October 31, 2023 (Revised)

United Breweries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	510.0	-	[ICRA]AA+ (Stable); Reaffirmed
Long-term – Fund-based (inter-changeable) facilities	720.0#	-	[ICRA]AA+ (Stable); Reaffirmed
Long-term – Non-fund based (inter-changeable) facilities	150.0#	-	[ICRA]AA+ (Stable); Reaffirmed
Short Term – Fund-based (inter-changeable) facilities	720.0#	-	[ICRA]A1+; Reaffirmed
Short-term – Non-fund based (inter-changeable) facilities	150.0#	-	[ICRA]A1+; Reaffirmed
Long-term/ Short-term – Non-fund Based/ Fund-based	-	1,380.0	[ICRA]AA+ (Stable)/ [ICRA]A1+; Reaffirmed
Short-term – Commercial Paper	500.0	100.0	[ICRA]A1+; Reaffirmed
Total	**1,880.00**	**1,480.00**	

**Instrument details are provided in Annexure I;*

#The Rs.720.00-crore fund-based facilities and the Rs.150.00-crore non-fund-based facilities may be utilized either as long-term or as short-term facilities. Total amount rated by ICRA is Rs. 1,480.00 crore

Rationale

The reaffirmation in ratings considers United Breweries Limited's (UBL) strong brand portfolio and established market position in the Indian beer industry, complemented by its wide manufacturing and distribution footprint across the country. The ratings also take into account UBL's strong parentage and consequent financial flexibility as a 61.52% subsidiary of Heineken NV (Heineken; rated Moody's A3 / Stable). The ratings also continue to favourably factor in UBL's strong financial profile, characterised by robust debt protection metrics, moderate working capital intensity and strong liquidity position. Further, though the highly regulated nature of the industry with extensive Government controls on advertising and taxes restricts growth to an extent, the same creates entry barriers for new players, thereby providing competitive advantages to incumbents such as UBL. ICRA has also considered the healthy long-term demand outlook for beer in the domestic market, driven by favourable demographics.

The company's revenues witnessed strong revival in both volume and value terms in FY2023. Its revenue growth stood at 28.5% in FY2023, on the back of strong volume growth of ~31% with the company witnessing its highest ever volumes in FY2023. The company's operating margins contracted to 8.2% in FY2023, against 11.9% in FY2022, on account of sharp inflation in the cost of major raw materials such as barley and glass, in addition to the absence of price increases in key states such as Telangana. Further, loss of market share in margin-accretive states such as Karnataka also impacted the margins to a certain extent. During H1 FY2024, UBL's revenue grew by 1.1% YoY, largely impacted by 12% YoY volume de-growth in Q1 FY2024. However, the volumes revived in Q2 FY2024 with YoY volume growth of 7% resulting in overall volume decline of ~4% in H1 FY2024. Operating margins in H1 FY2024 stood at 9.8% with improvement in gross margins over H2 FY2023 levels, further to some softening in barley prices. That said, the company's operating margins continue to remain below pre-pandemic levels, given the significant increase in its variable costs. The company has adopted various cost control and efficiency measures to support its margins. Moreover, relatively low barley prices are expected to support UBL's margins, going forward. Furthermore, the trend in the company's operating margins will remain a key rating monitorable.

As on September 30, 2023, UBL was debt-free following prepayment of terms loans in FY2022 (the company now has only lease liabilities). ICRA expects the debt metrics to remain strong, in the absence of any major capital expenditure (capex) plans, which may necessitate sizeable borrowings. However, the quantum of dividend pay-outs and debt raised for capex (if any) will remain key monitorables for the company.

UBL operates in a highly regulated industry with state-specific policies, which continue to impact industry volumes in several markets. Going forward, any unfavourable policy changes in key states will remain one of the key risk factors for the company and the industry. Further, even while UBL commands a strong market share in the domestic beer market, the presence of other large international players and increasing competitive intensity from domestic players continues to impact the overall competitive scenario in the industry.

