Superior Drinks Private Limited (Revised)

May 02, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	24.00	CARE BBB; Stable; ISSUER NOT COOPERATING*	Revised from CARE A-; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	10.00	CARE A3+; ISSUER NOT COOPERATING*	Revised from CARE A2+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Superior Drinks Private Limited (SDPL) to monitor the rating vide e-mail communications/letters dated April 05, 2023, April 18, 2023, April 19, 2023, etc. among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Superior Drinks Private Limited's bank facilities will now be denoted as **CARE BBB; Stable/CARE A3+; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised on account of non-availability of requisite information due to non-cooperation by Superior Drinks Private Limited with CARE Ratings Ltd.'s efforts to undertake a review of the rating outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk.

Further, the ratings continue to remain constrained on account of seasonality in demand for carbonated soft drinks leading to low capacity utilisation, susceptibility to regulatory risks, changing consumer preferences, and large debt funded capex projects for further expansion. The ratings also take cognizance of publicly available information regarding CIRP proceedings initiated against one of the group company Superior Industries Limited (SIL), being a corporate guarantor to the bank loans of Vishal Cruise Private Limited (VCPL) which is in default. The rating, however, continue to derive comfort from experienced management and exclusive agreement with 'Coca Cola' from last 30+ years, moderate scale of operations and improved profitability margins, support from Coca Cola for technical know-how and sales promotion, comfortable financial risk profile, healthy liquidity and efficient working capital cycle.

Analytical approach: Combined

CARE has conducted assessment based on combined approach by combining financials of NDPL, SDPL, IEBPL and UBL as they are operating in similar line of business, having common family ownership and also the companies exhibit cash fungibility through material intercompany business transactions in terms of sales and purchase of finished goods.

However, CARE have not considered the Superior Industries Limited (SIL) for combined purpose as it is liquor division which is not similar line of business as other entities of the group and also it does not exhibit any kind of cash fungibility with other entities of the group.

Outlook: Stable

[2] Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers:

Key weaknesses

Susceptibility to regulatory risks and changing consumer preferences

The carbonated soft drinks industry is susceptible to regulatory risks especially related to taxation policy and increased environmental compliances related to bottling operations. Further, increasing awareness among consumers about the unhealthy nature of soft drinks and the increasing availability and adoption of healthier alternatives poses risk to the demand for the company's products. However, this risk is somewhat mitigated by the extreme hot weather conditions in Central India region across Maharashtra, Chhattisgarh and Madhya Pradesh, where the group operates, due to which its products are in high demand during the summers.

Implementation and stabilisation of project risk in NDPL and UBL

Large debt funded expansion for NDPL

The group is undertaking expansion project under NDPL by expanding the current production capacity and venture into ASSP (Affordable Small-Scale Packaging) having an installed capacity of 766 BPM contributing to 90 lakhs cases capacity of 28 bottles per case. The cost of ASSP project expansion is estimated at total of Rs.190.00 crores proposed to be funded through term loans of Rs.150.00 crores and rest through internal accruals and promoter infusion. Considering the scale of expansion and net worth base of the group, timely implementation and operational stabilisation of the ASSP line will be a key monitorable. The scheduled commercial operations date is set by October 2023.

Expansion project of PET Juice Line in UBL

The group is undertaking existing capacity expansion in UBL for PET – Juice division at the project cost of Rs.90.00 crores funded through Rs.70.00 term loans and rest by internal accruals and promoter equity infusion. The scheduled commercial operations date is set by December 2022.

Seasonality in demand for carbonated soft drinks leading to low capacity utilisation

The demand for carbonated soft drinks (CSDs) is seasonal with peak demand observed in the summer months coinciding with Q1 and is highly susceptible to changes in weather conditions during this period. This leads to low capacity utilisation of bottling plants during the off-season in the winter months. This risk is mitigated to some extent by the increasing share of fruit juice- based drinks in the product mix as the demand for such drinks are relatively more stable throughout the year.

Key strengths

Experienced management and exclusive agreement with 'Coca Cola' from last 30+ years

Superior Group is promoted by Mr. Pradeep Agarwal who has been associated with the group since last 30 years, this has helped the group to establish its strong market presence. The group has been associated with Coca-Cola India since 1992, through the franchise agreement for bottling and distribution of its soft drinks, juice and packaged drinking water for regions in Maharashtra, Madhya Pradesh and Chhattisgarh through its group entities. The exclusive franchise agreement for the allotted region has helped the group to maintain the scale of operations. NDPL is operating in the Chhattisgarh state covering 32 districts. Superior Drinks Private Limited (SDPL) covers 7 districts of Maharashtra, UBL covers 18 districts of Madhya Pradesh and Indo-European Beverages operates in Aurangabad region of Maharashtra.

