September 30, 2021

Kandhari Beverages Private Limited: Long-term rating upgraded, short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund based- Term Loans	273.32	164.63	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
LT- Fund based- Cash Credit	66.95	86.95	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
ST- Non-Fund Based Limits	10.00	0.00	-
LT- Fund based- Unallocated	45.73	0.00	-
LT/ST- Fund based- Unallocated	0.00	144.33	[ICRA]A+ (Stable)/ [ICRA]A1; upgraded/ reaffirmed
Total	**396.00**	**395.91**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade notes Kandhari Beverages Private Limited's (KBPL) improved financial risk profile in FY2021, and expectations of a further improvement over the near to medium term, supported by sustained healthy profitability and deleveraging of balance sheet. Contrary to expectations of de-growth in FY2021 due to the pandemic-led lockdowns in the company's peak season for sales, KBPL reported a marginal growth in sales with increased capacity and expanded its distribution network. Together with improved profitability owing to softer raw material prices and deleveraging of balance sheet, led by scheduled repayments as well as prepayments, this resulted in better-than-estimated capitalisation and coverage metrics in FY2021. While the company's business remains capital-intensive in nature and requires regular investments, limited capex undertaken in FY2021 and FY2022, with moderate capex plans for the next few years and expectations of healthy profitability, are likely to result in a further improvement in its capitalisation and coverage metrics over the next few years.

The ratings continue to factor in the strengths derived from the long track record of the company's promoters in the business and established presence as one of the leading third-party franchisee bottlers of Coca Cola Company. The ratings consider its long association with the Coca Cola brand and its exclusive franchise agreement with Coca Cola Company, which permits KBPL to bottle and distribute Coca Cola India's beverages in allocated territories in Haryana, Punjab, Himachal Pradesh and Jammu and Kashmir. The ratings, however, remain constrained by the vulnerability of KBPL's profitability to fluctuations in prices of various raw materials such as sugar, PET resin, etc. The company has been able to pass on such increases to consumers through hike in the maximum retail price of certain SKUs in the past, and has demonstrated its ability to maintain fairly stable operating margins. KBPL's ratings are also susceptible to any adverse regulatory changes, changes in consumer preferences, which may impact aerated beverages offtake and seasonality with a major portion of revenues arising in the first half of the year. ICRA also notes the track record of investments by KBPL in other promoter group entities, which have not generated any returns.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that a continued growth in KBPL's scale and range-bound profitability, together with moderate debt-funded capital expenditure plans, will help it maintain healthy debt coverage metrics and a comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Established track record of promoters; strong market position as a leading third-party franchisee bottler of Coca Cola Company – KBPL continues to benefit from the extensive experience of its promoters in the bottling industry since the 1970s. Also, the company has strong position in the domestic market as one of the largest third-party franchisee bottlers of Coca Cola Company.

Long association with Coca Cola brand and stable business model – The company has a stable business model due to its exclusive franchise agreement with Coca Cola Company for supply of its beverages in various districts of Haryana, Punjab, Chandigarh and Jammu. The franchise agreement between Coca Cola Company and KBPL was renewed for five years and is now valid till December 2024. Further, KBPL has been associated with the Coca Cola brand since 1993.

Improving financial risk profile with successful ramp up in Jammu region – The additional capacity at Saha, Haryana and Jammu are operational with the territories of J&K, Leh and Ladakh for distribution being allotted to KBPL since January 2020. This has led to an improved financial risk profile for KBPL in FY2021. Contrary to expectations of de-growth in FY2021 due to the pandemic-led lockdowns in the company's peak season for sales, it reported a marginal growth in sales with increased capacity and expansion in distribution network. Together with improved profitability owing to softer raw material prices and deleveraging of balance sheet, led by scheduled repayments as well as prepayments, this resulted in better-than-estimated capitalisation and coverage metrics in FY2021. ICRA expects a further improvement in the company's financial risk profile over the near to medium term (with Debt/ OPBDITA expected to remain at less than 1.2 times over the medium term, compared to 1.5 times in FY2021), supported by sustained healthy profitability and deleveraging of balance sheet.

Credit challenges

Vulnerability of operating profitability to fluctuations in prices of various raw materials – KBPL's profitability is vulnerable to fluctuations in the prices of various raw materials such as sugar, concentrate, PET, mango pulp, CO_2, etc. Raw materials form a major part of the company's cost structure. Its ability to pass on any increase in input costs by increasing prices of its products remains critical for operations. Comfort is drawn from the company's demonstrated ability to maintain range-bound profitability in the past.

Vulnerability of profitability to adverse changes in Government regulations or consumer preferences – KBPL's performance is also susceptible to adverse regulatory changes, changes in consumer preferences and seasonality in sales, as a major portion of the revenues is generated in the first half of the year. The demand of aerated beverages is contingent upon the taste and preferences of consumers. Also, with a shift towards a healthy lifestyle, there is a possibility of moderation in demand for aerated beverages. Both these factors can impact the company's performance and thereby, affect its ratings.

Capital-intensive nature of business – Given the capital-intensive nature of operations, KBPL had incurred significant capex in the past towards expansion, upgradation and maintenance of its facilities, which involves replacement of returnable glass bottles, bottle coolers, crates and maintenance of machinery. While the capex has been relatively lower in FY2021 and FY2022 due to the pandemic, the company plans to undertake debt-funded capex of Rs. 150 crore for expansion in Jammu in FY2023.