ICRA notes the order issued by Competition Commission of India, directing UBL to pay ~Rs. 751.8 crore, alleging that UBL was engaged in price co-ordination in certain states and in cartelisation. On December 8, 2021, the company filed an appeal against the CCI order before the National Company Law Appellate Tribunal (NCLAT) and deposited a payment of 10% of the penalty amount. On December 22, 2022, NCLAT passed its judgement and dismissed the appeals filed by the company. Subsequently, in January 2023, UBL filed an appeal against the NCLAT order before the Supreme Court. In February 2023, the Supreme Court admitted the appeal and stayed the NCLAT order, subject to a deposit of an additional 10% of the total penalty amount. UBL has accordingly deposited 20% of the penalty amount till date with various authorities; and currently the matter remains sub judice. ICRA will continue to monitor the developments in this regard to understand its impact on the business and financial profile of the company and will review the situation following further developments.

Key rating drivers and their description

Credit strengths

Strong parentage with Heineken NV – As a 61.52% subsidiary of Heineken, UBL enjoys strong financial flexibility, which will continue to support its business prospects, going forward.

Strong brand portfolio and market position supported by robust manufacturing and distribution infrastructure – UBL has a long track record of operations in the domestic beer industry with a healthy market share, on the back of its strong brand portfolio. UBL's market position is also supported by its pan-India manufacturing presence with 21 owned facilities and 11 contract manufacturing arrangements, a robust retail footprint and strong demand for its 'Kingfisher' brand.

High entry barriers in the industry favouring the incumbent; favourable long-term demand outlook – While the highly regulated nature of the industry with extensive Government controls on advertising and taxes restrict growth to a certain extent, it also creates entry barriers for new players, thereby favouring incumbents such as UBL. The long-term demand outlook for beer in the domestic market remains positive with favourable demographics, rising disposable incomes and urbanisation expected to drive growth of the Indian beer industry. This is also supported by the relatively lower per-capita consumption of beer in the country, compared to the average Asian as well as global consumption trends.

Strong financial profile with healthy margins, robust debt protection metrics and moderate working capital intensity – UBL's financial profile is characterised by nil debt and robust debt protection metrics, moderate working capital intensity (17.7% in FY2023) and a strong liquidity position, given the significant headroom available in the form of cash balance and unutilised sanctioned limits. Further, the debt metrics and liquidity are expected to remain strong, supported by strong cash accruals, going forward.

Credit challenges

Volatility in raw material prices and thereby margins; high barley prices impacting operating margins – Given the industry structure wherein pricing is regulated by the state governments, industry players do not have the flexibility to pass on the increase in raw material costs to customers immediately. This makes the company's operating margins vulnerable to raw material price trends. With sharp increase in prices of barley and other key raw materials such as glass, and absence of price increases from key states like Telangana, UBL's gross margins witnessed contraction in FY2023. While barley prices have softened to a certain extent, other variable costs continue to remain elevated. That said, the company's gross margins expanded sequentially in Q1 and Q2 FY2024 from Q4 FY2023 levels. While the company is adopting cost control and efficiency improvement measures, its margin trajectory amid high input costs will remain a key monitorable.

Highly regulated nature of industry; state-specific events likely to impact overall volumes of UBL as well as the industry – Extensive Government control, ban on advertising, and the varying tax structures in states pose challenges restricting growth of the industry. The industry has witnessed excise hikes in several states, which increased consumer prices, thus, impacting the volumes to a certain extent. Further, UBL's volumes continue to be vulnerable to macro events such as demonetisation, general economic slowdown, the pandemic and specific policy changes such as ban on sale of liquor near highways.

Increasing competitive intensity and options available to customers – The competitive intensity in the industry continues to be high, from both international majors as well as other domestic players. Further, the spike in the number of microbreweries and craft beer brands across major metros is increasing the overall basket of beer options available to the domestic consumer. Going forward, a strong market share and consequent scale of economies, in addition to its strong product portfolio, are expected to support UBL's business prospects.

