December 05, 2019

Burger King India Limited: [ICRA]BBB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loan	150.00	[ICRA]BBB+(Stable); Assigned
Long Term - Unallocated amount	25.00	[ICRA]BBB+(Stable); Assigned
Total	**175.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating notes the strong recognition of the Burger King brand worldwide as well as in the domestic market, the demonstrated support by Burger King India Limited's (BKIL) promoter, QSR Asia Pte. Ltd. (QSR Asia)[1] through healthy capital infusion over the years and its experienced management team. The rating draws comfort from the diversified product portfolio designed as per Indian consumer taste and BKIL's geographical presence across India. Furthermore, the rating considers its healthy financial profile characterised by robust revenue growth, comfortable capital structure and low working capital intensity of operations as well as turnaround in operations from FY2019. ICRA notes that BKIL has filed a draft red herring prospectus (DRHP) for initial public offering (IPO), in the near term, wherein other than partial dilution of the promoter holding, fresh infusion Rs. 400.00 crore is on cards. As per the DRHP, the same is expected to be used towards repayment of bank term loan of Rs. 150.00 crore (which are being used for store expansion in FY2020), store expansion capex of Rs. 140.00 crore and the remaining towards the general corporate purposes. Subsequently the company's capitalisation and debt protection metrics are expected to improve further on successful completion of the IPO.

The rating, however, is constrained by the company's exposure to execution risk owing to aggressive expansion plans over the medium term and its muted return on capital employed (RoCE) due to under absorption of fixed costs as stabilisation of the new stores remains a work in process, given the rapid expansion. ICRA notes that the judicious funding plan for the aggressive expansion plan and compliance with the terms and conditions laid out in the master franchise development agreement (MFDA) for ongoing operations, remains critical from the credit perspective. The rating is further constrained by BKIL's high dependence on a third-party distributor, ColdEx Logistic Private Limited

[1] promoted by F&B Asia Ventures (Singapore) Pte. Ltd. (86.93%) and BK AsiaPac (11%). F&B Singapore is 100% owned (ordinary shares) by F&B Asia Ventures Ltd. (Mauritius) and Ajay Kaul holds 100% of the class A preference shares in F&B Singapore. Further, Everstone Capital Partners II LLC holds 45.91% of the class A shares of F&B Asia Ventures Ltd. (Mauritius) and Everstone Capital Management serves as the investment manager of Everstone Capital Partners II LLC. Everstone Capital Management does not hold any Equity Shares in BKIL. However, Everstone Capital Management through its role as the investment managers of Everstone Capital Partners II LLC, indirectly control voting rights of F&B Singapore.

(ColdEx), for its supply chain management (where in ColdEx is an aggregator) and increasing competition from players in the Indian organised and unorganised market.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that BKIL will continue to benefit from its experienced management, entrenched distribution network and acceptability as a well-recognised burger brand with a wide range of offerings in India.

Key rating drivers and their description

Credit strengths

Well-recognised brand with multiple product offerings and geographically diversified presence in India – BKIL is operating as the national master franchisee of the Burger King brand in India, which is the second largest fast food burger brand globally based on the total number of restaurants. BKIL has a wide product portfolio comprising a requisite mix of vegetarian as well as non-vegetarian burgers, along with desserts and snacks designed as per the Indian consumer taste. BKIL has a pan-India presence through a chain of 202 restaurants as on June 30, 2019.

Demonstrated support through capital infusion by promoter and experienced management team – From its incorporation till FY2019, QSR Asia has infused funds in the company in the form of equity of Rs. 510.45 crore and compulsorily convertible preference shares (CCPS) of Rs. 100.00 crore, totalling to Rs. 610.45 crore. The day-to-day operations are spearheaded by an experienced management team, who has an experience of more than a decade in running similar businesses.

