September 09, 2021

Brindavan Beverages Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	-	34.50	[ICRA]A- reaffirmed; Outlook revised to Negative from Stable
Long-term Fund based - Working Capital limits	80.00	97.50	[ICRA]A- reaffirmed; Outlook revised to Negative from Stable
Short-term Non-fund based – Bank Guarantee	0.50	-	-
Short-term Non-fund based – Capex LC	(30.00)*	-	-
Long-term/Short-term Fund based – Buyer's Credit	(30.00)*	-	-
Long-term/Short-term Fund based/Non-fund based – Capex LC	25.00	(34.50)	[ICRA]A- / [ICRA]A2+ reaffirmed; Outlook revised to Negative from Stable
Long-term/Short-term – Unallocated limits	49.50	23.00	[ICRA]A- / [ICRA]A2+ reaffirmed; Outlook revised to Negative from Stable
Total	**155.00**	**155.00**	

**Sub-limit under Term Loans; Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Negative factors in the expectations of a depressed performance of the company in FY2022 after witnessing a significant deterioration in FY2021 primarily due to the Covid-19 outbreak and the resulting lockdowns impacting the business in the seasonally strongest summer months. BBPL's operating income for FY2021 fell ~53% YoY to ~Rs. 262 crore and operating profit reduced by ~45% YoY from ~Rs. 92 crore in FY2020 to ~Rs 51 crore in FY2021. In FY2022, Covid 2nd wave has had some impact on the business and consequently, while some improvement in performance is likely, at an absolute level, it would remain under pressure. While revising the outlook, ICRA has also factored in the likelihood of support to one of BBPL's group companies, which is also its sole customer, to meet their financial obligations that have been guaranteed by BBPL through corporate guarantees and/or letters of comfort.

The ratings continue to be supported by the favourable financial profile of Brindavan Beverages Private Limited (BBPL) characterised by stable operating margins, low gearing levels and healthy coverage indicators. The company was earlier involved in both bottling and distribution of Coca Cola products across 16 districts in Uttar Pradesh and Uttarakhand. However, through a series of agreements in FY2020, it has reduced its role to only a bottler for Coca Cola and has foregone its marketing rights in favour of SLMG Beverages Pvt Ltd (a related entity) which now has the exclusive marketing rights for Coca Cola products across all districts in Uttarakhand and Uttar Pradesh (except NCR). As a result, SLMG Beverages is now the sole customer for BBPL's beverage production. This arrangement has negatively impacted the average realizations and topline for BBPL as the company has foregone a part of the margins which accrued to it from the distribution business. This is, however, offset by reduction in marketing expenses, which are now borne by SLMG Beverages, resulting in muted impact on operating margins for BBPL. The ratings also draw comfort from the three-decades long industry experience of BBPL's promoters and the dominant market position of Coca Cola's products in the carbonated soft drinks and fruit juice based drinks segments.

The ratings are constrained by the industry's susceptibility to regulatory risks and the changing consumer preference away from carbonated soft drinks which form the largest component of production for BBPL. Risks also arise from the high degree of dependence on commercial policies and pricing decided by Coca Cola India Pvt Ltd. ICRA also notes BBPL's capital-intensive nature of business along with substantial investments in real estate and other non-core ventures which are relatively illiquid in nature and affect the return indicators. Ratings are also impacted by the high levels of contingent liabilities of BBPL in the form of corporate guarantees and/or letters of credit to broader group entities and the risk of invocation thereof.

Key rating drivers and their description

Credit strengths

Established position as one of the largest bottlers of CCIPL; extensive experience of promoters – After the acquisition of Parle's soft drinks business by Coca Cola in 1993, BBPL became a franchisee of Coca Cola in India with an exclusive franchise agreement with CCIPL for bottling and distribution of Coke products in North India. Coca Cola enjoys a dominant market position in the carbonated soft drinks segment and its focus on growing the Indian market share drives revenues and profitability for its franchisee bottlers. Moreover, its promoters and the broader group have extensive experience of over three decades in the bottling industry.

