Blossom Industries Limited

March 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.00	CARE BBB-; Stable	Assigned
Long Term Bank Facilities	50.00 (Enhanced from 25.00)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	2.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and 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 K. H. Khemani & Sons due to their financial, managerial, and operational linkages. Together, they are referred to as Blossom group.

The ratings assigned to the bank facilities of BIL derive strength from its experienced promoters in the alcohol industry, established manufacturing facilities with a captive power plant, long-standing contract manufacturing arrangement with United Breweries Limited (UBL). The ratings also factor in group's healthy profit margins, comfortable leverage and debt coverage indicators, favourable outlook for alcoholic beverages in India and group's adequate liquidity.

The ratings are, however, constrained on account of group's moderate scale of operations, risk associated with timely renewal of off-take agreements and its presence in a highly regulated liquor industry characterized by heavy duties & taxes and stringent government controls, exposing it to any probable adverse regulatory changes. The ratings further considered by its debt funded project risk and large size exposure in the form of loans and advances to unrelated party.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained increase in group's scale of operations with a total operating income of above Rs.350 crore while maintaining its existing profitability on a sustained basis.
- Improvement in capital structure of the group marked by overall gearing below 0.5x on a sustained basis.

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 loans or advances to unrelated party or any major debt funded capex adversely impacting the capital structure marked by overall gearing above unity.

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 and have significant financial and operational linkages (KHK caters primarily Daman, Diu and Silvassa markets for beer/ARTD which is manufactured by BIL).

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's expectations that BIL shall be able to sustain its comfortable financial risk profile and grow its scale of operations due to its association with UBL and experienced promoter group.

Detailed description of the key rating drivers:

Key strengths

Experienced promoter group and established presence in the industry.

The Blossom group is promoted by the Khemani Family viz. Mr. Ashok Khemani, possesses vast industrial experience for more than 3 decades in the liquor manufacturing industry. He is well assisted by his son, Mr. Amit Khemani, Managing Director, who has an experience of over two decades in the industry. The promoters of group are well assisted by Mr. Vincent Vaz, who serves as the group CFO and Mr. Raj Kumar Sharma, who is the unit head at the manufacturing facility. The group is supported by technically qualified second tier personnel who look after day-to-day operations of the group.

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

Long track record having established manufacturing facilities

BIL has a more than 2 decades of track record of operation in manufacturing of beer at its brewery facility located at Daman (U.T.) with the latest technology and machineries which enabled the company to cater to the growing demands of both Indian and overseas markets. It is equipped with fully automatic mash filter, automated system to control temperature and CIP cycles during fermentation and lagering process. Also, the Deaeration of plant is brought in from Norit (Netherlands) wherein BIL uses the deaerated 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. The bottling line has the capacity to produce 4 lakh cases per month whereas Can line has the capacity to produce 6 lakh cases* 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. The capacity utilization has improved from 41% in FY22 to ~62% in FY23 and 9MFY24.

Sales arrangements in the form of contract manufacturing with UBL.

BIL has entered into license agreement for manufacture & sale of beer with UBL for its various brands since 2000. During December 2019, BIL had launched new brand namely 'TAG' and started its production and sales from FY20 onwards. Currently, BIL registered following label of beer of UBL and its own brand of beer with Commissioner of Excise, to manufacture and sell the same.

BIL procures raw materials and packing materials (of such quality and quantity specified by brand owners) from the suppliers as specified by UBL and as per the terms finalized by UBL with them. Also, BIL produces beer as per the formulae, process, methods & standards of quality as prescribed by UBL for which the technical experts remain present during the manufacturing of beer. Further, BIL sells beer to the customers as specified by UBL at a prescribed price and the risk of collection from customers lies with UB.

BIL has an agreement with UBL for an assured annual off take to the extent of 60 lakh cases of beer since 2009. The agreement entered with UBL remains valid for two-three years and the same get renewed annually to revise the conversion rates. The latest agreement with UBL is valid for a tenure till March 2025.

