July 26, 2023(Revised)

Restaurant Brands Asia Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term – Unallocated Amount	100.00	150.00	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed/ Assigned
Total	**100.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Restaurant Brand Asia Limited (RBAL) (erstwhile Burger King India Limited) reflects ICRA's expectations that its performance will remain stable and be supported by its strong business profile, operating as a national franchise for Burger King in India. The company continues to expand its presence across India and entered the Indonesia market through the acquisition of PT Sari Burger, a national franchise operator of the Burger King brand in FY2022 and the exclusive rights to operate Popeyes Restaurants in Indonesia (awarded to its step-down subsidiary, PT Sari Chicken Indonesia in FY2023). The ratings continue to draw comfort from the improving product portfolio curated to meet the Indian consumer taste and its entry into the café business in FY2022, leading to relatively better product offerings. The ratings also continue to draw comfort from its well-experienced management team and the demonstrated track record of the promoter, QSR Asia Pte. Ltd in infusing funds over the years. Apart from this, the company's fund-raising efforts through initial public offerings (IPO) in December 2020, and Qualified Institutional Placement (QIP) in February 2022, have been instrumental in repaying external debt, funding capex and its overseas acquisition in FY2022.

RBAL's consolidated top line grew by 37.8% during FY2023, driven by steady addition of stores as well as improvement in average daily sales (ADS). The company witnessed best-ever revenues in FY2023 with improved business conditions post-pandemic, relaxation of restrictions leading to improvement in the dine-in business and store expansions undertaken in the last few fiscals. Further, the absence of external debt in the Indian operations (other than lease liability), along with an adequate liquidity profile with sizeable cash and liquid investments on a consolidated level, support its financial profile.

The ratings, however, remain constrained by the company's aggressive expansion plans over the medium term and its lower return on capital employed (RoCE) levels, along with continued losses at the net level attributed to sizeable depreciation charge. Further, the performance of the Indonesian subsidiary is subdued with operating losses in FY2023, due to challenges related to scaling up of newly acquired business. Its ability to ramp-up the scale of operations and turn around the business in Indonesia in a timely manner will be a critical monitorable. The business remains vulnerable to any external shocks, as well as general demand issues which are linked to the performance of the economy. ICRA also notes that the judicious funding plan for the aggressive expansion plans and compliance with the terms and conditions laid out in the master franchise development agreement (MFDA) for ongoing operations, remain critical from a credit perspective. The ratings also consider its vulnerability of earnings to the competitive pressures, given the presence of other established brands and the local unorganised market.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RBAL will continue to benefit from healthy growth prospects of the QSR industry 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 in QSR segment with multiple product offerings and geographically diversified presence – RBAL 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. RBAL 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. It enjoys a pan-India presence through a chain of 391 restaurants as on March 31, 2023. RBAL also has presence in Indonesia through its subsidiary company, PT Sari Burger, which is a national franchise operator of the Burger King brand in Indonesia, thereby enhancing its geographical presence in Asia. Also, RBAL has entered into an exclusive master franchise and development agreement with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc. (RBI), through its step-down subsidiary, PT Sari Chicken Indonesia, to develop, establish, own, operate, and grant franchises of Popeyes Restaurants in Indonesia in FY2023. As on March 31, 2023, there were 176 Burger King and 10 Popeyes stores in Indonesia. Thus, the aggregate store count considering Indian and Indonesian operations stood at 577 as on March 31, 2023.

Demonstrated support through capital infusion by promoter and experienced management team – Since its incorporation till date, QSR Asia has infused sizeable funds in the company to support capex and other business requirements, which limit dependence on external debt. The company has successfully undertaken rounds of successful fund-raising programme in the market through initial public offerings (IPO) in December 2020, and its proceeds were chiefly used to repay its external debt and fund capex, and later qualified institutional placement (QIP) in February 2022 to fund its overseas acquisition in the last fiscal. The day-to-day operations are spearheaded by an experienced management team, with an experience of more than a decade in running similar businesses.