Track record of investments in group companies – KBPL has a track record of investments in group companies, which have not generated any meaningful returns in the past. As on March 31, 2021, ~10% of company's capital employed was deployed in such investments. Also, given that operations in some of these companies have been discontinued, ICRA expects some impairments on such investments. While it is noted that these investments have constrained the company's return metrics (ROCE of 14% vis-à-vis ROCE from core operations of 15.5% in FY2021), the same remained stable in the recent years.

Liquidity position: Adequate

KBPL's liquidity position is **adequate**, as reflected in an average cushion of around Rs. 60 crore in its fund-based bank facilities (vis-à-vis drawing power available), in the six-month period ended August 2021. The company's liquidity position stood healthy at ~Rs. 170 crore (comprising Rs. 85-crore FDRs and Rs. 86.95-crore unutilised bank lines) as on August 31, 2021. It is noted that the limit utilisation tends to peak in Q1 and Q4 of a fiscal year in line with its seasonal requirements, though the company has maintained comfortable cushion even in peak months. ICRA expects KBPL's cash flow from operations to remain adequate to fund margin requirements for its capex, as well as scheduled debt repayment obligations, despite the typically short tenure of loans availed by the company, which results in sizeable repayment obligations every year. The recovery of advances extended to a group entity are also expected to support the company's liquidity position in the current fiscal.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a significant growth in its revenues and operating profits, translating into a sustained improvement in its credit metrics, or the ROCE remains at more than 15%.

Negative factors – ICRA could downgrade the company's ratings if there is a sustained deterioration in its sales and profitability or if there is significant impact on the credit profile due to higher-than-expected debt-funded capital expenditure, leading to deterioration in its financial risk profile. Moreover, Debt/OPBDITA of more than 2 times, on a consistent basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

KBPL is one of the approved franchisee bottlers for Coca Cola Company and bottles various soft drink brands owned by Coca Cola Company, with the major ones being Coke, Thums Up, Maaza, Limca and Sprite. The products are sold in two packing media — glass bottles and polyethylene terephthalate (PET) bottles — of sizes between 200 ml and 2.5 litres. Apart from carbonated soft drinks, KBPL packages bottled water (Kinley) and juices (Minute Maid). It has four operational manufacturing units at Nabipur in Punjab, at Baddi in Himachal Pradesh, at Saha, Ambala, in Haryana and one in Jammu, in Jammu and Kashmir. In addition, the company owns five windmills of 1.25-MW energy generation capacity each. The electricity produced from this plant is sold to the Maharashtra State Electricity Board.

Key financial indicators (audited)

	FY2020	FY2021*
Operating Income (Rs. crore)	881.3	892.46
PAT (Rs. crore)	73.1	82.3
OPBDIT/OI (%)	19.2%	22.0%
PAT/OI (%)	8.3%	9.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9
Total Debt/OPBDIT (times)	2.3	1.5
Interest Coverage (times)	8.7	8.6

**Based on provisional results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 30, 2021	Jun 22, 2020	Apr 5, 2019	-
1	Fund based- Term Loans	Long Term	164.63	164.63	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	No Rating Change [ICRA]A (Stable)
2	Fund based- Cash Credit	Long Term	86.95	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	No Rating Change [ICRA]A (Stable)
3	Non-Fund Based Limits	Short Term	0.00	-	-	[ICRA]A1	[ICRA]A1	No Rating Change [ICRA]A1
4	Fund based- Unallocated	Long Term	0.00	-	-	[ICRA]A (Stable)	[ICRA]A (Positive)	No Rating Change [ICRA]A (Stable)
5	Fund based- Unallocated	Long Term/ Short Term	144.33	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT - Fund based - Term Loans	Simple
LT - Fund based - Cash Credit	Simple
LT/ST - Fund based - Unallocated	Not applicable

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank	LT - Fund based- Term Loans	FY2017	8.50%*	FY2023	16.73	[ICRA]A+ (Stable)
HDFC Bank	LT - Fund based- Term Loans	FY2020		FY2026	20.68	[ICRA]A+ (Stable)
HDFC Bank	LT - Fund based- Term Loans	FY2020		FY2024	30.00	[ICRA]A+ (Stable)
HDFC Bank	LT - Fund based- Term Loans	FY2020		FY2026	45.00	[ICRA]A+ (Stable)
Citi Bank	LT - Fund based- Term Loans	FY2017		FY2022	7.50	[ICRA]A+ (Stable)
Federal Bank	LT - Fund based- Term Loans	FY2020		FY2024	44.72	[ICRA]A+ (Stable)
HDFC Bank	LT- Fund based- Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
Yes Bank	LT- Fund based- Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
Citi Bank	LT- Fund based- Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
State Bank of India	LT- Fund based- Cash Credit	-	-	-	14.95	[ICRA]A+ (Stable)
Standard Chartered Bank	LT- Fund based- Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
IDBI Bank	LT- Fund based- Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
ICICI Bank	LT- Fund based- Cash Credit	-	-	-	2.00	[ICRA]A+ (Stable)
Federal Bank	LT- Fund based- Cash Credit	-	-	-	20.00	[ICRA]A+ (Stable)
NA	LT/ST - Fund based- Unallocated	-	-	-	144.33	[ICRA]A+ (Stable)/ [ICRA]A1

Source: *KBPL *Average coupon rate*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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