

CG Brewery Nepal Limited¹: Long term rating downgraded and withdrawn; short term rating downgraded

June 03, 2024

Summary of rating action

Instrument* (Amount in NPR million)	Last rated amount	Current rated amount	Rating Action
Long-term loans; fund based	10.0	-	[ICRANP] LBB+; downgraded from [ICRANP] LA- and withdrawn
Short-term loans; non-fund-based	1,100.5	1,100.5	[ICRANP] A4+; downgraded from [ICRANP] A2+
Short-term loans; fund-based	153.0	153.0	
Total	1,263.5	1,253.5	

* Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has withdrawn the long-term loan rating of CG Brewery Nepal Limited (CGBN) after downgrading it to [ICRANP] LBB+ (pronounced ICRA NP L double B plus) from [ICRANP] LA- (pronounced ICRA NP L A minus). ICRA Nepal has also downgraded the company's short-term loan rating to [ICRANP] A4+ (pronounced ICRA NP A four plus) from [ICRANP] A2+ (pronounced ICRA NP A two plus).

Rationale

The rating action factors in the significant deterioration in the operational and financial profile of the company characterized by reduced revenue, operating losses and stretched working capital cycle reported in FY2023. The erosion in margins and operating losses stems from the inability of CGBN to pass on the increased production cost (triggered by rise in input price like raw materials, bottles, overheads as well as excise taxes) to the customers amid competitive pressure. Although CGBN is among the major players in Nepalese brewery segment in terms of scale, the limited repricing abilities reflect negatively in the company's competitive positioning in the industry, and therefore remains a key rating negative. While CGBN reported ~33% decline in revenue (~25% decline in cases sold) in FY2023 over FY2022, its debtor days has increased, creating a spike in working capital intensity and straining the liquidity profile. Liquidity strain is also evident from moderation in current ratio and limited headroom in drawing power. The company's debt level has also gone up to finance the working capital needs, which has weakened the debt servicing abilities. The rating continues to remain constrained by limited product diversification with ~76% sales revenue accounted by two products viz Nepal Ice and Mustang Premium in FY2023 (~80% in FY2022). ICRA Nepal also notes the steadily increasing excise duty and other taxes on the alcoholic products and the significant regulatory risk associated with the brewery industry.

Nonetheless, the rating derives comfort from the CGBN's track record of over two decades in the production of alcoholic beverages, its healthy market share in the domestic brewery industry and its reputed promoters. The rating also factors the good brand recognition of CGBN's flagship products (Nepal Ice Beer and Mustang Premium Strong Beer) and the established supply chain of the company. The ratings also consider the duty protection accorded to the domestic brewery industry by the Government of Nepal (GoN) through high import barriers² on finished beers. Despite moderation, the relatively low gearing levels offers some financial flexibility to the company during the period of weak performance, which also remains a rating positive.

¹ Formerly CG Brewery Nepal Private Limited

² NPR 200 per litre of custom duty for importing finished beer in Nepal

As the rating downgrade is triggered by the company's sudden erosion in sales, profitability and cashflows, its incremental ability to protect its margins and financial metrics during stretched times as well as its ability to control working capital cycle will remain among the key rating sensitivities.

Key rating drivers

Credit strengths

Established track record and reputed promoters – CGBN (formerly known as Sun Gold Brewery Nepal Private Limited), incorporated in 1993, is among the larger players in the brewery industry of Nepal. It has a track record of over two decades in the production of alcoholic beverages. The company is promoted by Chaudhary Group, which is one of oldest and reputed business houses in Nepal with diversified stake across manufacturing, trading, automobile, cement, hospitality, real estate, and financial services sector. The group's long track record across various business spheres and established traction with the stakeholders remains a positive for the company's business. Moreover, the company's experienced management team also remains a rating positive.

Good brand recognition and established sales channel – CGBN's has been able to maintain healthy market share in the domestic beer market through its flagship product Nepal Ice and through Mustang Premium Strong beer introduced in late FY2020 which received healthy offtake. Nepal Ice and Mustang Premium fetched ~76% of total sales revenue in FY2023 (~80% in FY2022). CGBN's market share reflects positively on the product quality and its robust distribution channel, comprising of ~300 dealers and ~53,000 retailers all over Nepal.

