

Blossom Industries Limited

March 25, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	75.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	75.00 (Rs. Seventy-Five Crore Only)		

Details of 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 taken cognizance of execution of family settlement agreement in October 2021 between the promoters of the Khemani group, under which one of the promoters exited from group business.

The ratings assigned to the bank facilities of BIL derive strength from its experienced promoters and their established track record of operations in alcoholic beverages industry, committed off-take arrangement with United Breweries Limited (UBL) and its geographically diversified sales territory. The ratings also factor favourable outlook for alcoholic beverages in India and its adequate liquidity.

The ratings are, however, constrained on account of BIL's moderate scale of operations and profitability and recoverability risk associated with a large size loan extended to an unrelated entity. The ratings also continue to remain constrained on account of risk associated with timely renewal of off-take agreements and its presence in highly regulated alcoholic beverages industry.

Rating Sensitivities

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

- Sustained increase in group's scale of operations with a Total Operating Income (TOI) of above Rs.350 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- Factors that could lead to negative rating action/downgrade:

- 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.

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 was promoted by two brothers viz. Mr. Ashok Khemani and Mr. Suresh Khemani. The promoters have over the last three decades have set up various entities in the distillery and brewery industry namely Khemani Distilleries Private Limited (KDPL; Rated CARE BBB; Stable), Royal Distilleries Private Limited (RDPL; now merged with KDPL), BIL, Perfumova International Limited (PIL; engaged into manufacturing of perfumes), amongst others.

However, effective from October 2021, as a part of family settlement agreement, Mr. Suresh Khemani and his son Mr Vivek Khemani has exited from all the businesses and from now on all the companies would be managed by Mr. Ashok khemani and his son Mr. Amit Khemani. They are well assisted by an experienced management team who looks after the day-to-day operations of the group.

State-of-the-art manufacturing facility with off-take arrangement with UBL and geographically diversified sales

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. BIL has two types of packaging line i.e. Bottle Line and Can Line with a capacity to produce 6 lakh cases of beer per month. BIL's average utilization of installed brewing capacity remained at around 35-40% during FY21 (FY, refers to the period April 01 to March 31)

BIL has entered into license agreement with UBL for manufacturing & sale of beer for its various brands since 2004. Under the contract manufacturing arrangement, the raw material cost is entirely pass through in nature and hence protects BIL from any volatility in raw material prices. The latest agreement with UBL is valid till 2022 and it has a track record of the agreement being renewed for more than 15 years. This long-term association with a key player in the alcohol industry reflects the company's ability to provide quality products and standardized manufacturing processes. Nevertheless, the actual take-off from UBL has decreased significantly in the past 2 years due to low demand in the market following lockdown restrictions due to COVID-19. Further, KHK acts as a distributor for BIL in Daman, Diu and Silvassa region. Apart from contract manufacturing for

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

UBL's brands, group also sells beer under its own brands. Moreover, revenue profile of the group is geographically diversified with domestic sales contributing around of 75-80% of total sales.

Low reliance on external debt and moderate debt coverage indicators

BIL has funded its past capex (maintenance) and working capital requirements through internal accruals/ promoters' funds and the Blossom group had not availed bank limits in recent past. BIL availed term debt of Rs.75 crore to facilitate the payment to retiring partners i.e. Mr. Suresh Khemani and Suresh Khemani HUF. Working capital requirements still continues to be met by internal accruals. The debt coverage indicators of Blossom group is expected to remain moderate despite increase in interest expenses on term debt.

High entry barriers & 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 licenses, providing a competitive edge to existing players. 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.

Key Rating Weaknesses

Moderate scale of operations

The scale of operations of blossom group remained moderate marked by (TOI) in the range of Rs.245-400 crore during the last three years ending FY21. Due to outbreak of Covid-19 pandemic, the TOI of group declined by 35% y-o-y to Rs. 245 crore (PY: ~Rs.376 crore) during FY21. During 9MFY22 (provisional)(refers to the period April 01 to December 31), the Blossom group has reported TOI of Rs.198 crore. TOI of the group is envisaged to improve in FY22 and FY23 as compared to FY21 since the company is planning to explore into new product segment of Non-alcoholic Beverages (NAB).

The profitability of the group remained healthy marked by PBILDT and PAT margin of 23.07% (13.77% in FY20) and 11.11% (9.48% in FY20) respectively during FY21. However, improvement in these profitability margins is partially because of accrued interest on loan extended to Naman developers. Excluding interest on loan extended, the group reported PBILDT and PAT margin of approximately 16.06% and 5.85 % respectively in FY21.

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

BIL has extended loans and advances of Rs.112.90 crore to Naman Developers in FY20, a real estate developer based out of Mumbai. After considering the interest accrued on the same, the amount aggregates to around Rs. 130 crore as on March 31,2021. The exposure is significant given it accounts for around 61% of the blossom group's net worth base of the group (61% of its tangible net worth as on March 31, 2021). Considering BIL has not received any amount so far, recoverability of such loans remains crucial from credit perspective.

Presence in a highly regulated industry

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.

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 scheduled to commence from FY25, which shall provide cushion to liquidity. Working capital requirement for the products manufactured for UBL is funded by the later and hence reliance on external borrowing is minimum.

During FY21, the working capital cycle of the group remained comfortable at 52 days and earned a healthy annual gross cash accrual of around Rs.30 crore. The group also has an unencumbered cash and bank balance roughly of Rs. 7.5 crore as on December 31, 2021 which further aids its liquidity.

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[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Manufacturing Companies](#)[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)) as on March 31, 2021. 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.

BIL (Standalone)

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021(Prov)
Total operating income	346.57	218.43	174.93
PBILDT	28.74	31.66	30.22
PAT	20.78	11.53	14.89
Overall gearing (times)	0.88	0.59	NA
Interest coverage (times)	16.29	2.05	3.82

A: Audited Prov:Provisional

Blossom Group (Combined)

Brief Financials (Rs. crore)	31-03-2020 (UA)	31-03-2021 (UA)	31-12-2021(Prov)
Total operating income	376.00	244.74	197.58
PBILDT	51.79	56.46	52.87
PAT	35.63	27.18	29.05
Overall gearing (times)	0.82	0.47	NA
Interest coverage (times)	20.64	3.25	6.67

UA: Unaudited Prov:Provisional

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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		NA	NA	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	1)CARE BBB-; Stable (09-Apr-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Term Loan	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 instrument: CARE Ratings Ltd. 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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