

November 28, 2023

Barbeque Nation Hospitality Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	15.50	15.50	[ICRA]A (Stable); reaffirmed
Short-term – Fund-based – Working Capital	5.00	5.00	[ICRA]A2+; reaffirmed
Total	20.50	20.50	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Barbeque Nation Hospitality Limited (BNHL) considers ICRA's expectations that the company's earnings will improve in the second half of the current fiscal on the back of expected demand revival and encouraging outlook. The performance of the company remained muted in the first half of the fiscal given the lacklustre demand witnessed on the back of inflationary pressures on discretionary consumer spends. Moreover, there were relatively higher number of vegetarian days in Q2 FY2024 on a YoY basis, owing to religious festivals. The company witnessed decline of ~9% in same store sales growth (SSSG) in H1 FY2024 after robust growth witnessed in the past couple of years. BNHL's efforts to optimise its store portfolio with closing of weak performing stores (~12 stores closed in H1 FY2024 in comparison to about one store closed in H1 FY2023) and a calibrated expansion strategy are expected to support margin revival.

The ratings continue to favourably factor in BNHL's strong brand image in the restaurant segment with 212 outlets across India (including 14 Toscano brand outlets and eight international outlets) as of September 30, 2023. The company's strong brand image typically facilitates its entry into new markets at competitive rentals, supporting its revenues and operating margins. BNHL's recent acquisition of 'Salt' restaurants augurs well for its revenue diversity and product offerings.

The rating strengths are, however, partially offset by the company's presence in a highly competitive market with large number of players both in the organised and unorganised segments restricting pricing flexibility. Further, the food service industry remains vulnerable to discretionary consumer spending, inflationary pressures, and exogenous shocks. The demand volatility persists with overall uncertainty in the global economy resulting in a higher interest rates regime, which puts the discretionary income of consumers under pressure.

ICRA notes that the company is expected to increase its footprint by ~20-25 stores each in FY2025 and FY2026; and expansion of RoCE will be contingent upon its ability to profitably scale up the new stores while maintaining the growth momentum for its existing outlets; and the same will remain a rating monitorable. ICRA expects the company to fund its capital expenditure through internal cash generation and limited borrowings in the near term. BNHL has a comfortable liquidity position with moderate cash levels and buffers in its overdraft limits.

The Stable outlook on the ratings reflects ICRA's opinion that the company will be able to leverage its geographically diversified store network and brand name once demand revives in the second half of the fiscal year.

Key rating drivers and their description

Credit strengths

Strong brand image with pan India presence and revenue diversity being achieved through recent acquisitions – The company has a strong brand image in the restaurant segment, which facilitates its entry into new markets at competitive rentals, supporting its revenues and operating margins. BNHL has diverse product offerings with a healthy mix of vegetarian as well as non-vegetarian dishes, offering a live on-the-grill experience. As on September 30, 2023, the company had 188 restaurants across India under the Barbeque Nation brand and eight international outlets, making it the largest single-brand chain of barbeque-themed restaurants and a leading player in the fine dining segment with a geographically diversified presence. BNHL is currently focused on the stabilisation of its operations, which requires optimising the overall restaurant network with a calibrated expansion strategy and closing down of the unprofitable restaurants. The growth in restaurant network is expected to be gradual over the next few quarters.

The company is also diversifying in terms of experiences being offered. The company has increased its stake in Red Apple Kitchen Consultancy Private Limited (Red Apple) to ~82%, which currently operates 16 stores in the country as on September 2023. Moreover, the company along with Red Apple acquired ~53% stake in 'Blue Planet Foods', which runs a pan-Indian cuisine restaurant under the brand name, 'Salt'. Currently, 'Salt' has a network of six restaurants with two more under the pipeline. With these two additional brands, BNHL's brand portfolio is diversifying, which augurs well for the company, going forward. BNHL also runs a food delivery-based segment.

Comfortable liquidity position – The company's funding requirements are mainly towards expanding its store network, which it has been funding mainly through internal accruals. Further, working capital requirements are typically modest. With positive cash flow generation, available buffer in bank limits and maintenance of free cash levels, BNHL has an adequate liquidity position. Further, BNHL has a limited loan repayment burden and external indebtedness. BNHL's debt largely includes lease liabilities towards lease rentals of its restaurants.

Credit challenges

High competitive intensity – BNHL's presence in a highly competitive market restricts its pricing flexibility to a certain extent. It faces competition from regional and national players (Quick Service Restaurant (QSR) chains and brands). While the company undertakes annual price hikes in its food menus in early FY2024, it also ran discount schemes and promotions to rekindle demand. Nevertheless, with an established brand name, acquisition of other brands under its network and expected stabilisation of its existing store network, the company is expected to reap associated benefits over the medium term.

