

June 16, 2023

Davat Beverages Pvt. Ltd.: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	3.75	10.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable); assigned to enhanced amount
Fund-based – Term Loan	47.75	92.56	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable); assigned to enhanced amount
Non-fund Based – Bank Guarantee	0.50	-	-
Non-fund based – Interchangeable	-	(17.50)	[ICRA]A3+; upgraded from [ICRA]A3; assigned to enhanced amount
Unallocated Limits	-	0.44	[ICRA]A3+; upgraded from [ICRA]A3; assigned to enhanced amount
Total	52.00	103.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade considers the healthy improvement in Davat Beverages Pvt. Ltd.'s (DBPL) top line during FY2023 and expected continuation of this trend over the medium term, backed by capacity additions made towards the end of FY2023. DBPL recorded revenue growth of 16% in FY2023 on the back of healthy demand in the Gujarat market and is expected to post significant growth in FY2024, as its expanded facility became operational from April 2023. The margin is also expected to grow with better economies of scale, leading to improvement in coverage metrics. 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 contributes significantly to its revenues, along with product (mainly Jeeru soda) and geographic concentration risks, with its sales mainly concentrated in the state of Gujarat. The ratings also factor in the intense competition from various organised and unorganised players in the industry and the seasonality attached to the business given its presence in the CSD segment.

Based on the information received from the company, ICRA learnt about an instance of technical delay in a term loan repayment. The term loan interest of Rs. 0.01 crore, which was due on October 31, 2022, was paid subsequently. ICRA notes that the delay was on account of technical reasons on the part of the lender and beyond the control of the company. Also, the company had adequate liquidity in the form of undrawn available cash credit limits. The delay has not been treated as default and the same is in line with ICRA's Policy on Default Recognition.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that DBPL will continue to benefit from the extensive experience of the promoters in the soft drinks industry and its adequate brand presence in Gujarat.

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, engaged 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 of 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 distribution network of 100 direct dealers across India, 22 super stockists in Gujarat, Rajasthan and Madhya Pradesh, along with 210 distributors under super stockiest and more than 2,50,000 retailers pan India.

Healthy growth in top line expected in near to medium term backed by expanded capacity – The company had undertaken major debt-funded capex of around Rs. 60 crore in FY2023 to set up its new manufacturing facility with the overall cumulative production capacity increasing to 2705 bpm in CSD and Fruit juice tetra pack lines compared to 1530 bpm previously. The commercial operations of the new production lines started from the end of March 2023, in a phased manner till April 2023. The full impact of the same in top line is likely to flow in from FY2024 and will positively impact the top line in the near to medium term.

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.

Presence in competitive beverages industry and seasonal nature of operations – DBPL has a presence in a competitive and fragmented industry as characterised by several organised and unorganised players, thus putting pressure on its revenue and margins. Furthermore, the demand for CSDs is seasonal with peak demand in the summers 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 in its product mix provides partial hedge towards the seasonality issue.

Liquidity position: Adequate

The liquidity position of DBPL is adequate as marked by an average utilisation of around 26% for its working capital limits in the last seven months ended April 2023. Further, the company has also enhanced its cash credit limit from Rs. 3.20 crore to Rs. 10 crore from December 2022, which is expected to support the working capital requirements. The company has debt repayment in the range of Rs. 10-15 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 significant improvement in the company's scale of operations backed by a healthy capacity utilisation of its planned new unit along with notable improvement in profit margins. Strengthening of debt coverage metrics, coupled with its overall liquidity position, driven by a better earnings profile will also be a positive rating trigger.

Negative factors – Downward pressure on DBPL’s rating could arise if there is any substantial decline in revenues or moderation in profitability, due to its inability to capitalise on the new capacity, impacting the credit profile. Specific credit metrics, leading to a rating downgrade, will include DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is 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 various 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 down 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	FY2021	FY2022	FY2023*
Operating income	139.1	217.3	251.3
PAT	7.1	6.4	15.6^
OPBDIT/OI	12.5%	8.5%	10.0%
PAT/OI	5.1%	2.9%	6.2%^
Total outside liabilities/Tangible net worth (times)	2.8	1.9	2.4
Total debt/OPBDIT (times)	3.1	2.5	3.7
Interest coverage (times)	4.5	3.7	6.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional ^PBT for FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of Rating History for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Jun 16, 2023	Oct 21, 2022	Dec 16, 2021	Nov 20, 2020	Nov 05, 2020	Jul 17, 2019
1 Fund based Cash Credit	Long term	10.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Positive)
2 Fund based Term Loan	Long term	92.56	71.79	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Positive)
3 Non-fund Based- Bank Guarantee	Short term	-	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+
4 Non-fund based - Interchangeable	Short term	(17.50)	-	[ICRA]A3+	-	-	-	-	-
5 Unallocated Limits	Short term	0.44	-	[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 (Stable)
NA	Term Loan	FY2018	NA	FY2030	92.56	[ICRA]BBB (Stable)
NA	Interchangeable	NA	NA	NA	(17.50)	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	0.44	[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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Branches



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