Healthy capitalisation levels and adequate liquidity profile – The company's net worth in FY2023, at a consolidated level, remained strong at Rs. 825 crore as of March 2023. Though the net worth has depreciated due to losses in the business, however, continuous infusion of equity from the promoter entity and through IPO in December 2020 has supported the same. The external debt is only for the Indonesian subsidiary, which remains limited at Rs. 159.8 crore. The liquidity remains adequate, aided by healthy unencumbered cash balances and considerable liquid investments of Rs. 302.1 crore, at a consolidated level, as on March 31, 2023. Further, RBAL generates adequate cash accruals to fund its capex plans at standalone levels.

Credit Challenges

Losses at net level and lower ROCE; ability to ramp-up revenues and improve consolidated earnings, remains critical - While the operating profitability improved in FY2023 for the Indian operations owing to the waning of the Covid-19 pandemic, the Indonesia entity's operating profit dipped due to slower ramp up of sales , disruptions due to Covid , menu restructuring and one-time costs incurred towards advertising, marketing along with maintenance and repairs of the stores to improve the dine-in experience of the customers. ROCE at both standalone and consolidated levels has also been lower due to under absorption of fixed costs, as stabilisation of the new stores remains a work-in-progress, given the rapid expansion. Going forward, its ability to quickly ramp-up the scale of operations and improve the consolidated earnings will be critical from the rating perspective and, hence, will remain a key monitorable.

Compliance with terms and conditions mentioned in MFDA remains critical for ongoing operations - RBAL has received exclusive rights to develop, establish, operate and franchise Burger King (BK) restaurants in India, pursuant to an MFDA among BK AsiaPac, QSR and RBAL. As per the terms and conditions mentioned in the MFDA, RBAL must open at least 700 restaurants by December 31, 2026, and maintain a debt-to-equity ratio below 2 times, among others. The MFDA for Indonesian Burger King is valid up to December 31, 2040. The company has been meeting the norms in terms of store counts as of CY2022. However, the ability of the company to continue the same as per the MFDA remains critical as BK AsiaPac has the option to terminate the development rights in case of any non-compliance of the terms and conditions of the MFDA. Therefore, compliance with all terms and conditions in the MFDA remains critical for its ongoing operations. Apart from this, PT Sari

Chicken Indonesia (subsidiary of PT Sari Burger, Indonesia) has received exclusive rights to develop, establish, own, operate, and grant franchises of POPEYES® Restaurants in Indonesia for a period of 25 years. As per the terms of the MFDA, the company must open around 300 restaurants in the initial phase of 10 years.

Intense competition from organised and unorganised markets; operation exposed to inherent industry risk of disease outbreak - RBAL faces intense competition from unorganised as well as organised QSR players like McDonald's, KFC and Dominos. The company's ability to sustain its growth and improve its profit margin amid the intense competition will remain critical. Also, its sales are exposed to uncontrollable factors like outbreak of diseases such as Avian Influenza (bird flu), which may impact both supply and consumption of chicken-related products.

Environment and Social Risks

Environmental considerations: The QSR industry is exposed to environment protection, food safety, human rights, working and safety conditions, etc., and non-adherences to any of these would result in disruptions in business operations and increased costs and compliance-related risks. At present, the company trains its employees to cultivate a culture of compliance and ethics, which ensures adherence to relevant laws and regulations and reduces environmental impact.

The QSR industry is also exposed to environmental risks given the use of plastics in packaging, electricity and gas for cooking, and other production functions. The industry is also exposed to significant risks related to the health and safety of customers. While these risks have not resulted in any material implication so far, any breaches in food standards at its outlets could have cost implications for the company. At present, the company sources 100% antibiotic-free chicken from sustainable sources for its products. The company has substantially reduced the use of plastics in delivery services by moving to products made from sustainable and biodegradable products. Also, the company has buyback policy for plastics which is used in its packaging, thereby eliminating single-use plastic from all its stores. The company also regularly monitors and provides training to employees in food handling and customer service and to ensure adherence to quality standards and norms issued by regulatory authorities. Periodic food safety and quality assessments at restaurants and vendors help ensure operational consistency. All the food served is free from synthetic colours and artificial flavours.

