Rating Rationale

Yeti Brewery Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating[1]	Rating Action
Long Term Bank Facilities	1,000.00	CARE-NP BB+ [Double B Plus]	Reaffirmed and removal from issuer not cooperating and notice of withdrawal category
Short Term Bank Facilities	950.00	CARE-NP A4+ [A Four Plus]	Reaffirmed and removal from issuer not cooperating and notice of withdrawal category
Total Facilities	**1,950.00 (Increased from 1,850)**		

Details of Facilities in Annexure 1

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

In absence of requisite information for monitoring the ratings, CRNL was unable to express an opinion on the ratings of YBPL and in line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL had reviewed the rating on the basis of the best available information and placed the rating in "issuer not cooperating and notice of withdrawal" category on June 30, 2020. However, YBPL upon submission of requisite information, CRNL has carried out a full review of the ratings and the ratings have been removed from issuer not cooperating and notice of withdrawal category.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of YBPL factors in decline in total revenue of the company in FY20 (Audited, refers to 12 months' period ended mid-July 2020) coupled with stressed debt service coverage indicators and leveraged capital structure at the end of FY20. However, the rating positively factors in improvement in total revenue and profitability in H1FY21 (Provisional, refers to 6 months' period ended mid-January 2021), along with improved debt service indicators at the end of H1FY21. The rating also factors in raw material price volatility risk, working capital intensive nature of operations, exposure to volatile interest rates, 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, diversified product portfolio and association with reputed brands and continuous addition of unit tanks with moderate capacity utilization. The ratings also factor increasing consumption of liquor products in the country and decreased imports of beer products supporting domestic beer manufacturers. Ability of the company to

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com*

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

Financial risk profile marked by decline in revenue and profitability in FY20, however significant improvement in revenue and profitability in H1FY21.

Financial risk profile of the company in FY20 is characterized by decline in scale of operations as compared to FY19, however the same has significantly improved in H1FY21. Net income of YBPL declined by 25% in FY20 to Rs. 1,142 Mn majorly due to lockdown imposed on account of Covid-19. Accordingly, PBILDT of the company also declined by 17% in FY20 as compared to FY19. However, due to increase in demand of domestic beer followed by restriction on import of foreign liquor from March 2020 to October 2020, opening up of lockdown and increasing brand acceptance by the consumers, revenue for H1FY21 has increased by 105% of net sales of FY20. Also, with savings in packaging cost and branding & marketing cost, the margins and profitability of the company improved significantly in H1FY21.

Stressed debt service indicators and leverage capital structure at the end of FY20, however with improvement in capital structure at the end of H1FY21

The interest coverage ratio declined in FY20 over FY19 mainly on account of decline in PBILDT. Also, YBPL has a leveraged capital structure on back of high bank borrowing to fund its working capital requirements. Total debt to GCA deteriorated to 15.30x at the end of FY20 from 10.09x at the end of FY19. However, overall gearing ratio improved at the end of FY20 on account of increase in tangible net worth due to accretion of profit and repayment of term loan however partially offset by increase in working capital loan. Also, TOL/TNW of the company improved to 5.19x at the end of FY20 from 5.30x at the end of FY19. With the significant improvement in PBILDT followed by low interest cost during H1FY21, the interest coverage ratio has improved to 6.96x. Also, TNW improved to Rs. 597 Mn. in H1FY21. Accordingly, overall gearing ratio has improved to 2.39x and total debt to GCA stood at 4.28x at the end of H1FY21.

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 related to the packaging. Majorly broken rice, husk, recycled bottle, carton and sugar are purchased domestically. Malted barely, empty bottle, cans and some branding materials are imported from India and hops, pull cap are imported from other countries such as Germany, Italy China, Singapore etc. During FY20, YBPL's imported raw material was ~44% 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 35% of net sales of the company during FY20, 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 wide range of beer products by importing and locally purchasing raw materials. The company purchases raw materials through Letter of Credit at sight and also 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, however, debtors turnover days was 77 days at the end of FY20 as compared to 49 days at the end of FY19 mainly due to slower recovery on account of Covid-19. Total operating cycle of the company increased from 102 days in FY19 to 202 days in FY20 mainly due to increase in inventory days on account of lower sales. With the increment of sales in H1FY21, debtors' days decreased to 58 days, however with increment in absolute terms as compared to FY20 end and inventory turnover decreased to 82 days leading to improvement in operating cycle at the end of H1FY21. 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 January 13, 2021 was 61.14%.

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 costlier to consumers, however remains same for FY21. 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 liters (0.6 liter recorded and 1.4-liter 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 is exposed to competition in terms of product positioning.

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 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.

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 manufacture and sell beer under Kingfisher brand in Nepal. YBPL needs to pay the royalty to UBL at the agreed rate for the beer manufactured 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 manufacturing beer under three brands namely Arna, Shikhar and Kingfisher. There are 15 SKUs that YBPL is manufacturing under these brands.

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. Per capita consumption of liquor in Nepal is also lower as compared with other countries, which provide further scope of increased consumption. Further, imports of beer products are decreasing in terms of quantity and values during last two years, which is expected to support the consumption of beer manufactured by domestic manufacturers like YBPL.

Continuous addition of unit tanks with moderate capacity utilization

YBPL started commercial operation of the brewery plant with 5 unit tanks of 550 hecto litre (HL) capacity. Currently there are 18 unit tanks are in operations with 10,780 HL capacity. The plant was operated for full year during FY19 at capacity utilization 67.09% and the plant was operated for eight months during FY20 at a capacity utilization of 30.64% due to lockdown imposed by the government during March 2020 till mid-June 2020, however the same has been enhanced after the ease of lockdown and capacity utilization stands at 62.75% in H1FY21.

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 is currently manufacturing liquor products (beer) with total licensed capacity of 36 Mn liter per annum.

Brief Financial Performance during last 3 years and H1FY21:

(Rs. In Million)

For the year ended Mid July,	FY18 (A)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Net Income from Operations	1,291	1,521	1,142	1,258
PBILDT Margins (%)	17.47	20.20	22.47	35.48
Overall Gearing (times)	4.87	4.47	4.34	2.39
Interest coverage (times)	1.77	1.88	1.60	6.96
Current Ratio (times)	1.25	1.39	1.41	1.86
Total Debt/Gross Cash Accruals (times)	13.09	10.09	15.30	4.28

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	1,000.00	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	750.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Working Capital Loan	200.00	CARE-NP A4+
Total		**1,950.00**	