Credit challenges

Sharp deterioration in operational and financial metrics – The operational and financial performance of the company has significantly deteriorated in FY2023. The spike in input prices (raw material, bottling cost, indirect taxes) and the company's inability to transfer the cost to the consumers amid slow market demand and competitive pressure have contributed to operating losses in FY2023, following a moderation in FY2022. As a result, the debt coverage metrics remained negative for FY2023. Although the malt prices have stabilized at a lower level in recent quarters following spike in FY2022/FY2023, the company's ability to reinstate its margins amid competitive pressure and demand moderation remains to be seen. Although the low gearing level (TOL/TNW 0.7 times as of mid-July 2023) offers financial flexibility to the company, sustained stress in operating profitability could weaken the capitalization metrics and remains a key monitorable.

Stretched working capital cycle – Despite the healthy supplier credit period availed by CGBN, its working capital intensity increased significantly in FY2023 with a rise in debtor days. Although the revenue declined by ~33%, the year-end debtor balances have increased by ~22% in FY2023, thereby stretching the cash conversion cycle and the liquidity profile. The working capital intensity has increased to ~40% in FY2023 from ~20% in FY2022 and the working capital loan utilization has increased, leaving limited headroom in the working capital drawing power.

Limited product profile and product concentration risk – Although the company has more than ten different brands of beer (across strong and premium variants), its revenue remains driven by the strong variant products viz. Nepal Ice and Mustang Premium Strong leading to a concentrated product profile. The two product lines contributed ~76% of sales revenue in FY2023 (~80% in FY2022). Given the competitive nature of the industry, any impact on the leading product lines could affect the overall financial profile of CGBN.

Regulatory risk and fierce competition in the market – The high import tariffs on beer provide duty protection against cheaper imports, while licensing norms act as high entry barriers to the domestic brewing industry. As such, the 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 CGBN. 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 from multiple players could diminish CGBN's ability to pass on the incremental cost to the consumers, which could constrain its profit margins. Although liquor remains major contributor to government duty and taxes, any restriction in the production/consumption could also affect players like CGBN.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

Link to the last rating rationale:

[CG Brewery Nepal Private Limited Fresh BLR – December 2022](#)

About the company

CG Brewery Nepal Limited (CGBN; *erstwhile CG Brewery Nepal Private Limited*), formerly known as Sun Gold Brewery Private Limited, was established in 1993. It manufactures more than ten different brands of beer as of mid-July 2023, across strong and premium variants, which include popular brands like ‘Nepal Ice’ and ‘Mustang Premium Strong’. Its corporate office is located in Lalitpur district, and the company has a single manufacturing facility in Nawalparasi, which does the brewing and bottling work. The company has a pan-Nepal distribution network that includes ~300 dealers and ~53,000 retailers.

The company is owned by three individuals and three sister units under the Chaudhary Group. The largest stake (~38%) is held by CG Foods Nepal Pvt. Ltd, a division under the FMCG unit of Chaudhary Group Corp. Global. Mr. Nirvana Kumar Chaudhary is the Chairman of CGBN and CG Corp. Global. CGBN has been converted into a public limited company in FY2023.

Key financial indicators

Amount in NPR million	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023* (Audited)
Operating Income-OI (Sales; NPR million)	2,446	3,916	4,541	3,051
OPBDITA/OI (%)	19.1%	20.5%	11.8%	-3.0%
Total debt/ tangible net worth TNW (times)	0.5	0.3	0.5	0.7
Total Outside Liabilities/TNW (times)	1.2	0.9	1.2	1.3
Total Debt/OPBDITA (times)	1.2	0.5	1.4	-12.7
Interest coverage (times)	8.4	21.2	10.4	-1.0
DSCR (times)	6.9	2.4	6.4	0.1
Net Working Capital/OI (%)	26%	13%	20%	40%
Current ratio (times)	1.1	1.2	1.1	1.0

*NFRS based financials for FY2023

Annexure-1: Instrument details

Instrument (Amount in NPR million)	Previous rated amount	Current rated amount	Rating Action
Long term limits: fund based			[ICRANP] LBB+; downgraded from [ICRANP] LA- and withdrawn
Long-term loan	10.0	-	
Total long-term loan: fund based (A)	10.0	-	
Short term limits: non-fund based			[ICRANP] A4+; downgraded from [ICRANP] A2+
Letter of Credit (LC)/Bank Guarantee	1,100.5	1,100.5	
Total short-term loans: non-fund based (B)	1,100.5	1,100.5	
Short term limits: fund based			
Overdraft/Cash Credit	40.0	40.0	
TR/STL/Demand Loan	113.0	113.0	
STL/Import Loan (within LC limits)	-	-	

Instrument (Amount in NPR million)	Previous rated amount	Current rated amount	Rating Action
TR Loan (within LC limits)	-	-	
Total short-term loan: fund based (C)	153.0	153.0	
Total limits to be rated (A+B+C)	1,263.5	1,253.5	

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About ICRA Nepal Limited:

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