Social considerations: Being a labour-intensive segment, shortage of skilled staff and high attrition can impact the operations, food and services of the company, which can damage its reputation and customer base. RBAL conducts in-house training to enhance the morale and career of its employees. It also motivates and retains employees with recognition and performance-based rewards.

Liquidity Position: Adequate

The company`s liquidity position remains adequate backed by a stable cash flow from operations. Although, RBAL does not have external borrowings (except lease liabilities) at the standalone level as of March 2023, at consolidated level, the subsidiary company has an external term loan outstanding of Rs. 159.8 crore as of March 2023. Nevertheless, RBAL has healthy liquid investments in the form of liquid mutual funds and unencumbered cash and bank balances which aggregated to ~Rs. 302 crore as on March 31, 2023, at the consolidated level. The company also has aggressive expansion plans for its India operations; however, the same is expected to be largely funded by internal accruals and liquid investments.

Rating Sensitivities

Positive factors – Healthy ramp-up in the scale of operations, along with improvement in consolidated earnings and ROCE levels and strengthening of overall credit metrics, will be triggers for any rating upgrade.

Negative factors – Any material decline in revenue growth and weakening of profit margins, or delay in the ramp-up of scale and earnings profile of its Indonesian subsidiary or any debt-funded capex which impacts the credit metrics materially at consolidated levels and weakening in liquidity profile, will be negative rating triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2023, RBAL had one subsidiary and a step-down subsidiary, who are enlisted in Annexure 2.

About the company

Burger King India Private Limited was incorporated on November 11, 2013, and then later in December 2020, it's constitution was changed to a public limited company and was renamed as Burger King India Limited (BKIL). On February 02, 2022, the company changed its name from Burger King India Limited to Restaurant Brands Asia Limited (RBAL).

At present, it is one of the fastest growing international QSR brands in India to reach 200 restaurants during the first five years of operations. As of March 31, 2023, RBAL had 391 restaurants, including seven sub-franchised restaurants, across India. RBAL is 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. RBAL came out with an IPO in December 2020 with an issue size of Rs. 810 crore (issue price of Rs. 59-60/share). The IPO involved a fresh issue of equity shares amounting to Rs. 450.00 crore and an offer for sale worth Rs. 360.00 crore by the promoter QSR Asia. It was oversubscribed by 157 times on the last day of the offer date. The company was listed on December 14, 2020. The funds raised from the IPO are utilised to repay the debt in the company's books and for future capex. Additionally, RBAL has made its entry into the Asian market through the acquisition of PT Sari Burger, a national franchise operator of the Burger King brand in Indonesia in FY2022. The company also entered an exclusive MFDA with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc. (RBI), through its step-down subsidiary, PT Sari Chicken Indonesia, to develop, establish, own, operate, and grant franchises of Popeyes Restaurants in Indonesia

Key Financial Indicators (Audited)

RBAL - Consolidated	FY2022	FY2023
Operating income	1,490.3	2,054.3
PAT	-235.2	-242.2
OPBDIT/OI	6.5%	5.4%
PAT/OI	-15.8%	-11.8%
Total outside liabilities/Tangible net worth (times)	1.2	1.9
Total debt/OPBDIT (times)	9.2	10.5
Interest coverage (times)	1.0	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Total outside liabilities includes lease liabilities and term loan; Amounts in Rs. crore

RBAL - Standalone	FY2022	FY2023
Operating income	944.2	1,439.7
PAT	-92.9	-71.8
OPBDIT/OI	9.6%	11.5%
PAT/OI	-9.8%	-5.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	7.9	5.7
Interest coverage (times)	1.3	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Total outside liabilities includes lease liabilities; Amounts in Rs. crore

