

March 28, 2024

## Kandhari Beverages Private Limited: Ratings downgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund based- Term Loans	164.63	164.63	[ICRA]A+ (Stable); downgraded from [ICRA]AA- (Stable)
LT- Fund based- Cash Credit	86.95	86.95	[ICRA]A+ (Stable); downgraded from [ICRA]AA- (Stable)
LT/ST- Unallocated	144.33	144.33	[ICRA]A+ (Stable)/ [ICRA]A1 downgraded from [ICRA]AA- (Stable)/ [ICRA]A1+
<b>Total</b>	<b>395.91</b>	<b>395.91</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the ratings of Kandhari Beverages Private Limited's (KBPL) factors in the expected moderation in the company's financial profile, considering significant debt-funded capex being undertaken for setting up a new manufacturing unit at Kathua, Jammu & Kashmir. The entity has also provided corporate guarantees to two of its related entities, one of which is a project-stage company. Consequently, the same will depend on cash flows of KBPL and its promoters during the initial period of its operations. With the elevated debt levels, ICRA expects the leverage and coverage indicators to remain subdued over the next 12-18 months. Further, KBPL would remain exposed to project execution risks and successful completion of these projects in a timely manner within the budgeted cost would remain a key monitorable.

The ratings continue to remain constrained as the company is vulnerable to fluctuations in prices of various raw materials such as sugar, polyethylene terephthalate (PET) resin etc. The company has been able to pass on such price increases through hike in the maximum retail price of certain SKUs in the past and has demonstrated its ability to maintain stable operating margins. KBPL's ratings are susceptible to adverse regulatory changes, change in consumer preference (which may impact the offtake of aerated beverages) and seasonality as the major portion of its revenues is generated in the first half of the year. ICRA also notes the track record of KBPL's investments in certain promoter group entities, which has not generated any return.

The ratings, however, continue to factor in the strengths derived from the long track record of the company's promoters in the business and established presence as one of the leading third-party franchisee bottlers of Coca Cola Company. KBPL has a long association with the Coca Cola brand and has an exclusive franchise agreement with Coca Cola Company, which permits KBPL to bottle and distribute Coca Cola India's beverages in allocated areas in Haryana, Punjab, Himachal Pradesh and Jammu and Kashmir. Also, volume supplied under inter-franchise sales are expected to rise in the near-to-medium term with entry in Rajasthan. Distribution rights in relation to Rajasthan has been recently acquired through its group entity.

The Stable outlook on the long-term rating reflects ICRA's expectation that despite moderation in the credit metrics in the near term on account of KBPL's incremental capex towards expanding its capacity, the same will be funded in a manner that it is able to durably maintain its debt protection metrics and gradually improve over the medium term with utilisation of its enhanced capacities.

## Key rating drivers and their description

### Credit strengths

**Established track record of promoters; strong market position as a leading third-party franchisee bottler of Coca Cola company** – KBPL continues to benefit from the extensive experience of its promoters in the bottling industry since 1970s. Also, the company has a strong position in the domestic market as one of the largest third-party franchisee bottlers of Coca Cola Company.

**Long association with Coca Cola brand and stable business model** – The company has a stable business model due to its exclusive franchise agreement with Coca Cola Company for supplying its beverages in various districts of Haryana, Punjab, Chandigarh and Jammu and Kashmir. The franchise agreement between Coca Cola Company and KBPL has been renewed for five years and is now valid till December 2024. KBPL has association with the Coca Cola brand since 1993.

**Healthy financial risk profile** – KBPL's revenue grew by 52.5% to Rs.1,759 crore in FY2023 from Rs. 1,154 crore in FY2022. The revenue growth was supported by industry wide healthy demand and increased demand for beverages supplied in PET bottles manufactured through affordable small sparkling package, which has a higher shelf life, leading to deeper product penetration into rural areas. Revenue growth is expected to remain muted in the current fiscal due to higher rainfall in the key markets during the peak season, which impacted its demand. However, KBPL's capital structure and coverage indicators have remained comfortable with a gearing of 0.3 times as on March 31, 2023, while the interest coverage and total debt/OPBITDA stood at 25.9 times and 0.9 times, respectively, in FY2023. Overall, ICRA expects KBPL's leverage and coverage metrics to moderate in the near-to-medium term consequent to the large debt-funded capex in the pipeline and would remain a key monitorable.

### Credit challenges

**Large debt-funded capex weakening coverage indicators and exposing the company to project execution risks** – KBPL is currently undertaking a large debt-funded capex, resulting in a total outlay of ~Rs. 900 crore, to be spent over FY2024 and FY2025 towards setting up a new unit at Kathua, J&K. Debt funding for the proposed capex has been tied up and would be funded in a debt to equity ratio of ~80:20 and is expected to be commissioned by the end of FY2025. KBPL is thus exposed to the inherent project implementation and stabilisation risks for the ongoing capex. ICRA expects KBPL's Total debt/ OPBITDA to moderate to 2.0-2.3 times in the near-to-medium term from the existing level of ~0.8 times, consequent to the proposed capex.

