December 30, 2022(Revised)

Kandhari Beverages Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund based- Term Loans	164.63	164.63	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
LT- Fund based- Cash Credit	86.95	86.95	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
LT/ST- Unallocated	144.33	144.33	[ICRA]AA- (Stable)/ [ICRA]A1+; upgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Total	**395.91**	**395.91**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade of Kandhari Beverages Private Limited's (KBPL) is on the back of an improved financial profile in FY2022 and H1 FY2023, and expectations of a further improvement over the medium term, supported by sustained healthy net cash accruals.

The revenue growth would continue to be supported by increased demand of PET plastic bottles manufactured through Affordable Small Sparkling Package technology, which results in increased shelf life, leading to deeper product penetration in rural areas. 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. KBPL has a long association with the Coca Cola brand and has an exclusive franchise agreement with Coca Cola Company, which permits KBPL to bottle and distribute Coca Cola India's beverages in allocated areas in Haryana, Punjab, Himachal Pradesh and Jammu and Kashmir.

The ratings, however, remain constrained by the vulnerability of 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 susceptible to any adverse regulatory changes, consumer preference changes (which may impact the offtake of aerated beverages) and seasonality as the major portion of the revenues is earned in the first half of the year. ICRA also notes the track record of KBPL's investments in other promoter group entities, which have not generated any returns.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's expectation that KBPL's operational and financial profiles will continue to improve, backed by its continued growth in scale and range-bound profitability, together with moderate debt-funded capital expenditure plans, which would 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 a 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 and Kashmir. The franchise agreement between Coca Cola Company and KBPL has been renewed for five years and is now valid till December 2024. Further, KBPL has association with the Coca Cola brand since 1993.

Improving financial risk profile with successful ramp-up in Jammu region – The additional capacities at Saha, Haryana and Jammu have become operational as the territories of Jammu & Kashmir, Leh and Ladakh have been allotted to KBPL for distribution since January 2020. This has led to an improved financial risk profile for KBPL in FY2022 and H1 FY2023. KBPL reported total revenues of Rs. 1,174 crore in H1FY2023 (of which Jammu & Kashmir was ~20%). Further, revenue was supported by increased demand for PET plastic bottles manufactured through Affordable Small Sparkling Package, which results in increased shelf life, leading to deeper product penetration into rural areas.

Improving coverage and liquidity indicators – Given the steady accretion to reserves and no major increase in debt levels in the recent years, KBPL's capital structure and coverage indicators have remained comfortable with a gearing of 0.3 times as on March 31, 2022 and interest coverage and total debt/OPBIDTA of 14.1 times and 0.9 times, respectively, in FY2022. ICRA expects a further improvement in the company's financial risk profile over the near-to-medium term, supported by sustained healthy profitability and return indicators, comfortable capital structure and strong coverage indicators.

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 ~65-70% of the company's cost structure. With crude oil and sugar prices increasing, KBPL's ability to pass on the hike in input costs remains critical for its operations. Comfort is drawn from the company's demonstrated ability to ramp up its operations and maintain its raw material costs, which allowed it to maintain a range-bound profitability in the past. However, a sustained improvement in a longer time frame will remain a key rating consideration.

Exposure to adverse changes in Government regulations and consumer preferences – KBPL's performance is also susceptible to adverse regulatory changes, consumer preference changes and seasonality in sales as the major portion of the revenues is generated in the first half of the year (summer season). The demand of aerated beverages is contingent upon the taste and preferences of consumers. Also, there is a possibility of moderation in demand for aerated beverages with consumers' shift towards a healthy lifestyle. However, ICRA notes that KBPL's juice segment has also been growing year-on-year and it contributed 20-22% to the total revenues in last three years ending FY2022.

Capital intensive nature of business – Given the capital-intensive nature of operations, KBPL had incurred significant capex in the past (~Rs.460 crore in the last five years) 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 is undertaking debt-funded capex of Rs. 130 crore for expansion in Jammu in FY2023. However, ICRA notes the company's capex plans in the near term and availability of significant liquidity would aid in meeting debt repayment obligations as well as the near-term commitments.

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, 2022, ~10% of the 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 such investments have constrained the company's return metrics (ROCE of 18.3% vis-à-vis ROCE from core operations of 21.4% in FY2022), the same remained stable in the recent years.

Liquidity position: Strong

KBPL's liquidity profile is strong, as reflected in Rs. 170-crore FDRs and Rs. 48-crore unutilised bank lines (~62% of the sanctioned limits) as on December 19, 2022. The company has demonstrated its ability to raise short-term funding in case of a funding mismatch. ICRA expects the company's cash flow from operations to remain adequate to fund margin requirements for its capex as well as scheduled debt repayment obligations. 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 long-term rating if there is a significant growth in its revenues and operating profits, translating into a sustained improvement in its credit metrics and liquidity profile.

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 a deterioration in its financial risk and/or the liquidity profile. Moreover, Debt/OPBDITA of more than 1.5 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 Coca Cola, 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, Baddi in Himachal Pradesh, Saha, Ambala, in Haryana and in Jammu in Jammu and Kashmir. In addition, the company owns five windmills with energy generation capacity of 1.25 MW each. The electricity produced from this plant is sold to the Maharashtra State Electricity Board.