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 as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022			Date & rating in FY2021
					Jul 26, 2023	Aug 04, 2022	Jul 28, 2022	Nov 25, 2021	Sept 07, 2021	Apr 05, 2021	May 29, 2020
1	**Unallocated Amount**	Long-term and short term	150.00	-	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	-
2	**Term Loan**	Long-Term			-	-	-	-	-	-	**[ICRA]BBB+ (Negative)**
3	**Bank Overdraft**	Long-Term			-	-	-	-	-	-	**[ICRA]BBB+ (Negative)**
4	**Bank Guarantee**	Short-Term			-	-	-	-	-	-	**[ICRA]A2**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Unallocated Amount	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	**Long Term/Short Term – Unallocated Amount**	-	-	-	150.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	RBAL Ownership	Consolidation Approach
PT Sari Burger Indonesia	88.80%	Full Consolidation
PT Sari Chicken Indonesia- (Subsidiary of PT Sari Burger Indonesia)*	88.80%	Full Consolidation

Note: 100% ownership held by PT Sari Burger Indonesia*

Corrigendum

The press release dated July 26, 2023, has been corrected with revisions as detailed below:

- Under the second paragraph in the Credit Challenges, MFDA validity related to Indonesian Burger king has been revised.

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Roshan Dugar
+91 20 6606 9924
roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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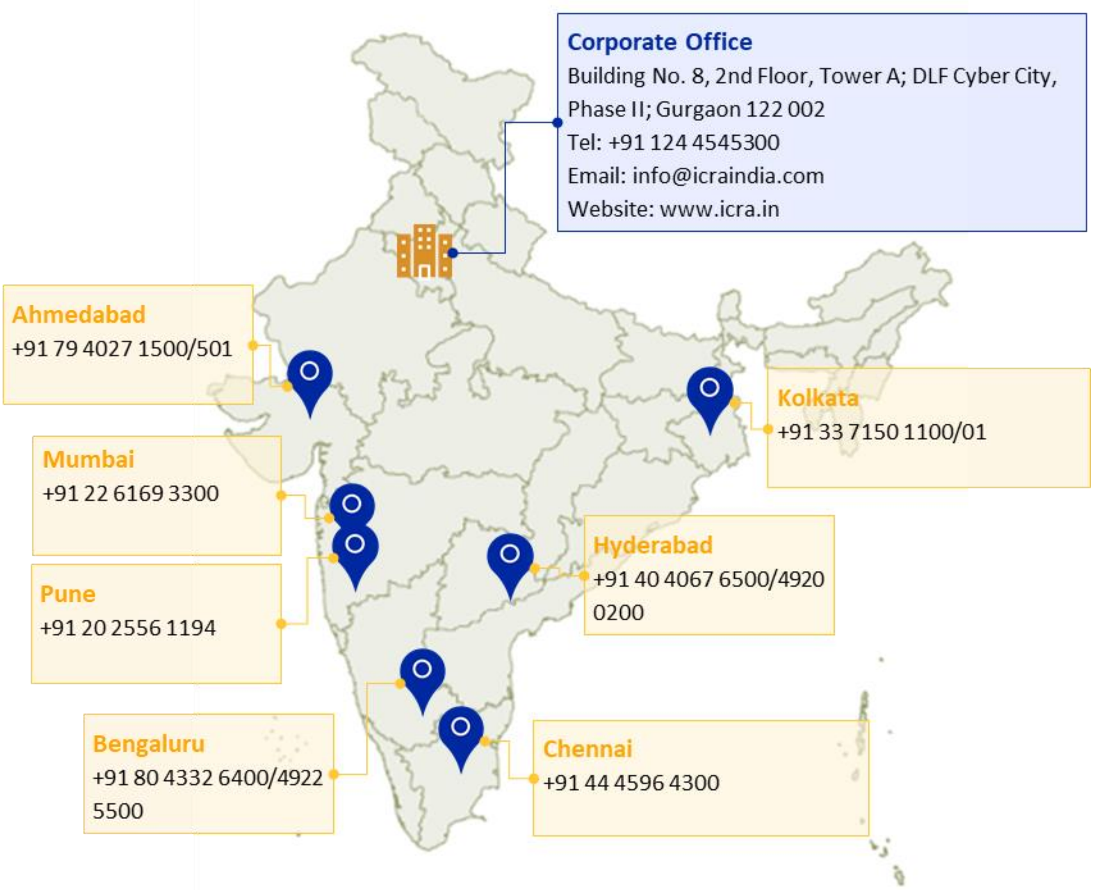

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