	1)CARE A3+ (05-Mar-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Ujjwal Manish Patel
Phone: 8511193123
E-mail: ujjwal.patel@careedge.in

Relationship contact

Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in