Comfortable capital structure and healthy financial risk profile – BBPL's capital structure is characterised by low gearing as indicated by Gross Debt/TNW ratio of 0.42 times as on March 31, 2021 against 0.40 times as on March 31, 2020. The Total Outside liabilities/Tangible Net worth is comfortable at 0.76 times as on March 31, 2021 against 0.78 times as on March 31, 2020. The company has been generating healthy cash accruals averaging ~Rs. 55 crore per annum over the last four years which has led to adequate liquidity with cash and cash equivalents of ~Rs. 93 crore against gross debt of ~Rs. 188 crore as on March 31, 2021. BBPL's operating margins increased by 260 bps YoY to ~19.3% in FY2021 despite a ~53% reduction in operating revenues primarily due to reduction in marketing expenses as a result of a change in the business model. ICRA expects BBPL's financial risk profile to remain robust in the near term backed by healthy cash accruals to support business operations and debt repayment.

Dominant market share of CCIPL in carbonated soft drinks segment supported by strong brand – CCIPL has a dominant market share in the carbonated soft drinks segment with established brands such as Thums Up, Sprite, Coca-Cola, etc. Further, it also has healthy market share in the fruit juice based drinks segment with brands like Maaza and Minute Maid. Coca Cola's strong brand positioning and high brand recall among consumers coupled with a strong distribution network across urban and rural areas reduces the risk of volatility in BBPL's revenues and profitability over the medium term.

Credit challenges

Seasonality in demand for carbonated soft drinks leads to low capacity utilisation – The demand for carbonated soft drinks (CSDs) is seasonal with peak demand observed in the summer months coinciding with Q1 and is highly susceptible to changes in weather conditions during this period. This leads to low capacity utilisation of bottling plants during the off-season in the winter months. This risk is mitigated to some extent by the increasing share of fruit juice based drinks in the product mix as the demand for such drinks are relatively more stable throughout the year.

Substantial investments and advances to associate entities and non-core ventures; affect RoCE – The company has extended sizeable advances to group entities as well as several unrelated entities primarily involved in non-core businesses such as real estate projects – the major share of such advances has been extended in the projects undertaken by the Bangalore-based Embassy Group, a leading real estate developer in South India. These relatively illiquid investments and advances constrain the company's liquidity and return indicators of the company. ICRA will continue to monitor the quantum and timing of recovery of these investments and its impact on BBPL's financial risk profile.

Capital-intensive nature of business with substantial maintenance capex requirements - BBPL incurs capex to the tune of ~Rs. 20 crore per annum towards maintenance of its facilities which involves replacement of returnable glass bottles, bottle coolers, crates and maintenance of machinery.

Susceptibility to regulatory risks and changing consumer preferences – The carbonated soft drinks industry is susceptible to regulatory risks especially related to taxation policy and increased environmental compliances related to bottling operations. Further, increasing awareness among consumers about the unhealthy nature of soft drinks and the increasing availability and adoption of healthier alternatives poses risk to the demand for the company's products. However, this risk is somewhat mitigated by the extreme hot weather conditions in Uttar Pradesh and Uttarakhand, where BBPL operates, due to which its products are in high demand.

Corporate guarantees and letters of comfort extended to Group entities – BBPL, along with broader group entities, has extended corporate guarantees of Rs. 574 crores and letters of comfort of Rs. 380 crore towards debt of SLMG Beverages Pvt Ltd. as on March 31, 2021. This is addition to the ~Rs. 80 crore unsecured loan given to the company as on March 31, 2021. Under the arrangement, the four related bottlers have guaranteed the debt of SLMG Beverages jointly and severally. Any material increase in corporate guarantees or the invocation thereof is a key rating factor.

Liquidity position: Adequate

BBPL's liquidity position remains **adequate** despite a moderation in the operating income in FY2021. ICRA derives comfort from healthy cash and cash equivalents of ~Rs. 93 crore as on March 31, 2021 against gross debt of ~Rs. 188 crore, no large debt-funded capital expenditure planned by the company and negligible term debt repayment obligations. The company's liquidity profile is further aided by availability of unutilized working capital limits with an average utilisation of ~27% over the 15-month period ending June 2021. BBPL has been generating healthy cash accruals from its operations and is expected to continue to generate ~Rs. 55-65 crore per annum in the medium term.