Robust revenue growth, comfortable capital structure and low working capital requirements – BKIL's operating income (OI) stood at Rs. 136.84 crore in FY2016, being a new entrant with growing penetration in the Indian market. However, it has witnessed robust revenue growths of 66%, 64% and 67% in FY2017, FY2018 and FY2019, respectively, on the back of increasing market penetration by opening 138 new stores during the last three fiscals and its acceptability by the consumers in the Indian market. BKIL's OI stood at Rs. 632.74 crore in FY2019, and further registering 34% annualised growth in Q1 FY2020 with an OI of Rs. 212.38 crore. It had zero-debt on its books since its incorporation to FY2019. As on June 30, 2019, the company had total debt of Rs. 500.88 crore entirely comprising of lease liabilities as against net worth of Rs. 347.74 crore. Therefore, BKIL's capital structure remained leveraged with a gearing of 1.68 times as on June 30, 2019. However, BKIL's external borrowings remained nil as on June 30, 2019. BKIL's inventory and debtor days have historically remained low due to the nature of its business. In addition, it receives extended credit period from its suppliers due to high bargaining power, which has always kept its working capital intensity negative.

Turnaround in operations from FY2019 with expected improvement in capitalisation and debt protection metrics on successful completion of IPO – In the initial years of its operations, BKIL faced challenges of high rental, employee, marketing and advertising expenses, resulting into losses at operational level. As the company's sales grew YoY, it has started achieving the benefits of economies of scale as seen by reduced losses and improved operating profit margins (OPMs). Evidently, it reported an OPM of 2.01% (as per IGAAP) in FY2019, compared to losses till FY2018. The company is in process of raising funds of Rs. 400.00 crore through IPO for its expansion as well as debt reduction, which is expected to further strengthen its net worth base and improve the capitalisation and debt coverage metrics.

Credit challenges

Exposed to execution risk due to aggressive medium-term expansion plan; judicious funding plan remains critical from credit perspective – BKIL proposes to scale up by opening ~75 restaurants per annum in the near-to-medium-term vis-à-vis the past track record of 40-60 stores per annum. Therefore, the company is exposed to execution risk pertaining to finding suitable locations for new stores as well as venturing into newer tier-II/III markets, considering the different target market. The aggressive expansion plan will entail an investment of ~Rs. 200-210 crore per annum (considering capex cost of Rs. 2.75 crore per store) towards opening of stores. Judicious funding of the envisaged capex in terms of debt as well as equity/internal accrual remains crucial from the credit perspective.

RoCE remains muted as BKIL is in expansion stage – BKIL has been incurring high expansion capex since its incorporation to achieve desired sales growth, which clubbed with high overheads kept the margin expansion under check, as stabilisation of the new stores remains a work in progress, given the rapid expansion witnessed. Though the company reported positive operating profit in FY2019, its RoCE is expected to be suppressed in the near term, given the gestation period involved for a new store to generate commensurate returns.

Compliance with terms and conditions mentioned in MFDA remain critical for ongoing operations – BKIL has received exclusive rights to develop, establish, operate and franchise Burger King (BK) restaurants in India pursuant to MFDA among BK AsiaPac, QSR and BKIL. As per terms and conditions mentioned in MFDA, BKIL must open at least 700 restaurants by December 31, 2025 and should maintain debt to equity ratio below 2 times always, among others. In case of any non-compliance with the terms and conditions laid out in the MFDA, BK AsiaPac holds the right to terminate the developmental rights given to BKIL. Therefore, complying with all terms and conditions laid out in the MFDA remains critical for BKIL's ongoing operations.

High dependence on ColdEx Logistic Private Limited for supply chain management – BKIL relies on a single third-party distributor for procurement of ingredients and packaging materials, primary logistics from supplier facilities to distribution centres, warehousing, inventory management and secondary logistics to the restaurants. Any disruption in ColdEx's distribution channel might have an adverse impact on BKIL's supply chain operations. However, it is noted that since ColdEx is just as aggregator of the services/products for BKIL, the disruption will be limited till BKIL finds a suitable alternative supplier in case of discontinuation of service from ColdEx.

Increasing competition from organised and unorganised market – BKIL faces increasing competition from other international QSR brands like McDonald's, KFC and several local players from the unorganised market in India, which can limit its operating profitability to certain extent.

