

## Yeti Brewery Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	1,510.00 (Increased from 1000.00)	CARE-NP BBB [Triple B]	Revised from CARE-NP BB+
Short Term Bank Facilities	1,150.00	CARE-NP A3+ [A Three Plus]	Revised from CARE-NP A4+
Total Facilities	2,660.00 [Two Thousand Six Hundred sixty Million only]		

### Details of Facilities in Annexure 1

CRNL has revised the rating to 'CARE-NP BBB' assigned to the long-term bank facilities and to 'CARE-NP A3+' assigned to the short-term bank facilities of Yeti Brewery Private Limited (YBPL).

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of YBPL considers significant improvement in financial risk profile supported by significant growth in total operating income due to addition of new products variants leading to improvement in profitability, moderate capital structure and debt service coverage indicators at the end of FY21 (Unaudited, refers to 12 month's period ended mid-July 2021). The ratings continue to derive strength from experienced promoters, diversified product portfolio and moderate operating cycle. The ratings also factor in increasing consumption of liquor products in the country and decline in imports of beer products supporting domestic beer manufacturers.

The ratings are however, constrained by ongoing project implementation risk associated with debt-funded capex, exposure to volatile interest rates, presence in the highly regulated liquor industry and competition from both domestic and international players.

Going forward, ability of the company to increase the scale of operations while maintaining the profitability margins and improvement in capital structure while rationalization of its debt levels would be the key rating sensitivities. Furthermore, timely completion of the ongoing capex within envisaged time and cost estimations and early stabilization thereafter are also the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced Promoters

YBPL is a joint venture between Vishal and Everest Group of Nepal. YBPL is managed under the overall guidance of its three-member Board of Directors (BoD) which includes eminent Businessmen/ Industrialists with wide experience in the manufacturing sectors. Mr. Vishal Agrawal is the Chairperson of the company who has more than 2 decades of experience in automobiles, electronics sectors and trading of other products. Mr. Sanjeev Saraff is the Managing Director of the company and he has more than 2 decades of experience in paper, sugar and other manufacturing industries.

Vishal Group has strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking and Everest Group started import-export/ trading business in 1940, currently involved in manufacturing writing & printing paper, fine granulated white sugar, super enamelled copper wire, rice, PET preforms, PVC battery separator, older wire/sticks along with trading business.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

**Established brands with pan country presence and moderate diversified product portfolio**

Currently, YBPL is manufacturing beer under four brands namely Arna, Shikhar, YB and Kingfisher. There are 9 products with 20 SKUs that YBPL is manufacturing under its brands. The company had entered trademark license and distribution agreement with United Breweries Ltd. of India (UBL) to manufacture and sell beer under Kingfisher brand in Nepal. Kingfisher is an Indian beer brewed by United Breweries, the brand was launched in 1978, with a market share of over 36% in India and available in 52 different countries. Besides this, the company is also manufacturing separate brand in name of Yeti Brewery (YB) brand in dark beer segment with different flavours from October 2021 onwards.

**Significant improvement in financial risk profile**

The financial risk profile of the company improved significantly in FY21 (Unaudited; FY refer to 12 month's period ended mid-July 2021) marked by significant growth in total operating income, improvement in profitability margins, capital structure and debt service coverage indicators.

Total operating income of the company grew by ~162% in FY21 to Rs. 2,991 Mn from Rs. 1,142 Mn in FY20. The growth in total operating income was on account of introducing a new SKU "Arna-8 330ml Bottle" in FY21 which was well accepted in the market and had 49% of total quantity sold in FY21 with 55% of total ex-factory sales. With growth in total operating income, PBILDT margin of the company improved significantly and stood at 35.75% in FY21. The same improved from 22.47% in FY20 on account of change in product mix. The company launched new SKU which has higher profitability margins which led to improvement in profitability. The company has also adopted various cost optimization measures and the improvement in margins was also supported by economies of scale. Company achieved total operating revenue of Rs. 837 Mn. in Q1FY22 (ex-factory sales).

The capital structure of the company remained moderate as on mid-July, 2021 marked by debt equity ratio and overall gearing ratio of 1.00x & 1.49x respectively. The overall gearing improved from 4.34x (as at mid-July 2020) on the back of increased networth and scheduled repayment of debt. YBPL has comfortable interest coverage ratio of 9.81x and Total debt/ Gross Cash Accruals of 2.06x in FY21. The debt coverage indicators have also shown significant improvement over previous year (FY20) on account of improvement in profitability & accruals while the debt levels remained almost stable.

**Moderate operating cycle of the company**

YBPL is involved in the manufacturing of wide range of beer products by using imported as well as locally purchased raw materials. The company maintains minimal level of raw materials for smooth process flow of its manufacturing facilities. Attributed to same, the average inventory holding stood at around 3 months for FY21. YBPL generally allows two months' credit period to its customers, debtors turnover days was 55 days in FY21 as compared to 77 days in FY20. Company imports around 60% of total raw material procurement (majorly from India) through Letter of Credit and domestic purchases are generally with a credit period upto 60 days leading to average payable period of 53 days for FY21. The company had exceptional operating cycle at the end of FY20 on account of pandemic / lockdown which led to high inventory holding & collection period also. The company has moderate working capital loan utilization against the drawing power of the company for last 12 months ending July 15, 2021 which stood at around 51%.

