April 28, 2023

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	10.00	[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-I*

Rationale

The reaffirmation of ratings takes into account ICRA's expectations that DS Drinks and Beverages Pvt. Ltd. (DS Drinks) will continue to benefit from the financial flexibility available from being part of the established Dharampal Satyapal (DS) Group, demonstrated by a 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. Even though the company has a favourable operating profile, its performance has been constrained by high fixed overheads amid limited capacity utilisation, machinery obsolescence in its wholly-owned subsidiary, intense competition and regulatory risks (increase in GST rates), 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.

The company has a modest scale, and it witnessed a moderate revenue growth in FY2023. Scaling up operations of the company's Baddi unit is expected to strengthen its presence in the more profitable product segments, while addressing locational disadvantages of its older units. The ratings also remain constrained by the vulnerability of the company's profitability to any fluctuations in raw material prices (mainly preforms), which was witnessed in FY2022 and H1 FY2023 with increased crude prices. The ratings further remain constrained by the company's exposure to 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 benefit from the stable demand outlook and ramp-up of new capacity.

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, which 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 its flagship brand, Rajnigandha. In addition to these products and sizeable investments in hotels and real estate, the Group manufactures chewing tobacco, mouth fresheners, confectionery, spices 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, the demonstrated track record of regular and timely funding support from the promoters to fund any cash shortfalls and repayment obligations, renders healthy financial flexibility to DS Drinks. In FY2023, the company received additional unsecured loans of Rs 22.5 crore, compared to Rs 12.6 crore in FY2022.

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 and direct channel partners under the hotel/restaurant/caterers (HORECA) segment, with the direct channel mainly driving its revenues. The company also partly shares its distribution network with DSL as well, which lends further stability.

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. The operations at this new facility began from June 2019 however thereafter, the peak season was impacted by Covid-19-induced lockdowns. Due to the same, the scale-up was hindered in FY2020 and FY2021. Therefore, the GST increased to 40% from 12% in fruit-based carbonated drinks, which suppressed demand for a few quarters. Going forward, the ramping up of operations in the new facility from the peak season of FY2024 augurs well for both revenue as well as profitability of the company, amid a stable demand scenario.

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. 99.0 crore in FY2022, despite ~18% 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 competition. Further, the increase in prices had adversely impacted the demand in FY2023, which is gradually stabilising now. In 9M FY2023, the company achieved revenues of ~Rs 81 crore on a standalone basis.

Modest financial risk profile – The 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. The profitability in FY2022 and FY2023 has been further suppressed by high raw material prices prominently led by crude derivatives such as preforms of PET bottles. The prices of stickers and other packaging products also increased post the Russia-Ukraine war. All these factors combined led to operating losses in FY2022, which is expected to continue in FY2023 as well. With high reliance on debt (including interest-bearing debt from the promoter group), the company's capital structure remains leveraged with net worth being negative and capital infused in the form of unsecured loans and debt coverage metrics being weak. ICRA expects coverage metrics to remain inadequate and the company to remain supported through promoter unsecured loans.

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.

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 remains exposed to 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 hiked its prices, which adversely impacted the demand of the product and resulted in lower-than-expected growth in revenues in FY2023.

Liquidity position: Stretched

The liquidity position is stretched, with inadequate cash flow generation and high repayments of Rs 11.74 crore in FY2024. However, the liquidity is supported by modest cushion in the working capital limits, existing free cash and timely funding 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 times 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 any 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 and timely support from the promoters, could be negative triggers for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the rated entity. As on March 31, 2022, the company had a wholly owned 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)

Standalone	FY2021	FY2022
Operating income	83.5	99.0
PAT	(10.7)	(11.6)
OPBDIT/OI	1.5%	(2.2%)
PAT/OI	(12.8%)	(11.7%)
Total outside liabilities/Tangible net worth (times)	(12.2)	(5.4)
Total debt/OPBDIT (times)	77.3	(46.7)
Interest coverage (times)	0.3	(0.5)

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *provisional results*

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 28, 2023	-	Jan 24, 2022	Oct 19, 2020
1	Cash credit	Long-Term	10.00	-	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Term loans	Long-Term	36.22	15.80*	[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+

Source: Company; the outstanding is as on March 31st, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Unallocated Limits	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	**Cash Credit**	NA	NA	NA	10.00	[ICRA]BB+(Stable)
NA	**Term loans**	FY2019	NA	FY2024	36.22	[ICRA]BB+(Stable)
NA	**Unallocated Limits**	NA	NA	NA	13.78	[ICRA]BB+(Stable) /[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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