Support from Coca Cola for technical know-how and sales promotion

The company receives support from Coca Cola for the technical know-how and sales promotion through various schemes. The Coca Cola team provided all of the technical know-how support for the manufacturing facilities and potential expansion i.e. all the guidance for machinery procurement and plant feasibility have been provided by it for ASSP line in NDPL and PET-Juice line in UBL. Also, the Coca Cola extends support in form of pricing of finished goods, concentrate and provides umbrella branding support for all of the products. Although majority of the national level advertisement are done by Coca Cola, however support is also provided for local level advertisement. Also, Coca Cola provides pricing support to clear the slow-moving inventory and for new products.

Moderate scale of operations and improved profitability margins

The operating income has decreased to Rs.346.59 crore (after adjusting for inter-group transaction) in FY21 as against Rs.449.65 crore in FY20. Further, as per FY22, the group has achieved total sales of Rs. 555.53 crores on gross basis (before adjusting for inter-group transaction). The peak season of demand is from March to June which on an average contributes

60% of total sales of the year. The PBILDT margins of the group stood moderate at 11.09% for FY22 (PY: 11.38%). The group has been able to sustain their PAT margins as marked by 6.09% in FY22 as against 5.48% in FY21. Also, the GCA remain healthy during FY22 with GCA of Rs. 59.19 crore during FY22 and expected GCA of Rs.63.98 crore during FY23.

Healthy liquidity

The company receives a specific amount of security deposit for every asset handed over to the dealers including for RGB (returnable glass bottles), crates, refrigerators, etc. The security deposit thus received are long term in nature as seldom these items are returned to the company. Also, to meet any major contingent withdrawal on account of security deposit, the company maintains healthy cash and bank balance. The group has free FDR and cash balances of Rs.284.16 crore as on March 31, 2022, invested with several banks, however out of this FDR amounting to Rs.96cr (approximate) is lien marked by lenders towards the loan of other group companies (SIL and VCPL) in default.

Efficient working capital cycle

The sales in beverage industry is seasonal in nature, with majority sales is achieved during March to June and contributing on an average of 60% of annual sales. However, the group operates in efficient working capital cycle as marked by -5 days in FY22. This is majorly on the account of inventory holding period 42 days in FY22 as against 74 days in the FY21. The average fund based working capital utilization stood low for the last 12 months ended February, 2022. Further, the current ratio stood at 0.95 times as on March 31, 2022 improving from 0.90 times as on March 31, 2021, the current ratio remains below unity primarily due to classification of security deposits as current liability of the business considering the nature of deposits.

Liquidity: Adequate

Liquidity is marked by expected cash accruals of Rs.63.98 crores in FY23 against repayment obligations of Rs.18.78 crores in FY23. With a gearing of 0.21x as of March 31, 2022, the issuer has sufficient gearing headroom, to avail the disbursement of sanctioned debt for its capex. The bank limits have lower utilisation of overall 26% utilised during last 12 months ended February 2022, the unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Also, the healthy cash and bank balances are sufficient to meet future margin requirements of the projects undertaken.

Applicable criteria

Policy in respect of Non-cooperation by issuer
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Other Beverages

Superior Group (SG), promoted by Mr. Pradeep Agarwal (son of former member of parliament Mr. M.M. Agarwal) has a franchisee bottling agreement with "The Coca Cola Company" for manufacturing and distribution of its soft drinks, juices, and packaged water from more than 30 years. The Group is operating distillery unit named Superior Industries Limited (SIL) and four franchisee units of Coca Cola brands namely SDPL, NDPL, UBL, IEBL having manufacturing, marketing and distribution in part of central India.

SDPL is a Franchisee Bottler of The Coca Cola Company, commenced its activity of manufacturing of carbonated soft drinks way back in the year 1991 in Nagpur. In 2015-2016 the Company was installed a new Green-field Project in Butibori Industrial area of Nagpur. The facility is a state-of-the-art technology plant with an investment of approx. Rs.140 crores. SDPL is authorised for manufacturing, packaging & distribution of all the Coca Cola brands in in the Vidarbha region of Maharashtra, India and supply to other franchisee bottlers in the country. Spread over 25 acres of land in Butibori Industrial Area in Nagpur, SDPL has an installed capacity of 600BPM RGB CSD, 450BPM PET CSD and 450BPM PDW Line.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)*
Total operating income	363.41	555.53
PBILDT	41.37	61.58
PAT	19.93	33.84
Overall gearing (times)	0.44	0.21
Interest coverage (times)	6.64	12.56

Combined financials; A: Audited; Note: 'the above results are latest financial results available'
* FY22 financials are before adjusting for inter-group transaction

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure- 4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	May'2025	24.00	CARE BBB; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-Bank Overdraft		-	-	-	10.00	CARE A3+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	24.00	CARE BBB; Stable; ISSUER NOT	-	1)CARE A-; Stable	-	-

				COOPERATING *		(24-May-22)		
2	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A3+; ISSUER NOT COOPERATING *	-	1)CARE A2+ (24-May-22)	-	-

*Issuer did not cooperate; based on best available information.
*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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