Exposure to exogenous shocks and vulnerability to inflationary pressures – Akin to other industry players, BNHL's operations remain susceptible to muted economic activities ranging from inflationary pressures to higher interest rates regime, which in turn results in pressure on the consumer's disposable income and discretionary spending powers eventually resulting in subdued demand. Further, BNHL's sales are typically exposed to uncontrollable factors like any outbreak of diseases such as bird flu, which may impact both supply as well as consumption of chicken and its related products. Many of the aforementioned factors were witnessed in H1 FY2024, wherein the performance of the company remained muted given the lacklustre demand witnessed on the back of inflationary pressures on discretionary consumer spends. Moreover, there were relatively higher number of vegetarian days in Q2 FY2024 on a YoY basis, owing to religious festivals. The company witnessed decline of ~9% in SSSG in the H1 FY2024 after robust growth witnessed in the past couple of years. While BNHL's EBIDTA declined to ~14.6% in H1 FY2024 compared to ~20.6% in H1 FY2023, revival of demand and network optimisation is expected to improve in H2 FY2024.

Liquidity position: Adequate

The company's liquidity position remains adequate with expectations of generation of positive fund flows from operations in FY2024. The company had free cash and liquid investments of ~Rs. 45 crore and an undrawn overdraft facility of Rs. 5.0 crore, as on September 30, 2023. The company has an overdraft facility of Rs. 15 crore, which remains largely unutilised backed by moderate cash accruals and low working capital intensity. With debt mainly comprising lease liabilities, the company's long-term repayment obligations towards its lenders are low at ~Rs. 6.9 crore in FY2024 and ~Rs. 11.7 crore in FY2025. Further, BNHL has plans to open ~20-25 outlets in FY2024 (eight outlets already opened in H1 FY2024), which could entail capex of ~Rs. 80 crore (including maintenance capex). The company plans to fund the same through its internal accruals. Any significant debt-funded expansion/ capex would be a material event, to be evaluated on a case-to-case basis.

Rating sensitivities

Positive factors – ICRA could upgrade BNHL's rating, if it demonstrates sustained and healthy revenue and profitability growth, while maintaining liquidity and coverage metrics.

Negative factors – Pressure on BNHL's ratings could arise due to deterioration in the operating metrics and/or a significant increase in the debt levels for capex/inorganic investments leading to weakening of debt coverage indicators and/or a deterioration in liquidity position. Specific metric for a rating downgrade would be interest coverage ratio less than 3.5x on a sustained basis. Any material support to group companies, which would lead to the weakening of BNHL's credit profile, would be a credit negative as well.

ESG related comments

Environmental considerations: The company is involved in restaurant operations, which requires adherence to food safety standards. The company is involved in secure practices around procurement of food ingredients and caters to expectations around dietary preferences and healthy eating choices. Further, adequate systems and processes are implemented by the company, which are commensurate with the size and operations of the company to monitor and ensure compliance with the Food Safety and Standards Act. The company also runs the risk of using plastics and its disposal. Therefore, BNHL initiated the water project. Through this, BNHL expelled all single-use plastic bottles from its restaurants, thus curbing a major landfill waste. Earlier, guests were served complimentary packaged drinking water in single-use plastic bottles, which has now been replaced by re-usable glass bottles.

Social considerations: The business of the company is human resource dependent and, therefore, the human resource policies of the company remain critical. The company remains employee centric and maintain healthy ratio of females in its staff. Currently, 25% of its directors are females, followed by the healthy ratio of females in its overall managerial staff.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of BNHL, along with its subsidiaries for arriving at the ratings, given the common management and significant operational and financial linkages between them.

About the company

Barbeque Nation Hospitality Limited was incorporated in October 2006 as a wholly-owned subsidiary of Sayaji Hotels Limited (SHL; rated [ICRA]BBB&). The company operates under the brand, 'Barbeque Nation', offering live on-the-grill experience across its restaurants in India. It was listed on the stock exchanges in April 2021 and, consequently, the promoter stake reduced from 60.2% as on March 31, 2020, to 35.7% as on April 5, 2021. As on September 30, 2023, the promoter group stake remained

at 33.8%. The balance stakes are held by prominent players like Jubilant Foodworks Ltd., Xponentia Opportunities Fund, and Massachusetts Institute of Technology, among others. The company raised Rs. 430 crore from the IPO (including pre-IPO proceeds) and also successfully concluded preferential issue of Rs. 100 crore in July 2021.

In FY2017, BNHL acquired Prime Gourmet Private Limited (PGPL), which owns and operates the fast-food franchisees of Johnny Rockets, an international QSR chain. However, the same was wound up in H1 FY2019 and the company wrote off its investment in it. In December 2019, BNHL purchased a 61.35% stake in Red Apple from Samar Retail Private Limited (promoter group company), which manages Toscano Restaurant & Wine Bar, a fine dining Italian restaurant with 16 outlets across India. The company has increased the stake to ~82% as on date. As of September 30, 2023, BNHL operated through 212 restaurants across India (including 16 Toscano restaurants) and eight restaurants in the international market.

