January 24, 2022(Revised)

DS Drinks and Beverages Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (Cash Credit)	10.00	10.0	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based bank facilities (Term Loan)	36.22	36.22	[ICRA]BB+ (Stable); reaffirmed
Long-term/ Short-term – Unallocated Limits	13.78	13.78	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to draw strength from the financial flexibility available to DS Drinks and Beverages Pvt. Ltd. (DS Drinks) as a part of the established Dharampal Satyapal (DS) Group as well as the demonstrated track record of regular and timely funding support from the promoter group over the years. While reaffirming the ratings, ICRA has also derived comfort from the company's favourable market position in the premium bottled water segment, its association with the renowned umbrella brand of the group, 'Catch', as well as its access to an established distribution network. The company had recently started operating in its new facility, which resulted in increase in capacity, although the ramping up was adversely impacted by the subsequent Covid-19 waves resulting in low sales during the peak period for fruit beverages. Even though the company has a favourable operating profile, its performance in terms of capacity utilisation, growth rates and profitability have been constrained by machinery obsolescence, intense competitive pressures, locational constraints and presence in limited geographies that limits volumes. As a result, the company has a modest financial risk profile characterised by net losses and weak debt coverage metrics, which keeps it dependent on regular funding support from the promoters.

ICRA notes that to address higher freight costs which generally results in subdued profitability and limited reach, the company had set up a greenfield unit at Baddi, Himachal Pradesh, which commenced operations from June 2019. However, the ramping up of operations was delayed by the commencement of operations coinciding with the Covid-19 led disruptions since March 2020. The peak seasons was impacted by the first and second Covid-19 waves. While scaling up operations of the new unit is expected to help DS Drinks strengthen its presence in the more profitable product segments, while addressing locational disadvantages of its old units, high reliance on debt for part funding of the capex has increased the leverage and weakened the coverage metrics over the last two years. Further, the recent regulatory changes from the Government of India (GoI) increasing the Goods and Services Tax (GST) from 12% to 40% on all fruit-based carbonated beverages from October 2021 is expected to impact the demand, going forward. The ratings also remain constrained by the vulnerability of the company's profitability to any fluctuations in raw material prices (mainly preforms) and its exposure to any regulatory risks, given compliance requirements with safety, health and environment laws, the state's involvement in regulating water resources, as well as increasing restrictions on use/ recycle of polyethylene (PET) bottles.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's belief that DS Drinks will continue to benefit from its strong financial flexibility as part of the DS Group, its association with the Catch brand, and timely infusion of funds by the promoters to fund its repayment obligations as well as other cash flow requirements.

Key rating drivers and their description

Credit strengths

Financial flexibility as part of the established DS Group - The key promoter of DS Drinks, Mr. Ravinder Kumar, is the chairman of the DS Group, with extensive experience in the tobacco and beverages industries. The Group enjoys a leadership position in the domestic *pan masala* and flavoured chewing tobacco industry with an experience of over eight decades. The flagship entity of the Group, Dharampal Satyapal Limited (DSL, rated [ICRA]AA(Stable)/A1+), manufactures and markets *pan masala* and dairy products under the brands, 'Rajnigandha' and 'Ksheer'. In addition to these products and sizeable investments in hotels and real estate, the Group manufactures chewing tobacco, mouth fresheners, confectionery and rubber thread products. It also has a presence in the food and beverage (F&B) segment through a wide range of products under the umbrella brand, 'Catch'. Besides strong operational interlinkages resulting from a common brand across entities in the DS Group, there is a demonstrated track record of regular and timely funding support from the promoters to fund cash shortfalls and repayment obligations, which renders healthy financial flexibility to DS Drinks.

Access to renowned brand and strong distribution network - The company sells its products under the Group's umbrella brand, 'Catch'. The brand is owned by the Group company, Dharampal Satyapal Sons Private Limited, for which DS Drinks pays royalty on an annual basis. Although present in limited regions (primarily North India) in the beverages segment, the brand has an established presence and recall value in the markets it operates in. Further, the company has built a strong distribution network of dealers as well as direct channel partners under the hotel/ restaurant/ caterers (HORECA) segment, with the direct channel mainly driving its revenues.

Ramping up of new facility to augur well for future growth – To bring down operational cost of freight and to increase profitability, the company started another facility in Baddi for manufacturing fruit beverages. Operations at this new facility began from June 2019 and, thereafter, the peak season was impacted by Covid-19 induced lockdowns. Therefore, going forward, the ramping up of operations in the new facility from the peak season of March 2022 augurs well for both revenue as well as profitability of the company.

Credit challenges

Modest scale of operations and exposure to intense competition - The company's scale of operations remains modest with a consolidated operating income of Rs. 83.5 crore in FY2021, despite ~3% revenue growth in the year. This is owing to the company's focus on a niche premium product segment (natural mineral water), capacity constraints owing to machinery obsolescence, presence in limited geographies and intense competitive pressures. Further, the peak season remained impacted in FY2021 as well as in FY2022 and, therefore, the potential of its products from the new facility was not entirely realised.

