

## Rating Rationale

### Yeti Brewery Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,036.92	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	750.00	CARE-NP A4+ [A Four Plus]	Assigned
Short Term Bank Facilities (Proposed)	63.08	CARE-NP A4+ [A Four Plus]	Assigned
<b>Total Facilities</b>	<b>1,850.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB+’ to the long term bank facilities and ‘CARE-NP A4+’ to the short term bank facilities of Yeti Brewery Private Limited (YBPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of YBPL are constrained by leveraged capital structure, exposure to volatile interest rates, raw material price volatility risk and working capital intensive nature of operations. The ratings also factored presence in the highly regulated liquor industry with high duties & taxes and competition from both domestic and international players. The ratings, however, derives strength from the promoters of the company who are individuals related with renowned business houses of Nepal and experienced management, healthy financial risk profile in the first full year of operation, diversified product portfolio in the same segment and association with reputed brands and healthy capacity utilization. The ratings also factors increasing consumption of liquor products in the country and decreased imports of beer products supporting domestic beer manufacturers.

Ability of the company to increase the scale of operations while maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Leveraged capital structure*

The capital structure of the company is leveraged with debt equity ratio of 3.07x and overall gearing ratio of 4.11x as on July 16, 2018 on back of term loans availed for setting up the beer manufacturing plant and working capital loans to support the operations of the company. However, due to infusion of Rs.46 Mn as share capital by the promoters during FY18 (refers to 12 months period ended July 16,

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

2018), the overall gearing was slightly improved vis-à-vis 4.28x as on July 15, 2017. The overall gearing improved marginally to 3.97x at the end of 10MFY19 (UA, refers to 10 months period ended May 14, 2019) on back of increase in the networth with accretion of profit which was offset by increase in the term loans and increase in working capital loans.

#### ***Exposure to volatile interest rates***

Nepalese banking sector fix interest rates on lending based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, project funding from Banks and Financial Institutions are exposed to volatile interest rate.

#### ***Raw material price volatility risk***

Malted barely, broken rice, sugar etc. are the major raw materials for YBPL to manufacture Beer. Further empty bottle & can, branding & labeling materials, husk etc. also constitute major portion of cost of goods sold. The broken rice and sugar are purchased domestically. Malted barely, empty bottle and cans are imported from India and hops, pull cap, some branding materials and yeast are imported from other countries such as Germany, Italy China, Singapore etc. During FY18, YBPL's imported raw material was ~49% of its total purchase. Being an agro-based product, the prices of malted barley are volatile in nature, which has a bearing on its profitability margins. The raw material cost contributed around 40% of the total operating income of the company during FY18, thus, any volatility in prices of the raw materials may impact the profitability of the company.

#### ***Working capital intensive nature of operations***

The operations of the company are working capital intensive in nature. YBPL is involved in the manufacturing of beer by importing and locally purchasing raw materials. The company has to make advance payment for the raw materials and the company has to fund inventory and debtors which lead to high reliance on working capital limits. YBPL generally allows two months credit period to its customers and the company keeps inventory for around two-three months. This leads to reliance on the bank finance for working capital needs and the average working capital loan utilization against the drawing power of the company for last 12 months ending April 14, 2019 was 67.04%.

#### ***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 duty on beer has been increasing every year making the products more costly to consumers. 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***

The liquor industry is intensely competitive marked by the presence of both larger players and numerous unorganized players. As per 'global status report on alcohol and health 2018' published by World Health Organization, per capita alcohol consumption in liters of pure alcohol is 2 liter (0.6 liter recorded and 1.4 liter unrecorded data). The unrecorded consumption is mostly met by homemade traditional alcohol. Out of recorded consumption, the market share of beer is only 31%. There are numerous international brands competing in the market along with established domestic brands from which YBPL is exposed to high competition.

**Key Rating Strengths**

***Promoted by individuals related with renowned business houses of Nepal and management expertise***

YBPL is promoted by individuals related with renowned business houses 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 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.

***Healthy financial risk profile in the first full year of operation***

YBPL has operated for full year during FY18 and reported net sales of Rs.1288 Mn from the sales of beer. YBPL achieved healthy PBILDT margin of 17.47% during FY18. YBPL reported moderate PAT margin of 1.18% during FY18 due to high depreciation charge and interest expenses on bank loans, however, gross cash accruals of the company was at satisfactory level. Though the first full year of operation, the interest coverage ratio was moderate at 1.77x.

***Diversified product portfolio in the same segment and association of reputed brand***

Initially YBPL started commercial operation with own Brand 'Arna Strong' 650 ml bottle. Later on, it has started production of other stock keeping units (SKUs) also. The company had entered trademark license and distribution agreement with United Breweries Ltd. of India, to brew and sell beer under Kingfisher brand in Nepal. YBPL needs to pay the royalty to UBL at the agreed rate for the beer brewed under the brand name Kingfisher. 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 YBPL is manufacturing separate Shikhar brand in super strong beer segment. Currently, YBPL is brewing beer under three brands namely Arna, Shikhar and Kingfisher.

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

Despite continuous increase in taxes on retail prices, the demand outlook for the beer industry in Nepal continues to remain stable in the medium-term due to rising young population along with increasing household income (which mainly comes from increasing remittance inflows) as well as changing lifestyles leading to changing perception of people regarding liquor consumption in the society. As per 'global status report on alcohol and health 2018' published by World Health Organization (WHO), per capita alcohol consumption is 2 liters of pure alcohol for the FY16, which is 4.5 liters of pure alcohol per capita for South-East Asia Region and 6.4 liters of pure alcohol for the world. WHO projected increase in per capita alcohol consumption of Nepal to 2.3 liters of pure alcohol during FY20. Further, the import of beer products is decreasing in terms of value during the last two years, which will support the consumption of beer manufactured by domestic manufacturers like YBPL.

***Healthy capacity utilization***

YBPL started commercial operation of the brewery plant with 5 unit tanks of 550 hecto litre (HL) capacity. Later, it added 1 unit tank of 220 HL capacity and 8 unit tanks of 880 HL capacity during different period. Currently there are 14 unit tanks are in operations with 10,010 HL capacity. The plant was operated for four months during FY17 at healthy capacity utilization 82.60% and the plant was operated for the whole year during FY18 at capacity utilization of 78.10%.

**About the Company**

Yeti Brewery Private Limited (YBPL) is ISO 22000:2005 certified private limited company incorporated on January 02, 2013 for setting up of beer manufacturing plant in Chitwan district of Nepal. YBPL is promoted by the individuals involved in renowned business houses of Nepal, Vishal Group and Everest Group. The promoters groups of the company have established diversified background in Industry, Trade & Service Sectors in Nepal. The plant started its operations from March 2017 and manufacturing liquor products (beer) with total licensed capacity of 36 Mn liter per annum. Current installed capacity of the plant is 24 Mn liter per annum.

**Brief Financial Performance during last 2 years and 10MFY19:**

(Rs. In Million)

For the year ended Mid July,	FY17 (A)	FY18 (A)	10MFY19 (UA)
Income from Operations	219	1,292	1,217
PBILDT	14	226	226
PAT	(51)	15	29
Overall Gearing (times)	4.28	4.11	3.97
Interest coverage (times)	0.43	1.77	1.78

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

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	1,036.92	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	690.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Working Capital Loan	63.08	CARE-NP A4+
Short Term Bank Facilities	Letter of Credit/ Bank Guarantee	60.00	CARE-NP A4+
<b>Total</b>		<b>1,850.00</b>	