During the FY24, an agreement was made between BIL and The Coca Cola Company (TCCC) and Schweppes Holding Ltd. (SHL) for ARTD (Alcoholic Ready to Drink) products. There was also an agreement between BIL and Pernod Ricard India Pvt. Ltd. (PRIPL) for NAB (Non-alcoholic Beverages) products.

Moderate scale of operations with healthy profit margins

The scale of operations of blossom group remained moderate marked with total operating income (TOI) which remained in the range of Rs.220-400 crore during the last five years ending FY23. However, in FY23, Blossom group reported growth in TOI by 38% to Rs. 343.59 crore in FY23 from Rs. 247.75 crore in FY22 due to improved demand post ease of covid related restrictions. The Operating profitability of the group remained healthy marked by PBILDT margin of 16-18% in last 3 years. The PBILDT margin deteriorated marginally to 16.30% in FY23 from 17.58% in FY22 on account of higher input cost. However PAT margin improved to 9.70% in FY23 from 7.85% in FY22 on account of increase in scale coupled with decrease in interest cost.

During 9MFY24, the BIL has reported the TOI of Rs. 235.95 crore. The TOI of the company is envisaged to remain stable in FY24 as compared to FY23 led by stable demand from Silvasa, Daman and U.P. BIL (standalone) and KHK & Sons (Standalone) have reported PBILDT of Rs. 20.13 crores and Rs. 25.78 in 9MFY24 respectively, leading to improvement in PBILDT margin to 8.53% (Blossom) and 14.63% (KHK and Sons) on standalone basis.

Comfortable gearing and debt coverage indicators

Blossom group's overall gearing improved and remained comfortable at 0.27x in FY22 (0.63x in FY22) due to prepayment of about ~Rs. 50.00 crores of debt majorly from repayments received from Naman group and the rest through internal accruals. Debt coverage ratio improved and remained comfortable marked by TD/GCA of 0.87x (PY: 3.98) and Interest coverage ratio of 7.43x (PY: 4.23)

Geographically diversified sales territory

BIL has geographically diversified its revenue profile with domestic sales contributing around 70-80% and export sales contributing around 20-30 % (on average basis) of TOI during past three years ending FY23. Further, in domestic market, it majorly caters Daman, Diu, Silvassa and UP market wherein it receives high sales realization from UP market due to levy of high duty rates. Despite of export sales, BIL is not exposed to the forex fluctuation risk as it undertakes the exports on behalf of brand owners and collects revenue from them in Indian currency (at fixed rates as per agreement).

Favourable prospects for alcoholic beverage market in India

India is the 10th largest alcoholic beverage's producers and the 3rd largest liquor market in the world. Key demand drivers of the industry have been growing disposable income, favourable demographics in the country, changing lifestyle & societal norms with increasing acceptability of alcohol on social occasions, urbanization along with increasing number of pubs and bars in the country. Amidst the Blossom group has established position to supplies of liquor in Daman, Diu and Silvasa and no concrete decision to ban alcohol in the Union Territory (UT), it is well positioned to cater to the growing consumer demand in the UT.

Key weaknesses

Highly regulated business with high duties and taxes albeit high entry barriers benefitting the incumbents

The Liquor industry is highly regulated in India with each State government formulating its own policy for 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. Moreover, the organized alcohol industry is dominated by very few large players. Further, high taxation and heavy regulation also make the industry dynamics complex. Government levies various duties like excise duty, sales tax, license fee, state level import and export duty, bottling fee, welfare levy, assessment fee, franchise fee, turnover tax, surcharge etc. which varies from state to state. There is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. Moreover, the complexity of the industry further lies in the different types of distribution models followed in various states like government-controlled agencies, private distribution system and auction. The regulations at State levels are prone to frequent changes and be sudden and uncertain. The direction or timing of any regulatory changes being difficult to predict, industry is vulnerable to such unanticipated changes. Furthermore, in the recent past, few state governments have also banned sale of liquor in their state, including Bihar government in September 2016 Also, the Government has been running anti-alcohol campaigns to increase social awareness amongst people on hazards of consumption of alcohol and also increased duty on alcohol in order to refrain people from consuming it.
Thus, given the strategic role of state government in the liquor industry, the company remains exposed to risks associated with regulatory changes. Liquor policies governing production and sale are entirely controlled by respective State Governments. With all the alcohol consuming States/Union Territories having its own rules and regulations, 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 demands. This acts in favor of incumbents as new players find it difficult to start.