Rating sensitivities

Positive factors – Given the Negative outlook, an upgrade in the ratings is unlikely in the near term. However, the outlook maybe revised to Stable if there is sustained improvement in operating performance leading to better profitability and cash flows.

Negative factors – Pressure on BBPL's ratings may arise if there is a significant reduction in revenue and profitability. Higher than expected debt-funded capital expenditure and/or further large investment in real estate and non-core ventures may lead to pressure on the ratings. Also, any further material support to Group entities is likely to have an adverse impact on the financial profile of the company. Specific credit metrics that could lead to a downgrade of the ratings could be Net Debt/OPBDITA increasing over 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the FMCG Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Brindavan Beverages Private Limited (BBPL), erstwhile Bangalore Spinners Private Limited, was incorporated in 1979 under the name of Jawan Food Products Private Limited and is one of franchisee bottlers for Coca Cola in India. The company is promoted by Mr. S.N. Ladhani and commenced operations as a franchisee bottler and distributor of Parle (Exports) Private Limited in southern Karnataka. Following the acquisition of Parle's soft drinks business by Coca Cola in 1993, the company became a franchisee for Coca Cola. The company operates a bottling facility in Bareilly, Uttar Pradesh and is involved in bottling carbonated soft drinks, fruit juice based beverages and packaged drinking water in recyclable glass bottles and PET bottles besides manufacturing preforms and closures.

Apart from BBPL, the relatives of Mr. Ladhani have also promoted companies which are franchisee bottlers for Coca Cola catering to the North Indian states. Coca Cola has given exclusive marketing rights of its products across all districts of Uttarakhand and Uttar Pradesh (except NCR) to a company jointly promoted by Mr. Ladhani and his relatives (Mr. S.N. Ladhani along with BBPL hold a 25% equity in the company directly and indirectly) from January 2020 with BBPL selling all its bottling production to this company.

The company also has significant investments in real estate projects and operates a wind power generation plant in Gujarat.

Key financial indicators (provisional)

LTHL Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	553.5	262.6
PAT (Rs. crore)	58.1	17.3
OPBDIT/OI (%)	16.7%	19.3%
PAT/OI (%)	10.5%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	1.8	3.7
Interest Coverage (times)	12.4	5.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
**FY2021 is based on provisional financial statements; Source: Company, ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sept 09, 2021	Jun 29, 2020	Jan 31, 2020	Jul 27, 2018
1	Term Loans	Long-term	34.50	2.48	[ICRA]A- (Negative)	-	-	[ICRA]A- (Stable)
2	Cash Credit	Long-term	75.00	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Overdraft	Long-term	15.00	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Capex LC*	Short-term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5	Bank Guarantee	Short-term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6	Buyer's Credit	Long-term/ Short-term	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
7	Capex LC	Long-term/ Short- term	(34.50)*	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
8	Unallocated	Long-term/ Short-term	23.00	-	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
9	WCDL – Covid Emergency Support Scheme	Long-term	7.50	-	[ICRA]A- (Negative)	-	-	-

**Sub-limit of Term Loan*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund Based - Working Capital	Simple
Long-term/Short-term – Non-fund based/Capex LC	Simple
Long-term/Short-term – Unallocated	N.A.

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 analyzing 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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2020	NA	FY2025	34.50	[ICRA]A- (Negative)
NA	Cash Credit	NA	NA	NA	75.00	[ICRA]A- (Negative)
NA	Overdraft	NA	NA	NA	15.00	[ICRA]A- (Negative)
NA	Capex LC	NA	NA	NA	(34.50)*	[ICRA]A- (Negative)/[ICRA]A2+
NA	WCDL – CESS	NA	NA	NA	7.50	[ICRA]A- (Negative)
NA	Unallocated	NA	NA	NA	23.00	[ICRA]A- (Negative)/[ICRA]A2+

**Sub-limit of Term loans*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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