September 25, 2024

Davat Beverages Pvt. Ltd.: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	10.00	10.00	[ICRA]BBB (Positive); reaffirmed and outlook revised to Positive from Stable
Fund-based – Term loan	92.56	77.40	[ICRA]BBB (Positive); reaffirmed and outlook revised to Positive from Stable
Non-fund based – Interchangeable	(17.50)	(17.50)	[ICRA]A3+; reaffirmed
Unallocated limits	0.44	15.60	[ICRA]A3+; reaffirmed
Total	**103.00**	**103.00**	

**Instrument details are provided in Annexure-I*

Rationale

The change in rating outlook to Positive considers steady improvement in Davat Beverages Pvt. Ltd.'s (DBPL) credit profile and expectations of continuation of the same, on the back of improvement in top line, which is likely to sustain over the medium term, backed by its established brand presence in Gujarat and gradual capacity addition. DBPL recorded revenue growth of 21% in FY2024 with growing demand in the Gujarat market and is expected to post around 20% growth in FY2025 on the back of new product line launched. The margin also improved significantly in FY2024 due to cost-optimisation measures in the production process as well as lower raw material costs, leading to robust cash accruals. The ratings also continue to consider the extensive experience of DBPL's promoters in the beverage industry, its wide distribution network and adequate brand presence in Gujarat.

The ratings, however, remain constrained by high dependence on the carbonated soft drink (CSD) segment, which contributed to around 95% to its revenues in FY2024, along with product (mainly Jeeru soda) and geographic concentration risks, with its sales mainly concentrated in one state i.e., Gujarat. The margins also remain vulnerable to raw material costs (mainly preform & sugar), wherein decline in preform costs helped in improvement in margins in FY2024. Going forward, sustenance of margin at healthy levels, despite cost optimisation, remains a key monitorable from a credit perspective. The ratings also factor in the intense competition from organised and unorganised players in the industry and the seasonality attached to the business, given its presence in the CSD segment.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in beverages industry - DBPL was promoted in 2017 by Mr. Chetanbhai Khanpara and Mr. Chandulal Khanpara. Mr. Chetanbhai Khanpara has around two decades of experience in the beverages industry from his associations with the entities, Bhavya Beverages and Maruti Bottling, involved in manufacturing fruit juices and CSDs. The operations of both these entities were transferred to DBPL after its incorporation. Further, Mr. Arvindbhai Keratia, a director, has extensive experience in the industry through his long association with DBPL.

Wide distribution network with adequate presence in Gujarat – The company manufactures fruit juices and carbonated drinks in several flavours. DBPL sells its products under the brand name, 'Davat'. It has a wide network of 345+ dealers across India, 23 super stockists in Gujarat, Rajasthan, Madhya Pradesh and Maharashtra, and more than 1,50,000+ retailers across India.

Growing top line backed by capacity additions; improvement in coverage metrics – Over the past five years, the company`s top line witnessed a CAGR of 34% to Rs. 303.4 crore in FY2024 from Rs. 71.4 crore in FY2019. The same has been driven by regular enhancement in its capacity, which has increased to 2,800 bpm (bottles per minutes) in FY2024. The top line is expected to grow further on the back of enhancement in the capacities, which is likely to operationalise in Q1 FY2026. The margins also posted an improvement driven by cost-optimalisation efforts as well as favourable raw material pricing, leading to strong cash accruals. The debt protection metrics improved in FY2024 and are expected to improve further over the medium term, following the commercialisation of upcoming enhancement in capacity, given the healthy demand scenario.

Credit challenges

Susceptibility of profitability to volatility in raw material prices - The company uses water, sugar and concentrates for different flavours, along with preforms, labels, tins and shrink rolls, etc, as primary ingredients to manufacture and package carbonated drinks. The company's profitability is exposed to fluctuations in the raw material prices of mainly preform, which in turn depend on the prices of crude oil. The ability of the company to take suitable price hikes to improve the margin, going forward, will remain a key rating sensitivity.

