

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	
Total	1,749.81	

*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 the Covid-19 pandemic and its recent revenue and profitability remain well below the pre-pandemic levels. In the last three years ending FY2023, the company's working capital intensity has increased on a smaller sales revenue, which suppressed its profitability as well as drained the business liquidity. The company is currently managing the liquidity through the support of its promoters, 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 the banking sector's credit growth are likely to exacerbate liquidity pressure on the company over the near to medium term. The rating concern is also due to the intense competition from the large and established brewers in the industry. Additionally, ICRA Nepal 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 the production of alcoholic beverages as well as its established supply chain of over 150 dealers across the country. ICRA Nepal considers 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 barriers¹ 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 its promoters' support will also remain a key rating sensitivity.

¹ NPR 200 per litre of custom duty for imported finished beer in Nepal, which is ~40% of the retail beer price.

Key rating drivers

Credit strengths

Established track record and good brand recognition – Incorporated in 1993, Tigers has an established track record of three decades in the production of alcoholic beverages in Nepal. Tigers’ major products Nepal Tiger, Rockstar and Tensberg have gained some traction among consumers, which has aided the company’s revenue in recent years. Although the revenue contribution from Tensberg has softened in 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 continues to remain below pre-Covid levels, while the working capital intensity has increased due to reduced sales. As a result of low sales and high working capital intensity, the company’s operational cash flow has dried up and the need for external working capital financing has increased. The resulting drain in liquidity has necessitated funding support from promoters as well as resulted in overutilisation of the working capital drawing power. This limits the company’s ability to withstand any incremental liquidity shocks internally. Further, the company is exposed to the stringent working-capital guidelines rolled out by the Central bank that elevate the liquidity concerns for working capital-intensive borrowers. The commencement of repayment on the permanent working capital loan (from the end of FY2023) is also likely to exacerbate the liquidity concerns. Tigers’ ability to manage its working capital intensity would have a major bearing on 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 of mid-June 2023 compared to 4.23 times as of 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 – The company 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 such as the Nepal Tiger and Rockstar. In 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 the company.

Regulatory risk and industry competition – The high import tariffs on beer provide duty-based protection against cheaper imports, while the licensing norms act as a high entry barrier 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 players (including Tigers).

Moreover, alcoholic beverages remain one of the highest-taxed commodities in Nepal with the excise tariff increasing steadily on a year-on-year (YoY) basis. The continued increase in tariff amid the pricing pressure from large players with favourable economies of scale could exert pressure on the margins of the company. Besides, the company’s business profile also remains vulnerable to any regulatory restriction imposed in the aspects of production, sales and 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 an installed capacity of producing ~4 million cases 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, namely, Ms. Ishwori Khadka (47%), Mr. Prem Khadka (29%) and Mr. Laxman Khadka (24%).

Key financial indicators

	FY2019	FY2020	FY2021	FY2022	11M FY2023
			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	
Long term limits; fund-based			
Long-term loans	899.51	[ICRANP] LB+; assigned	
Total long-term loan; fund-based (A)	899.51		
Short term limits: fund based			
Cash credit	200.00	[ICRANP] A4; assigned	
TR/Demand loan	450.00		
Total short-term loans; fund-based (B)	650.00		
Short term limits: non-fund based			
Letter of Credit (LC)/ Bank Guarantee	200.30		
Total short-term loans: non-fund based (C)	200.30		
Grand Total (A+B+C)	1,749.81		

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About ICRA Nepal Limited

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