

Blossom Industries Limited

January 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	25.00 (Reduced from 75.00)	CARE BBB-; Stable	Reaffirmed

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 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 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, comfortable capital structure, healthy operating profitability and its adequate liquidity.

The ratings are, however, constrained on account of BIL's moderate scale of operations, 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: 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 platform and have significant financial and operational linkages (KHK distributes beer manufactured by BIL in Diu, Silvassa and Daman market). They are together referred as Blossom group.

Key strengths

Experienced promoters with established presence in the alcoholic beverages industry:

BIL has more than 2 decades of operational track record 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. The group was promoted by two brothers of the Khemani Family viz. Mr. Ashok Khemani and Mr. Suresh Khemani who possess vast industrial experience for more than 3 decades in the liquor manufacturing industry.

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:

BIL's manufacturing facility is equipped with fully automatic mash filter, automated system to control temperature and CIP cycles during fermentation and lagering process. BIL has two types of packaging line i.e. Bottle Line and Can Line with a capacity to

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

produce 10 lakh cases of beer per month. BIL's average utilization of installed brewing capacity remained at around 40% during FY22 (FY refers to the period April 01 to March 31) and ~70% during H1FY23..

BIL has entered into license agreement for manufacture & sale of beer with UBL for its various brands since 2004 with an assured offtake of 60 lakh cases. The agreement entered with UBL is for around two-three years, due for renewal annually to revise the conversion rates. The latest agreement with UBL is valid for a tenure till June 2023. BIL procures raw materials and packing materials from the suppliers as specified by UBL and as per the terms finalized by UBL with them. UBL pays the conversion charges as per contracted rates to BIL for using the manufacturing set up of BIL. Actual offtake of UBL was 46 lakh cases for period of July 21 to June 22. During FY21 and FY22, commitment charges were waived off since demand was affected due to covid and owing to long standing relationship with UBL.

Healthy profitability with comfortable financial risk profile

The group's PBILDT margin remained healthy and improved further to 17.58% (16.41% in FY21) during FY22 on account of reduction in input costs. PAT margin, nevertheless, moderated from 12.07% in FY21 to 7.85% in FY22 on capital gain tax liability of Rs.16.14 crore paid by KHK.

BIL has funded its past CAPEX (maintenance) as well as working capital requirements through internal accruals/ promoters' funds and the Blossom group had not availed bank limits till FY20. Working capital requirements continues to be met by internal accruals. In FY21, BIL availed term debt of Rs.75 crore to facilitate the payment to retiring promoters i.e. Mr. Suresh Khemani and his family. As on December 22, 2022 term debt o/s stood low at Rs. 25 crore on account of prepayment of term debt. Capital structure of the blossom group remained comfortable marked by overall gearing of 0.63x in FY22 (0.47x in FY21), TD/GCA of 3.98 times and interest coverage of 4.23x. Moderation in overall gearing is due to moderation in net worth on account of payment to retiring promoter Suresh Khemani and his family.

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 are 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 weaknesses

Moderate scale of operations

Post Covid affected period of FY21, the TOI of group reported growth of 10% to ~Rs. 250 crore (PY: ~Rs.225 crore) during FY22. During H1FY23 (refers to the period April 01 to September 30), BIL has reported TOI of ~Rs.175 crore. The actual production of beer has increased from 3.87 lakh Hectolitres per annum (HLPa) in FY21 to 4.11 lakh HLPa in FY22. Moreover, till H1FY23, BIL has produced 3.59 lakh HLPa beer.

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 aggregated to around Rs.144.28 crore as on March 31,2022 (Rs. 108.28 crore as on September 30, 2022). The exposure is significant considering the blossom group's net worth base. Recoverability of the balance amount 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 till FY26 which is also expected to support liquidity. In H1FY23, the company prepaid debt of Rs.50 crore from repayments received from Naman group and cash accruals.

The group operates with lean operating cycle and no reliance on external debt for meeting working capital limits. Operating cycle of group remained comfortable marked by operating cycle of 70 days (52 days in FY21). The group also had an unencumbered cash and liquid balance of Rs. 5.54 crore as on March 31, 2022 and cash flow from operations stood at Rs. 8.12 crore.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

[Financial Ratios – Non financial Sector](#)

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 hectolitres (HL)) as on March 31, 2022. 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 (₹ crore)	Combined Blossom group			Standalone BIL		
	March 31, 2021 (UA)	March 31, 2022 (UA)	September 30, 2022 (UA)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	225.25	247.75	NA	200.71	217.36	175.27
PBILDT	36.97	43.55	NA	13.94	15.26	29.96
PAT	27.18	19.44	NA	11.53	20.09	NA
Overall gearing (times)	0.47	0.63	NA	0.59	0.52	NA
Interest coverage (times)	2.13	4.23	NA	0.90	1.48	6.5

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Not applicable

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2028	25.00	CARE BBB-; Stable

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-Term Loan	LT	25.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (25-Mar-22) 2)CARE BBB-; Stable (09-Apr-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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-Term Loan	Simple

Annexure-5: Lender detailsTo 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.

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:**

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