

PRESS RELEASE

YAK BREWING COMPANY PRIVATE LIMITED

June 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	818.23	IRN BB-	Assigned
Short Term Bank Facilities	1,025.30	IRN A4	Assigned
TOTAL	1,843.53		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long-term rating of IRN BB- (Double B Minus) to the long-term bank facilities of NPR 818.23 Mn and the short-term rating of IRN A4 (A Four) to the short-term bank facilities of NPR 1,025.30 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Yak Brewing Company Private Limited (YBCPL) derive strength from its experienced promoters and support from resourceful promoter's group. The ratings also factor in company's strategic location with established marketing & distribution network. Good brand recognition of its product (Barahsinghe), especially within the domestic liquor segment also remains a rating positive. The ratings also factor in the duty protection provided to the domestic liquor industry by the Government of Nepal (GoN) via high import barriers on finished liquors.

These rating strengths, however, are constrained by YBCPL's highly leveraged capital structure with modest debt coverage indicators. Furthermore, the ratings also note YBCPL's exposure to susceptibility to price fluctuation of seasonal agro products and exposure to regulatory risk. Going forward, the ability of the company to successfully manage growth in the operations & improving the profit margins and rationalization of its debt through efficient working capital management will remain a key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and support from resourceful promoter's group

YBCPL's robust leadership team provides a strong foundation for the company's operations and growth strategy. With Mr. Ravi KC's extensive background in manufacturing and hospitality, Mr. Abhishek Shrestha's expertise in distillery management, and Mr. Muskan Shrestha's competence in marketing and sales, the company benefits from a diverse skill set at the helm. This collective experience positions YBCPL favorably to navigate the complexities of the industry and capitalize on emerging opportunities. Furthermore, the company's extensive network of over 100 trusted dealers inherited from Yeti Distillery Private Limited significantly strengthens its market presence and distribution capabilities, further strengthens its competitive advantage in the marketplace.

Improving revenue growth amidst profitability fluctuations

Over the last five FYs (FY19-FY23), YBCPL has demonstrated an impressive upward trend in its Total Operating Income (TOI), exhibiting a notable compound annual growth rate of ~98%. On the account of encountering challenges like escalating material costs and heightened excise duties, the company's EBITDA margins remained volatile, ranging from 20% to 29% throughout this period. Despite the fluctuations in profitability, YBCPL's consistent revenue expansion, starting from NPR 30 Mn in FY19 and reaching NPR 927 Mn by FY23, underscores its ability to navigate market dynamics effectively enhancing its market reach and distribution capabilities.

Strategic location and market accessibility

The strategic location of YBCPL's manufacturing facility in Kurintar, ~105 km from Kathmandu Valley, ~175 km from Birgunj dry port, and ~160 km from Bhairahwa customs, serves as a central point for imports and dispatches. This advantageous positioning facilitates efficient transportation and logistics operations. Additionally, with corporate offices situated in Kathmandu, a key economic hub with a concentration of major markets supporting the brewery industry, the company is well-placed to tap into market opportunities and streamline business operations.

Key Rating Weaknesses

Highly leveraged capital structure with modest debt coverage indicators

YBCPL exhibits a highly leveraged capital structure, as reflected by its gearing ratio, which, although slightly improved to 7.70x in FY23 (from 8.88 x in FY22), remains notably high. Similarly, the total debt to EBITDA ratio worsened to 12.26x in FY23 (from 8.80x in FY22), indicating increased financial risk. This heightened leverage can be attributed to the company's amplified reliance on working capital loans, necessitated by extended credit periods to clients and prolonged inventory holding days amidst a sluggish demand environment. Moreover, YBCPL's interest coverage ratio declined to 0.96x in FY23 (from 1.73x in FY22), reflecting the challenges posed by increased borrowing costs and increased interest expenses stemming from elevated debt levels. Furthermore, the Total Outstanding Liability (TOL) to Tangible Net Worth (TNW) ratio of YBCPL marginally improved to 9.68x in FY23 (from 10.88x in FY22), primarily due to the infusion of equity share capital, highlighting the company's efforts to address its capital structure concerns.

Stretched liquidity profile

YBCPL experienced a significant increase in its working capital intensity, rising to ~89% for FY23 from ~57% in FY22. This surge can be attributed to moderate sales coupled with a notable uptick in inventory days, which expanded from 116 days as of mid-July 2022 to 149 days as of mid-July 2023. Additionally, the average collection period extended from 81 days to 111 days during the same period. These trends have hindered the company's operating cash flows and led to increased reliance on debt to meet business requirements, placing strain on liquidity.

Susceptibility to price fluctuation of seasonal agro products

Prices of broken rice, barley, husk are highly volatile in nature and being an agro product, these are seasonal in nature with production and prices dependent on various factors like area under production, yield for the year, demand supply scenario and inventory carry forward of last year. Further, the supply is dependent upon monsoon during the particular year as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

Exposure to regulatory risk

The beer industry in Nepal operates within a highly regulated framework enforced by the government, characterized by substantial taxation and intricate dynamics. The manufacturing, distribution, promotion, and discounting of liquor products are closely governed by the Excise Duty Act of 2002. Excise duty on beer is levied at the time of distribution from factory godowns, with a consistent annual increase in rates (such as a 10% hike in FY23 over FY22 and an additional 3% in FY24 over FY23). Moreover, stringent regulations prohibit all forms of direct and indirect advertising for liquor, compelling market players to resort to surrogate advertising methods. The Government of Nepal also provides duty protection to the domestic brewery industry through high import barriers, imposing NPR 200 per liter of custom duty for the importation of finished beer into Nepal. Consequently, the liquor industry operates under tight governmental control concerning manufacturing, distribution, promotional activities, taxation, and import policies.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated on January 2013, Yak Brewing Company Private Limited (YBCPL), a brewing enterprise with its registered office in Naxal, Kathmandu, commenced its operational activities in 2016. YBCPL's factory is located in Kurintar – 4, Dare Chowk, Ichhyakamana VDC, Chitwan, Nepal, ~105 km from Kathmandu valley. Spanning across 6.5 bigha (473,850 square meters) of land near the Trishuli riverside, it features a beer garden for visitors to enjoy freshly brewed beers. The approved production capacity stands at 360,000 HL, with current utilization at 78%, producing 280,800 HL annually. Ownership of all shares lies with individual promoters, namely Mr. Abhisekh Shrestha (38%), Mr. Rabi K.C. (38%), Mr. Min Raj Bhusal (20%), and Mr. Muskan Shrestha (5%)."

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23
	Audited	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	272	646	972	927
EBITDA Margin (%)	28.89	10.51	23.16	19.72
Interest Coverage Ratio (x)	1.01	0.59	1.73	0.96
Current Ratio (x)	0.69	0.82	0.95	0.97
Total Debt/GCA (years)	Negative	Negative	19.71	Negative
DSCR (x)	0.89	0.40	1.20	0.64
Overall Gearing Ratio (x)	4.31	8.15	8.88	7.70

Earnings before Interest Tax Depreciation Amortization (EBITDA)

Debt Service Coverage Ratio (DSCR)

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Long Term Bank Facilities- Fund Based Loan	Long Term	818.23	IRN BB-
Short Term Bank Facilities- Fund Based Loan	Short Term	525.00	IRN A4
Short Term Loan Facilities- Non-Fund Based Loan	Short Term	500.30	IRN A4
Total Facilities		1,843.53	

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Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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