Liquidity position: Adequate

BKIL's liquidity is adequate with positive retained cash flows in FY2019 owing to improved profitability, consequent to significant ramp up of its operations leading to better absorption of overheads. It had a free cash and bank balance (including liquid investments) of Rs. 32.39 crore as on June 30, 2019. The company received sanction of a term loan of Rs. 150.00 crore in Q2 FY2020 to support its heavy business expansion plans. ICRA notes that BKIL does not have any term loan repayments for the next two years, which further supports its liquidity position.

Rating sensitivities

Positive triggers – Continued increase in revenue and profitability on the back of continuous business expansion as well as successful completion of IPO, leading to reduction in debt levels and betterment in debt coverage indicators will be a positive for BKIL's rating.

Negative triggers – Lower-than-expected sales growth, coupled with delay in stabilisation of new stores leading to lower-than-expected profitability or any unanticipated debt-funded capex resulting in a leveraged capital structure and moderation in debt coverage indicators will put negative pressure on BKIL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	No
Consolidation/Standalone	Standalone

About the company

Burger King India Private Limited was incorporated as a private limited company on November 11, 2013 and then later in September 2019, its constitution was changed to a public limited company and was renamed as Burger King India Limited (BKIL). BKIL is operating as the national master franchisee of the Burger King brand in India, which is the second largest fast food burger brand globally based on the total number of restaurants. As on June 30, 2019, BKIL operated 202 restaurants across India, including seven sub-franchised restaurants.

BKIL is promoted by QSR Asia Pte Ltd (QSR Asia), which is promoted by F&B Asia Ventures (Singapore) Pte. Ltd. (86.93%) and BK AsiaPac (11%). F&B Singapore is 100% owned (ordinary shares) by F&B Asia Ventures Ltd. (Mauritius) and Ajay Kaul holds 100% of the class A preference shares in F&B Singapore. Further, Everstone Capital Partners II LLC holds 45.91% of the class A shares of F&B Asia Ventures Ltd. (Mauritius) and Everstone Capital Management serves as the investment manager of Everstone Capital Partners II LLC. Everstone Capital Management does not hold any Equity Shares in our Company. However, Everstone Capital Management through its role as the investment managers of Everstone Capital Partners II LLC, indirectly control voting rights of F&B Singapore.

Founded in 2006, Everstone Capital is a leading private equity and real estate investment firm focused on investing in companies across India and Southeast Asia, in healthcare, retail, F&B, financial services, education and business services, among others.

In FY2019, the company reported a net loss of Rs. 15.59 crore on an OI of Rs. 632.74 crore compared to a net loss of Rs. 62.59 crore on an OI of Rs. 378.12 crore in the previous year. On a provisional basis, BKIL reported a net loss of Rs. 1.77 crore on an OI of Rs. 212.38 crore in Q1 FY2020.

Key financial indicators

	FY2018 (Audited - IGAAP)	FY2019 (Audited - IGAAP)	Q1 FY2020 (Provisional - IND AS)
Operating Income (Rs. crore)	378.12	632.74	212.38
PAT (Rs. crore)	-62.59	-15.59	-1.77
OPBDIT/OI (%)	-10.99%	2.01%	15.46%
RoCE (%)	-17.91%	-4.34%	7.62%
Total Outside Liabilities/Tangible Net Worth (times)	0.22	0.23	1.75
Total Debt/OPBDIT (times)	0.00	0.00	3.81
Interest Coverage (times)	-145.29	51.16	2.47
DSCR	-122.60	96.93	2.61

Source: BKIL; Ratios in Q1 FY2020 are not comparable with FY2018 and FY2019 due to change in reporting from IGAAP to IND AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating 05-Dec-2019	FY2019 -	FY2018 -	FY2017 -
1	Term Loan	Long-Term	150.00	63.00*	[ICRA]BBB+(Stable)	-	-	-
2	Unallocated amount	Long-Term	25.00	-	[ICRA]BBB+(Stable)	-	-	-

*Amount in Rs. crore; *O/s as on October 24, 2019*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Term Loan	FY2020	10.42%	FY2026	150.00	[ICRA]BBB+(Stable)
NA	Long-Term Unallocated amount	NA	NA	NA	25.00	[ICRA]BBB+(Stable)

Source: BKIL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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