Large size exposure in form of loans and advances to unrelated party
BIL had extended loans and advances of Rs.112.90 crore to Shree Naman Developers Private Limited, a real estate developer based out of Mumbai. As on March 31,2023 the outstanding amount including the accrued interest was at around Rs. 112.80 crore (Rs. 144.27 crore in FY22) after recovering Rs. 44.50 crores from Naman developers (Rs. 13.12 crore in form of principal and Rs. 31.37 crore in form of interest) in FY23. BIL had extended these loans by liquidating its fixed deposits of around Rs.60 crore, mutual funds investment of Rs.17.30 crore and balance through internal accruals generated during FY20. Since such exposure is significant given the net worth base of the blossom group (75% of tangible net worth of group as on March 31, 2023, the recoverability of balance portion of loans remains crucial from credit perspective.

Project risk due to debt-funded capex
The company has planned a Capex of about Rs. 34.00 crores for upgradation of its facilities. There is no increase in capacity. Newer storages, water tanks and silos will be added to improve standards of the plant. The same will be funded by a term loan of Rs. 25.00 crores and the rest through internal accruals. The ability of the company to accrue envisaged benefits from the afore said expansion resulting in improved profitability remains a key monitorable.

Liquidity: Adequate
The liquidity of the group is expected to remain adequate backed by steady cash accruals and absence of term debt repayment obligation till Q2FY25 which is also expected to support liquidity. The company has a cash credit facility of Rs. 30.00 crores to support its working capital requirements. The average maximum utilization for the past 6 months ended Feb-24 stood at 14.67%. Operating cycle of group remained comfortable marked by operating cycle of 31 days (70 days in FY22). GCA of the group stood at average ~ Rs. 33 crores in last 3 years. The group also had an unencumbered cash and liquid balance of Rs. 3.08 crore as on March 31, 2023, and cash flow from operations stood at Rs. 7.91 crore for BIL (Standalone).

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Breweries & Distilleries

Blossom Industries Limited (BIL) is a Daman (U.T.) based closely held public limited company, which was acquired by the family members of Khemani 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 into 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)). In 2004, BIL has entered into license agreement for manufacture & sale of beer with United Breweries Limited. It has also undertaken manufacturing of beer for various brands of beer of Anheuser Busch InBev India Limited (AB InBev) as per the Bottling/ Brewing agreement entered with it in 2014. However, it was terminated by AB InBev in December 2020 due to reduced demand of AB InBev's products in light of Covid-19. The sale and distribution network of BIL is backed by group's own trading firm, M/s. K. H. Khemani & Sons (KHK), which is an authorized distributor of beer of UBL, catering to Daman &Diu and Silvassa market.

Brief Financials (₹ crore)	Combined Blossom group			Standalone BIL		
	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	247.75	343.59	NA	217.36	307.79	235.95
PBILDT	43.55	56.00	NA	15.26	21.20	20.14
PAT	19.44	33.34	NA	20.09	27.10	20.71
Overall gearing (times)	0.63	0.27	NA	0.52	0.20	0.23
Interest coverage (times)	4.23	7.43	NA	1.48	2.81	4.87

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	August 2028	50.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.00	CARE BBB-; Stable / CARE A3

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Jan-23)	1)CARE BBB-; Stable (25-Mar-22) 2)CARE BBB-; Stable (09-Apr-21)	-
2	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	2.00	CARE BBB-; Stable / CARE A3				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

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 Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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.

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About us:
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