Key financial indicators

Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	891.2	1,176.2
PAT (Rs. crore)	71.7	141.0
OPBDIT/OI (%)	21.9%	19.8%
PAT/OI (%)	8.0%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.7
Total Debt/OPBDIT (times)	1.5	0.9
Interest Coverage (times)	8.5	14.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

S. No	Instrument	Current rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 30, 2022		Sep 30, 2021	Jun 22, 2020	Apr 5, 2019
1	Fund based- Term Loans	Long Term	164.63	131.83	[ICRA]AA- (Stable)		[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)
2	Fund based- Cash Credit	Long Term	86.95	--	[ICRA]AA- (Stable)		[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)
3	Non-Fund Based Limits	Short Term	0.00	--	-		-	[ICRA]A1	[ICRA]A1
4	Fund based- Unallocated	Long Term	0.00	--	-		-	[ICRA]A (Stable)	[ICRA]A (Positive)
5	Fund based- Unallocated	Long Term/ Short Term	144.33	--	[ICRA]AA- (Stable)/ [ICRA]A1+		[ICRA]A+ (Stable)/ [ICRA]A1	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
LT - Fund based - Term Loans	Simple
LT - Fund based - Cash Credit	Simple
LT/ST - 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 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	LT - Fund based - Term Loans	Jan 2022	6.0%	Apr 2025	164.63	[ICRA]AA- (Stable)
NA	LT - Fund based - Cash Credit	NA	NA	NA	86.95	[ICRA]AA- (Stable)
NA	LT/ST - Unallocated	NA	NA	NA	144.33	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: *KBPL*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Corrigendum:

Document dated December 30, 2022, has been corrected with revisions as detailed below:

- In the rationale section on page 1, in the first line of the fifth paragraph long-term rating has been modified as AA- from A+.

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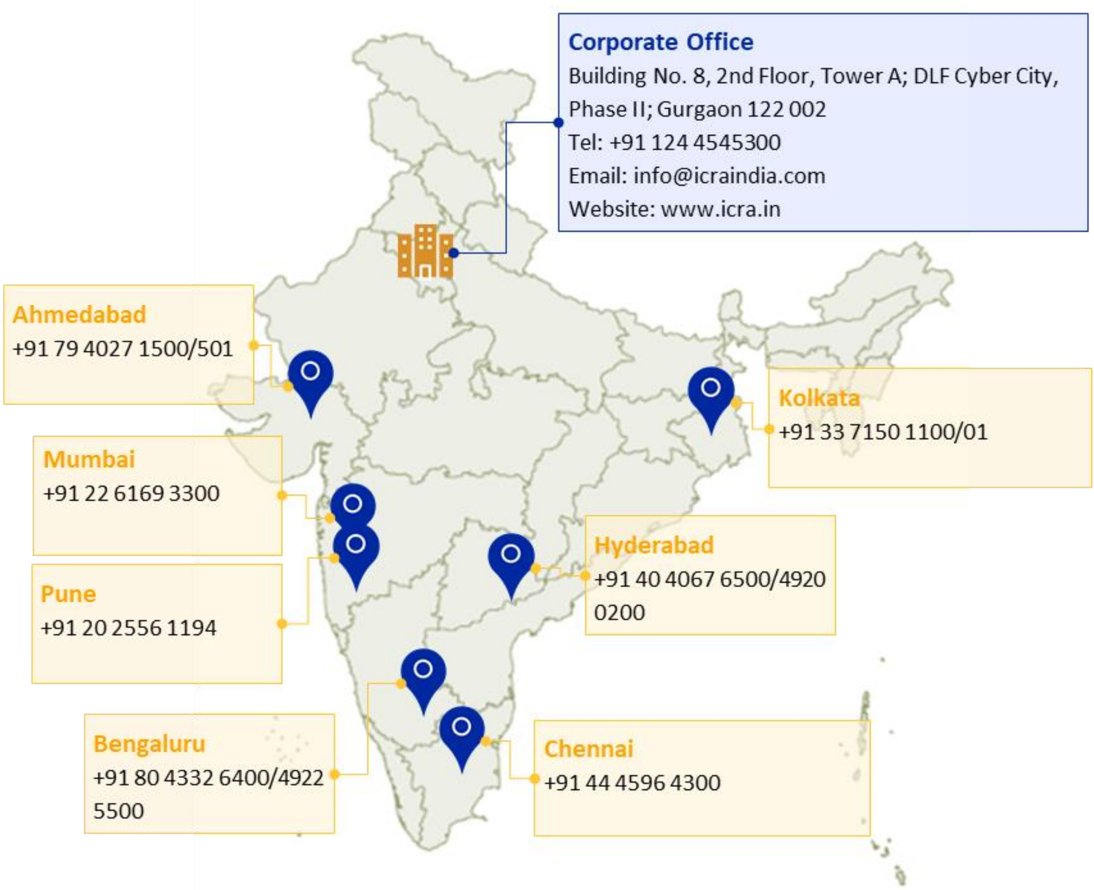

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