Modest financial risk profile – High competitive intensity in the business necessitates sizeable spending on advertising and marketing. Together with high freight cost from the location of its old units in the mountains, this leads to modest profitability for the company with an operating margin of 1.5% in FY2021. Further, due to inadequacy of cash profits vis-à-vis the debt repayment obligations, the company's coverage metrics have remained weak over the past five years. These remained weak in FY2021 as well amid pressures on profitability and increased repayment obligations, following a Rs. 40-crore term loan availed to fund the capex for the new unit. Additionally, because of continued losses, the Tangible Net Worth (TNW) of the company has become negative. With high reliance on debt (including interest-bearing debt from the promoter group), the company's capital structure remains leveraged and debt coverage remains inadequate.

Vulnerability of profitability to fluctuations in raw material prices - Sugar, concentrates, water, and preform of PET bottles are the key raw materials for manufacturing spring water, carbonated water and flavoured beverages. Although the cost of other inputs is not sizeable, the company's profitability remains exposed to fluctuations in preform prices, which depend on the prices of crude oil. This is more so with the company's limited ability to pass on the increase in raw material prices to its customers.

Exposure to regulatory risks - The company sources natural water and, hence, its ability to get continued access to the required volume of water at the required quality and cost remains critical, more so as the new unit is reliant on underground water. Further, it also remains exposed to any regulatory risks, given the compliance requirements of safety, health and environment laws, the state's involvement in regulating water resources and restrictions on the use of PET bottles. Moreover, from October 2021, the Government of India has raised the GST on all carbonated beverages to 40%, irrespective of their fruit pulp content. Thereafter, the company has decided to hike its prices, which might adversely impact the demand of the product and result in contraction of revenues. However, any impact on the demand is yet to be seen.

Liquidity position: Stretched

The liquidity position is stretched with inadequate profits and cash flow generation. However, the liquidity is supported by modest cushion in the working capital limits, existing free cash and timely support from promoters.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company achieves break-even of cash on a sustained basis. Further, an interest cover of 2.8 or above and timely continued support from the promoter Group to fund its debt repayments and incremental working capital requirements, could be positive rating triggers.

Negative factors – The ratings could be downgraded in case of sustained decline in scale of the company along with higher cash losses. Additionally, any weakening in linkages with the Group, which affects the company's financial flexibility, delays in getting adequate support from the promoters in line with expectations, could be negative triggers for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Ratings factor in the financial flexibility emanating from being a part of the established DS Group.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the rated entity. As on March 31, 2021, the company had a subsidiary, which is listed in Annexure-2.

About the company

Incorporated in 2013, DS Drinks and Beverages Private Limited is a part of the DS Group. The company manufactures and bottles natural spring water, carbonated water, flavoured beverages (primarily flavoured water) and fruit juice-based carbonated beverages in various flavours (such as mango, lemon, ginger, peach and blackcurrant) and sizes (mainly 200 ml). The products are sold under the brand, 'Catch'.

At present, the company has two manufacturing units in Kullu (Himachal Pradesh) and one in Baddi (Himachal Pradesh), with a total processing capacity of 36 million bottles per annum for natural mineral water and 254 million bottles per annum for soda water, flavoured beverages and fruit juice-based carbonated beverages.

Key financial indicators (Audited/Provisional)

Consolidated	FY2020 (A)	FY2021 (A)
Operating Income (Rs. crore)	80.8	83.5
PAT (Rs. crore)	(12.1)	(10.7)
OPBDIT/OI (%)	(1.0%)	1.5%
PAT/OI (%)	(15.0%)	(12.8%)
RoCE (%)	(12.3%)	(10.5%)
Total Outside Liabilities/Tangible Net Worth (times)	75.4	(12.2)
Total Debt/OPBDIT (times)	(120.6)	77.3
Interest Coverage (times)	(0.1)	0.3
DSCR (times)	0.2	0.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No.	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2021	FY2020	FY2019
					24-Jan-22	19-Oct-20	06-May-19	-
1	Cash Credit	Long Term	10.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
2	Term Loan	Long Term	36.22	37.53	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
3	Unallocated Limits	Long-term/ Short-term	13.78	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Unallocated Limits	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	10.00	[ICRA]BB+ (Stable)
NA	Term Loan	FY2019	NA	FY2024	36.22	[ICRA]BB+ (Stable)
NA	Unallocated Limits	-	-		13.78	[ICRA]BB+ (Stable)/ [ICRA] A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Himachal Plywoods Private Limited	100.00%	Full Consolidation

Corrigendum

Rationale dated January 24, 2022 has been corrected with revision as detailed below:

There is an addition in the KFI table. PAT/OI (in %) has been added.

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