Geographic concentration risk - DBPL's sales are concentrated in Gujarat, with dominant share of revenues generated from the region since its inception. Given this trend, the geographic concentration risk remains very high. The company is however, adding newer regions such as Rajasthan, Madhya Pradesh and Maharashtra which is expected to reduce the concentration to an extent on going forward basis.

Presence in competitive beverages industry and seasonal nature of operations - DBPL has a presence in a competitive and fragmented industry, characterised by organised and unorganised players, thus putting pressure on its revenue and margins. Further, the demand for CSDs is seasonal with peak being in the summer season and, hence, highly susceptible to changes in weather conditions during this period. However, DBPL has a reasonable brand presence in Gujarat and having fruit juice-based beverages and energy drinks in its product mix provides partial hedge towards the seasonality issue.

Liquidity position: Adequate

The liquidity position of DBPL is adequate, marked by an average utilisation of around 7% for its working capital limits in the last twelve months ended in August 2024, with a buffer of ~Rs. 7 crore in the sanctioned limits. The company has debt repayment of around Rs. 18-20 crore in the next two years, which is expected to be adequately covered by cash accruals.

Rating sensitivities

Positive factors –ICRA could upgrade DBPL's ratings, if there is a continued improvement in the company's scale of operations along with sustenance of healthy profit margins. Strengthening of debt coverage metrics, coupled with its overall liquidity position, driven by a better earnings profile, will also be a trigger for an upgrade.

Negative factors – Outlook can be revised to Stable, if there is any substantial decline in revenues or moderation in profitability or liquidity profile, impacting the credit profile. Specific credit metric for a downgrade, is DSCR of less than 1.6 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for FMCG
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Davat Beverages Pvt. Ltd. was incorporated in 2017 by Mr. Chetanbhai Khanpara and Mr. Chandulal Khanpara to take over the business of Bhavya Beverages (established in 2015). The company manufactures fruit juices and CSDs in various flavours such as cola, orange, lemon, mango and apple in sizes such as 160 ml, 600 ml, 1.25 l and 2.25 l. The company has a manufacturing facility at Rajkot, Gujarat. Earlier, the company also had a manufacturing facility at Nasik, Maharashtra, which was closed in FY2022 due to operational constraints. At present, the company has a production capacity of 245 bottles per minute (bpm) for fruit juices and 2,340 bpm/120 cans per minute for CSDs. The company's facility is ISO 9001:2015, ISO 22000:2005 and Central FSSAI certified.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	251.3	303.4
PAT	9.8	24.4
OPBDIT/OI	9.9%	16.8%
PAT/OI	3.9%	8.0%
Total outside liabilities/Tangible net worth (times)	2.7	1.8
Total debt/OPBDIT (times)	3.7	1.7
Interest coverage (times)	5.2	6.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	September 25, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based Cash Credit	Long term	10.00	[ICRA]BBB (Positive)	16-Jun-23	[ICRA]BBB (Stable)	21-Oct-22	[ICRA]BBB-(Stable)	16-Dec-21	[ICRA]BBB-(Stable)
Fund based Term Loan	Long term	77.40	[ICRA]BBB (Positive)	16-Jun-23	[ICRA]BBB (Stable)	21-Oct-22	[ICRA]BBB-(Stable)	16-Dec-21	[ICRA]BBB-(Stable)
Non-fund Based- Bank Guarantee	Short term	-	-	-	-	21-Oct-22	[ICRA]A3	16-Dec-21	[ICRA]A3
Non-fund based - Interchangeable	Short term	(17.50)	[ICRA]A3+	16-Jun-23	[ICRA]A3+				
Unallocated Limits	Short term	15.60	[ICRA]A3+	16-Jun-23	[ICRA]A3+				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based Cash Credit	Simple
Fund based Term Loan	Simple
Non Fund based - Interchangeable	Very 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]BBB (Positive)
NA	**Term Loan**	FY2018	NA	FY2030	77.40	[ICRA]BBB (Positive)
NA	**Interchangeable**	NA	NA	NA	(17.50)	[ICRA]A3+
NA	**Unallocated Limits**	NA	NA	NA	15.60	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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