**Increasing consumption of liquor products in the country and decline in imports of beer products supporting domestic beer manufacturers**

Despite continuous increase in taxes on alcoholic beverage products, the demand outlook for the industry in Nepal continues to remain stable in the medium-term due to rising young population along with increasing household income as well as changing lifestyles leading to changing perception of people regarding liquor consumption in the society. Per capita consumption of liquor in Nepal is also lower as compared with other countries, which provide further scope of increased consumption. Furthermore, imports of beer products are decreasing in terms of quantity during last couple of years, which is expected to support the consumption of beer manufactured by domestic manufacturers like YBPL.

## High Entry Barriers

Liquor policies governing its production and sale are entirely controlled by government. With the government having its own regulations and entry-exit restrictions, it is very difficult for new entrants to get licences, thereby providing a competitive advantage to existing players. However, the government 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 start.

## Key Rating Weaknesses

### Project risk associated with majorly debt-funded capex leading to moderate gearing levels

YBPL has been gradually increasing its capacity over the years. In the last 2 financial years ending FY21, the company has added 12 Mn Litre capacity. The company is further undertaking an expansion program by increasing its installed capacity to manufacture alcoholic beverage products to 31.43 Mn Litre from 25.87 Mn Litre as on mid-July 2021 in the next 2 years. For the same, the planned capex is of Rs. 714 Mn which will be funded through debt equity ratio of 80:20. The capacity expansion program mainly includes civil construction, purchase of plant & equipment, etc. The debt of Rs. 570 Mn has been tied up. Though the capital expansion will increase YBPL's installed capacity; however, the company remains susceptible to risk related with implementation and stabilisation. Any delays in the implementation may impact the company's financial risk profile adversely and is also crucial from credit prospective. The debt funded project is expected to increase gearing levels of the company in the medium term. The company is also exposed towards project execution risk, in terms of completion of the project within the envisaged time and cost.

### Presence in the highly regulated liquor industry with high duties & taxes

The liquor industry in Nepal is heavily regulated by the government with high taxation making the industry dynamics complex. Further manufacturing, distribution, promotion and discounting of liquor products is highly regulated by Excise Duty Act, 2002. Excise on liquors are calculated and collected at the time of distribution for sales from factory godown. Excise duty on beer has been increasing significantly per annum in the last couple of years. Furthermore, there is a ban on all forms of direct and indirect advertising for liquor in the country. Liquor manufacturers are not allowed to conduct any type of programme distributing gifts leading to market players resorting to surrogate advertising.

### Competition from both domestic and international players however improved market position

The liquor industry is an intensely competitive marked by the presence of both larger players and numerous homemade unorganized segment. As per 'global status report on alcohol and health 2018' published by World Health Organization, per capita alcohol consumption in litres of pure alcohol is 2 litre (0.6 litre recorded and 1.4 litre unrecorded data). The unrecorded consumption is mostly met by homemade traditional alcohol. Out of recorded consumption, market share of beer is only 31%. There are numerous international brands competing in the market like Carlsberg, Tuborg, Heineken, Corona etc. along with established domestic brands like Gorkha, Nepal Ice, Everest etc., from which YBPL may be exposed to competition in terms of product positioning.

### Exposure to volatile interest rates

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

## About the Company

Yeti Brewery Private Limited (YBPL) is ISO 22000:2018 and an ISOQAR certified private limited company incorporated on January 02, 2013. The manufacturing plant is situated in Chitwan district of Nepal. The plant started its operations from March 2017 with total licensed capacity of 13 Mn litre per annum for manufacturing liquor products majorly beer.

**Financial Performance:**

For the year ended Mid July	(Rs. Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
<b>Income from Operations</b>	<b>1,521</b>	<b>1,142</b>	<b>2,991</b>
<b>PBILDT Margin (%)</b>	<b>20.20</b>	<b>22.47</b>	<b>35.75</b>
<b>Overall Gearing (times)</b>	<b>4.47</b>	<b>4.34</b>	<b>1.49</b>
<b>Interest coverage (times)</b>	<b>1.88</b>	<b>1.60</b>	<b>9.81</b>
<b>Current Ratio (times)</b>	<b>1.39</b>	<b>1.41</b>	<b>1.92</b>
<b>Total Debt/Gross Cash Accruals (times)</b>	<b>10.09</b>	<b>15.30</b>	<b>1.83</b>

A: Audited, UA: Unaudited

**Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
<b>Long Term Bank Facilities</b>	<b>Term Loan</b>	<b>1,510.00</b>	<b>CARE-NP BBB</b>
<b>Short Term Bank Facilities</b>	<b>Working Capital Loan</b>	<b>1,150.00</b>	<b>CARE-NP A3+</b>
<b>Total</b>		<b>2,660.00</b>	

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