Key financial indicators (audited/unaudited)

BNHL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	860.6	1,233.8	625.6
PAT	-25.2	19.1	-16.0
OPBDIT/OI	15.5%	18.7%	14.6%
PAT/OI	-2.9%	1.6%	-2.6%
Total outside liabilities/Tangible net worth (times)	1.8	2.0	2.1
Total debt/OPBDIT (times)	4.6	3.0	7.8
Interest coverage (times)	2.0	3.2	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Unaudited

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 of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	
				Nov 28, 2023	Aug 16, 2023	Aug 23, 2022	Jul 12, 2021	Sep 01, 2020	Apr 20, 2020
1	Term Loan	15.50	31.90*	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Negative)
2	Fund Based-Working Capital	5.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2+

*Additional term-debt of Rs 20 crore availed in H1FY2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Term Loan	Simple
Short Term-Fund Based-Working Capital	Simple

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-Fund Based-Term Loan	FY2020/FY2021	NA	FY2025/FY2027	15.50	[ICRA]A (Stable)
NA	Short Term-Fund Based-Working Capital	-	NA	-	5.00	[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	Ownership	Consolidation Approach
Barbeque Nation Hospitality Limited, Parent	-	Full Consolidation
Barbeque Nation Mena Holding Limited	100.00%	Full Consolidation
Barbeque-Nation Restaurant LLC	49.00%	Full Consolidation
Barbeque Nation (Malaysia) Sdn Bhd	100.00%	Full Consolidation
Barbeque Nation Holdings Pvt Ltd	100.00%	Full Consolidation
Barbeque Nation International LLC	49.00%	Full Consolidation
Red Apple Kitchen Consultancy Private Limited	82.43%	Full Consolidation

Source: Company, as on September 30, 2023

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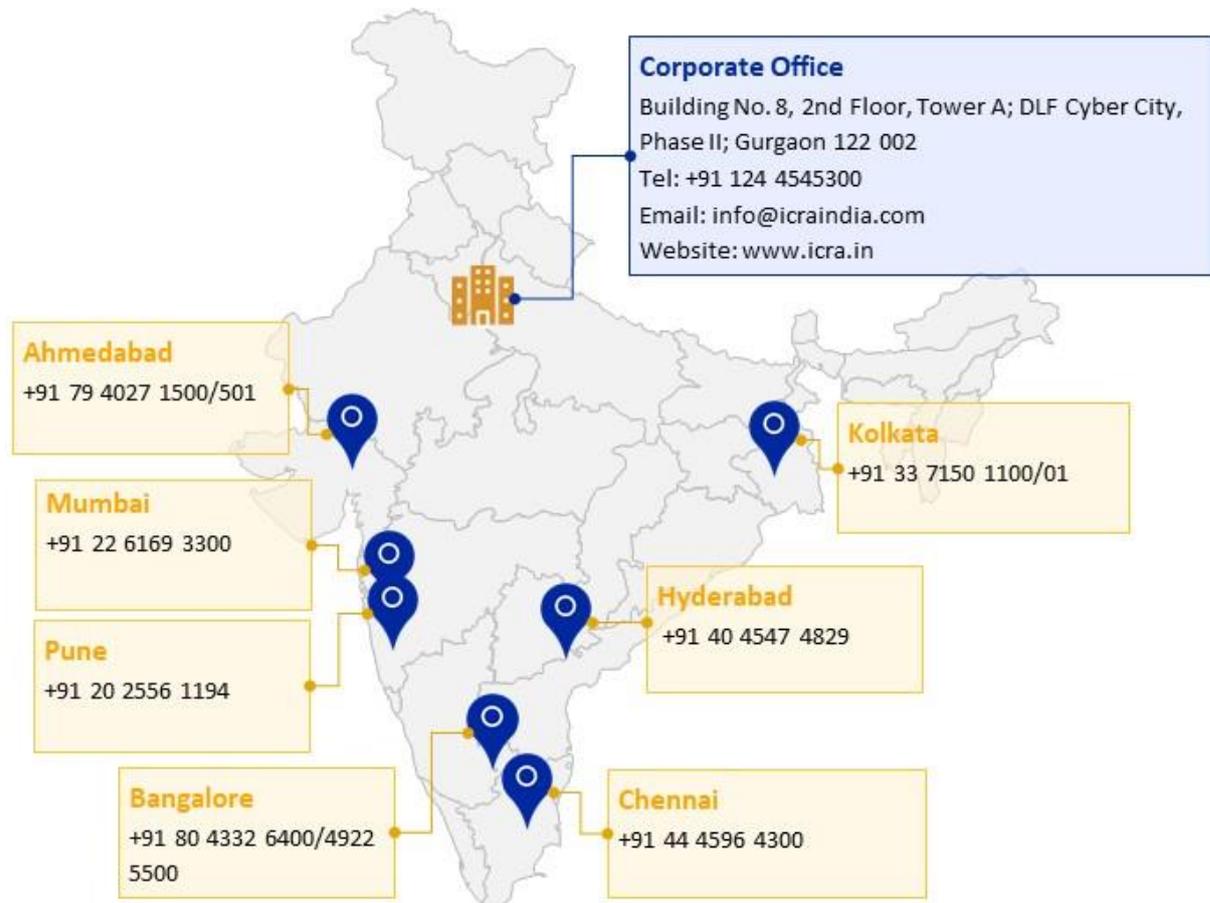
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