Liquidity position: Strong

UBL's liquidity remains strong, with undrawn working capital limits of ~Rs. 1,380.0 crore, and cash balances and liquid investments of Rs. 652.3 crore as on September 30, 2023. In addition to unutilised working capital facilities, the company enjoys healthy financial flexibility, enabling it to raise debt at short notice. UBL plans to incur a capex of ~Rs. 200-250 crore each in FY2024 and FY2025 towards expansion, maintenance and replacement capex across its manufacturing facilities. In case the capex is significantly higher than the estimates, the company's healthy financial flexibility will support any incremental borrowings at competitive interest rates, in line with current trends.

Environmental and Social Risks

Environmental Considerations: Environmental risks for industry players include risks during discharge of hazardous and pollutant wastes. All breweries of UBL are equipped with wastewater treatment to ensure treatment of wastewater before any kind of discharge. The company has taken up rainwater harvesting, watershed development, and restoration and has active water conservation projects in several states. The company aims to incorporate sustainable packaging materials and invest in recycling of such materials. Further, UBL ensures appropriate segregation of hazardous and non-hazardous waste and the wastes that the company cannot dispose as a business on their own, are transferred to the respective authorities or management bodies at a local or regional level.

Social Considerations: UBL is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, as well as evolving regulatory and societal attitudes towards alcoholic products, which can affect demand for its products. Further, UBL has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2023 annual report indicates that UBL has worked on several initiatives to enhance and improve safety practices.

Rating sensitivities

Positive factors – UBL's ratings could be upgraded, if there is significant improvement in the company's scale accompanied by healthy margins and debt protection metrics, on a sustained basis.

Negative factors – Pressure on UBL's ratings could arise, if sustained material deterioration in margins and debt-funded capex, acquisitions or regulatory measures lead to weakening of its credit profile with Net Debt/OPBDITA more than 1.0 times, on a sustained basis. Any significant dividend payout adversely impacting the company's credit profile and liquidity position will also lead to a review of the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UBL.

About the company

UBL manufactures, markets and distributes beer. It continued to be the market leader with a share of about 50% of the Indian beer market during FY2023. The company markets its products mainly under its iconic brand, 'Kingfisher', and some popular brands like 'Kingfisher Ultra', 'Kingfisher Premium', 'Kingfisher Strong', 'Bullet', 'Heineken Silver', 'UB Export', 'London Pilsner' and 'Kalyani Black Label'. The company also manufactures Heineken beer in its breweries in India and supplies it across major markets in India. At present, UBL owns 21 units (including one non-alcoholic beer/products manufacturing unit) and has 11 contract brewing arrangements with other brewers.

Key financial indicators (audited)

UBL (Consolidated)	FY2021	FY2022	FY2023
Operating income (Rs. crore)	4,243.1	5,838.4	7,499.9
PAT (Rs. crore)	113.8	366.1	304.7
OPBDIT/OI (%)	9.0%	11.9%	8.2%
PAT/OI (%)	2.7%	6.3%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	0.6
Total Debt/OPBDIT (times)	0.7	0.0	0.0
Interest Coverage (times)	16.8	47.1	132.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		
					Oct 31, 2023	Oct 31, 2022	Oct 29, 2021	Oct 5, 2021	Oct 21, 2020	Sep 25, 2020	
1	**Term Loan**	Long Term	-	-	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	
2	**Fund- based**	Long Term/Short term	-	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	
3	**Non-Fund Based**	Long Term/Short term	-	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	
4	**Fund-based/Non-fund based**	Long Term/Short term	1,380.0	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	-	-	-	-	-	
5	**Commercial Paper**	Short Term	100.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based/Non-fund based – Long Term/ Short Term	Simple
Commercial Paper – Short Term	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term/ Short Term Fund-based/non-fund based	NA	NA	NA	1,380.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
Unutilised	Commercial Paper	NA	NA	7-365 days	100.0	[ICRA]A1+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Maltex Masters Limited	51.00%	Full Consolidation

Source: *UBL*

Note: *ICRA has taken a consolidated view of the parent (UBL), its subsidiaries and associates while assigning the ratings*

Corrigendum

Rationale dated October 31, 2023, has been corrected with revisions as detailed below:

In the Key Financial Indicators table, PAT/OI (%) has been added, ROCE (%) and DSCR (times) have been removed as per ICRA's new format.

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