

## Tigers Brewery Industries Private Limited: [ICRANP] LB+/A4 assigned

October 16, 2023

### Summary of rating action

Instrument*	Current Rated Limits (NPR Million)	Rating Action
Long term loans: fund based	899.51	[ICRANP] LB+; assigned
Short-term loans; non-fund-based	200.30	[ICRANP] A4; assigned
Short-term loans; fund-based	650.00	
<b>Total</b>	<b>1,749.81</b>	

\*Instruments details are provided in [Annexure-1](#).

### Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term limits of Tigers Brewery Industries Private Limited (Tigers or the company) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term limits.

### Rationale

The ratings are mainly constrained by the company's low scale of operation, volatile operating margins and leveraged financial position translating into weak profitability and stretched debt coverage indicators. The company has not been able to gain traction in the market post-Covid and its recent revenue and profitability remains well below the pre-Covid levels. In the last three years ending FY2023, the company's working capital intensity has gone up on a smaller sales revenue, suppressing profitability as well as draining the business liquidity. The company is currently managing its liquidity through promoter support and the absence of any headroom in the working capital drawing power makes the company vulnerable to incremental liquidity shocks. Moreover, the recent economic slowdown and moderation in banking sector's credit growth, are likely to exacerbate liquidity pressure on the company over the near to medium term. The rating concern also arises from intense competition from the large and established brewery sector players in the industry. ICRA Nepal also notes the significant regulatory risks associated with the brewery industry.

Nonetheless, the assigned ratings draw comfort from Tiger's established track record of three decades in production of alcoholic beverages as well as established supply chain of over 150 dealers across the country. ICRA Nepal also factors the brand recognition of the major products such as Tensberg, Nepal Tiger and Rockstar beer. The rating also considers the duty protection accorded to the domestic brewery industry by the Government of Nepal (GoN) through high import barriers<sup>1</sup> on finished beers.

Going forward, the company's ability to scale up its operations, streamline the working capital cycle and control the leverage levels would remain among the key rating drivers. Until the company achieves financial self-sufficiency, the continuation of promoter support to will also remain a key rating sensitivity.

<sup>1</sup> NPR 200 per liter of custom duty for imported finished beer in Nepal, which is ~40% of the retail beer price.

## Key rating drivers

### Credit strengths

**Long track record and good brand recognition** – Incorporated in 1993, Tigers has established track record of three decades in production of alcoholic beverage in Nepal. Tigers’ major products Nepal Tiger, Rockstar and Tensberg have gained some traction among consumers, which has aided the company’s revenue in the recent years. Although the revenue contribution from Tensberg has softened in the recent years, Nepal Tiger and Rockstar have fetched ~70% of sales revenue in FY2023 (~67% in FY2022). The company’s sales also remain supported by its established distribution network comprising of over 150 dealers across Nepal.

### Credit challenges

**Reduced sales and high working capital intensity affecting liquidity** – The company’s sales revenue in the post-Covid years continue to remain below pre-Covid levels while the working capital intensity has increased on the reduced sales. As a result of low sales and high working capital intensity, the company’s operational cashflow has dried up and the need for external working capital financing has gone up. The resulting drain in liquidity has necessitated funding support from promoters as well as resulted in overutilization of working capital drawing power. This limits the company’s ability to withstand any incremental liquidity shocks internally. Further, the stringent working capital guidelines rolled out by the Central Bank elevate the liquidity concerns for working capital-intensive borrowers such as Tigers. The commencement of repayment on permanent working capital loan (from end of FY2023) is also likely to exacerbate the liquidity concerns. Tigers’ ability to manage its working capital intensity would have a major bearing over its liquidity profile going forward.

**High gearing and weak debt coverage indicators** – The company’s post pandemic financial profile has weakened due to low sales revenue, volatile operating margins, and high debt levels (gearing of 9.14 times as on mid-June 2023 vs. 4.23 time as on mid-July 2022). As a result, its debt coverage indicators have weakened. Going forward, the coverage indicators are likely to remain subdued, given the high gearing and interest rate environment along with the moderate business growth outlook.

**Product concentration risk** – Tigers has a concentrated product profile. Although the company has seven different brands of beer (including strong and premium variants), its revenue remains driven by strong variant products viz. Nepal Tiger and Rockstar. During FY2023 and FY2022, above ~65% of Tigers’ sales revenue was contributed by these two product lines. Given the competitive nature of the industry, any impact on the top two product lines could affect the overall financial profile of Tigers.

**Regulatory risk and industry competition** – The high import tariffs on beer provide duty protection against cheaper imports while licensing norms act as high entry barriers for new players. Therefore, any reduction or removal of import duty/ tariff could have a commensurate impact on the revenue profile, profit margin and debt coverage indicators of domestic player (including Tigers).

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 amid the pricing pressure from large players with favourable economies of scale could exert margin pressure on Tigers. Besides, Tigers business profile also remains vulnerable to any regulatory restriction imposed in the aspects of production, sales, marketing/promotional activities from time to time.

**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

Established in 1993, Tigers Brewery Industries Private Limited (Tigers) is a domestic beer company with installed capacity of producing ~4 million per annum. As of mid-October 2023, it produces seven different brands of beer across strong and premium variants, which includes brands like Tensberg, Nepal Tiger Strong and Rockstar, among others. The company's corporate office is in Kathmandu and its production unit is in Rupandehi. The company has a distribution network of ~150 dealers across the country.

Tigers is a family-owned business with the entire equity stake held by three individuals viz. Ms. Ishwori Khadka (47%), Mr. Prem Khadka (29%) and Mr. Laxman Khadka (24%).

## Key financial indicators

	FY2019	FY2020	FY2021	FY2022	11mFY2023
			Audited		Provisional
Operating income (OI; NPR million)	1,154	651	960	735	616
OPBITDA/OI (%)	21.7%	6.2%	20.1%	13.9%	6.1%
Total debt/Tangible net worth (TNW*; times)	5.76	6.39	9.40	4.23	9.14
Total outside liabilities/TNW (times)	8.14	8.79	14.14	4.70	9.75
Total debt/OPBITDA (times)	3.80	26.29	6.33	15.14	41.68
Interest coverage (times)	2.31	0.32	1.78	0.67	0.23
DSCR (times)	1.35	0.21	0.99	0.59	0.19
Net working capital/OI (%)	34%	82%	71%	131%	150%

\*TNW is excluding revaluation reserves

Source: Company data

## Annexure-1: Instrument Details

Instrument	Current Rated Amount (NPR million)	Rating Action
<b>Long term limits; fund-based</b>		
Long-term loans	899.51	[ICRANP] LB+; assigned
<b>Total long-term loan; fund-based (A)</b>	<b>899.51</b>	
<b>Short term limits: fund based</b>		
Cash credit	200.00	[ICRANP] A4; assigned
TR/Demand loan	450.00	
<b>Total short-term loans; fund-based (B)</b>	<b>650.00</b>	
<b>Short term limits: non-fund based</b>		
Letter of Credit (LC)/ Bank Guarantee	200.30	
<b>Total short-term loans: non-fund based (C)</b>	<b>200.30</b>	
<b>Grand Total (A+B+C)</b>	<b>1,749.81</b>	

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## About ICRA Nepal Limited

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