

Raj Brewery Private Limited: [ICRANP] LB/A4 assigned

January 27, 2020

Summary of rated instruments:

Instrument*	Rated Amount (NPR Million)	Rating Action
Long-term loans; fund-based	1,065	[ICRANP]LB; assigned
Short-term loans; fund-based	481	[ICRANP]A4; assigned
Total	1,546	

*Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB (pronounced as ICRA NP L B) to the long-term loans of NPR 1,065 million and a short-term rating of [ICRANP]A4 (pronounced as ICRA NP A four) to the NPR 481 million fund-based limits of Raj Brewery Private Limited (RBPL).

Rationale

The assigned ratings are constrained by RBPL's weak operational track record, resulting in net losses, which depleted its net worth base to negative [~NPR (708) million as of July 31, 2019], and insufficient cash flows for servicing the sizeable repayment obligations in the near term. However, shortfall in repayment obligation is expected to be met from timely infusion of funds by the promoter group. The ratings are also constrained by weak liquidity position of the company and intense competition in the Nepalese alcoholic beverage industry. The ratings, however, factor in the established track record of Jawalakhel Group of Industries in the Nepalese alcoholic beverage industry, and wide sales channel of its sole national distributor, which has four warehouses and over 200 sub-distributor outlets across Nepal with 87 dealers in the beer segment. The operating performance is expected to improve with the company signing production agreements for Foster and Budweiser brands. Foster's production started from August 2019 while Budweiser is planned to be produced from April-May 2020.

Going forward, the company's ability to increase its sales while improving profitability and coverage indicators would be key rating drivers.

Key rating drivers

Credit strengths

Long track record in the Nepalese liquor industry – The Jawalakhel Group of Industries (JGI) was founded by Mr. Vijay Kumar Shah in 1973 as Jawalakhel Distillery Private Ltd., which started its commercial production with Ruslan Vodka. At present, the JGI Group has eight companies under it, comprising four distilleries, one brewery, one research unit, JGI Pvt. Ltd. and JGI Distribution Pvt. Ltd.¹(rated at [ICRANP] A4+ for its short-term borrowing). The Group currently has a strong market share in the distillery-based products in Nepal.

Established sales channel – JGI Distribution Pvt. Ltd is the sole national distributor of RBPL, which has a total operating revenue of ~13 billion in FY2019. It undertakes distribution for all JGI Group companies in both distillery (whiskey flavour, vodka and gin) and brewery segments, with over 200 sub-dealer outlets across Nepal (87 dealers in the beer segment).

¹ The company reported annual turnover of ~NPR 13 billion in FY 2019

Credit challenges

Slow ramp-up of sales resulted in operational losses, depleting its net worth base to negative – The capacity utilisation remained low at 31% in FY2019 and 33% in 6M FY2020 owing to weak sales of Warsteiner brand. The utilisation was supported to an extent with the company manufacturing local brands, Mountain Ice and Namaste, in the past two years, while Warsteiner’s production declined. The company reported sales of ~NPR 460 million in FY2019, which increased by 75% owing to higher sales from local brands. Due to low capacity utilisation levels, the company reported operating and net losses, which depleted its net worth base to negative NPR 719 million as of mid-July 2019. However, the operating performance is expected to improve with the company signing production agreements for Foster and Budweiser with Foster production starting from August 2019 and Budweiser planning to be produced from April-May 2020.

Weak financial risk profile with high gearing and negative coverage indicators – The gearing level of the company remained negative owing to negative net worth levels with net losses over the years. Further, the coverage indicators were negative owing to operating losses. The cash flows were insufficient to service the sizeable debt repayment obligations and the shortfall was met by timely support from the promoter Group companies, which is expected to continue in the near term.

Stretched liquidity profile – Lower sales revenue and operating losses resulted in negative cash flow from operations. This was financed mainly by increased bank loans or short-term promoter loans. High financing costs and debt repayment obligation resulted in stretched liquidity profile of the company.

Exposed to regulatory risk – The high import tariffs on beer provide duty protection and act as high entry barrier to the domestic brewing industry. Reduction or removal of import duty/ tariff could have an adverse impact on the domestic breweries’ revenue profile, profit margin and debt coverage indicators, including RBPL. Also, alcoholic beverages remain one of the highest taxed commodities in Nepal with the excise tariff increasing steadily on a year-on-year basis. Continued increase in tariff and competition could diminish RBPL’s ability to pass on the incremental cost to the consumers, which could constrain profit margins. Besides, any restriction by the regulatory agency in production and sales of beer could also affect RBPL.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in January 2013, RBPL manufactures four beer brands namely Warsteiner, Foster, Mountain Ice and Namaste. The company is solely promoted by Mr. Raj Bahadur Shah and RBPL belongs to the Jawalakhel Group of Industries, which has over four decades of experience in production of alcoholic beverages in Nepal. As of mid-October 2019, the company has a single manufacturing facility with a bottling capacity of 9,000 cases per day. RBPL imports all the raw materials from Germany (malt, yeast and herbs) for brewing Warsteiner Beer, while raw materials for other products are imported from the Indian and Nepalese suppliers as well. At present, the company’s distribution channel includes a national distributor (ND) and a network of ~87 dealership (under ND) outlets across the country.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	3MFY2020 (Provisional)
Operating Income-OI (NPR Million)	262	460	90
OPBDITA/OI (%)	-52.78%	-64.50%	3.96%
PAT/OI (%)	-197.33%	-178.48%	-110.24%
Total Debt/Tangible Net Worth TNW (times)	19.13	-3.13	-2.65
Total Outside Liabilities/ TNW (times)	27.09	-5.03	-4.39
Total Debt/OPBDITA (times)	-15.56	-7.48	149.2
Interest Coverage (times)	-0.76	-1.63	0.09
DSCR	-0.25	-0.39	0.01
NWC/OI	-143.41%	28.70%	4.22%

Source: Company data

Annexure-1: Instrument Details

Instrument	Limit (NPR in Million)	Ratings
Existing Loan Limits		
Long term loans, fund based (A)	1,065	
Fixed Term Loan	1,065	[ICRANP] LB
Short term Loans, fund based (B)		
Overdraft	98	[ICRANP] A4
Short Term Loan	118	[ICRANP] A4
Bridge Gap Loan (BGL)	105	[ICRANP] A4
TR- Import loan	160	[ICRANP] A4
Proposed term loan (within BGL)	(105)	
Grand Total	1,546	

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About ICRA Nepal Limited:

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