**Vulnerability of operating profitability to fluctuation in prices of various raw materials** – KBPL's profitability is vulnerable to fluctuations in the prices of various raw materials such as sugar, concentrate, PET, mango pulp, CO<sub>2</sub> etc. Raw materials form 60-65% of the company's cost structure. With crude oil and sugar prices increasing, KBPL's ability to pass on the hike in input costs remains critical for its operations. Comfort is drawn from the company's demonstrated ability to ramp up its operations and maintain its raw material costs, which allowed it to maintain a range-bound profitability in the past. However, a sustained improvement in a longer time frame will remain a key rating consideration.

**Exposure to adverse changes in Government regulations and consumer preferences** – KBPL's performance is also susceptible to adverse regulatory changes, consumer preference changes and seasonality in sales as the major portion of the revenues is generated in the first half of the year (summer season). The demand of aerated beverages is contingent upon the taste and preferences of consumers. Also, there is a possibility of moderation in demand for aerated beverages with consumers' shift towards a healthy lifestyle.

**Track record of investments in Group companies** – KBPL has a track record of investments in some of its Group companies, which have not generated any meaningful return in the past. As on March 31, 2023, ~4% of the company's capital employed was deployed in such investments (reduced from ~10% as on March 31, 2022). The decline is attributable to ~Rs. 54 crore provision created for impairment on investment in FY2023. Such investments continue to constrain the company's return metrics (RoCE of 22.6% vis-à-vis RoCE from core operations of 27.3% in FY2023).

## Liquidity position: Adequate

KBPL's liquidity profile is expected to remain adequate, as evident from its Rs. 162-crore fixed deposit receipts as on January 16, 2024. However, the same would moderate as a portion of its free cash flows is being utilised for funding its expansion plans. Further, the liquidity is supported by ~96% buffer in the fund-based limits (Rs.76.95-crore sanctioned limits) with an average utilisation of 4% in 9M FY2024. The company has large debt-funded capex plans worth ~Rs. 900 crore in FY2024-FY2025, with 80% of the same being met through bank debt and the balance through its internal accruals. Nonetheless, ICRA expects the company's cash flow from operations to remain adequate to fund the margin requirements for its capex as well as scheduled debt repayment obligations of ~Rs. 57.2 crore in FY2024 and ~Rs. 68.2 crore in FY2025.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the long-term rating if there is a significant growth in its revenues and operating profits, translating into a sustained improvement in its debt coverage metrics and liquidity profile.

**Negative factors** – ICRA could downgrade the company's ratings if there is a sustained deterioration in its sales and profitability or if there is a significant impact on the credit profile due to higher-than-expected debt-funded capital expenditure, leading to a deterioration in its financial risk and/or the liquidity profile. Moreover, Debt/OPBDITA of more than 2.3 times, on a consistent basis, may trigger a downgrade of ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Fast Moving Consumer Goods</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

KBPL is one of the approved franchisee bottlers for Coca Cola Company and bottles various soft drink brands owned by Coca Cola Company, with the major ones being Coca Cola, Thums Up, Maaza, Limca and Sprite. The products are sold in two packing media — glass bottles and PET bottles — of sizes between 200 ml and 2.5 litres. Apart from carbonated soft drinks, KBPL packages bottled water (Kinley) and juices (Minute Maid). It has four operational manufacturing units at Nabipur in Punjab, Baddi in Himachal Pradesh, Saha, Ambala, in Haryana and in Jammu in Jammu and Kashmir. In addition, the company owns five windmills with energy generation capacity of 1.25 MW each. The electricity produced from this plant is sold to Tata Power.

## Key financial indicators (audited/provisional)

	FY2022	FY2023	H1 FY2024*
Operating income	1154.0	1759.7	1088.2
PAT	140.8	140.2	119.7
OPBDIT/OI	20.1%	15.7%	18.9%
PAT/OI	12.2%	8.0%	11.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.6
Total debt/OPBDIT (times)	0.8	0.9	0.6
Interest coverage (times)	14.0	25.9	21.2

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

S. No	Instrument	Current rating (FY2024)			Chronology of Rating History for the past 3 years			
		Type	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	Date & rating in FY2021
					Mar 28, 2024	Dec 30, 2022	Sep 30, 2021	Jun 22, 2020
1	Fund based- Term Loans	Long Term	164.63	164.63	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Fund based- Cash Credit	Long Term	86.95	--	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non-Fund Based Limits	Short Term	--	--	-	-	-	[ICRA]A1
4	Fund based- Unallocated	Long Term	--	--	-	-	-	[ICRA]A (Stable)
5	Fund based- Unallocated	Long Term/ Short Term	144.33	--	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
LT - Fund based - Term Loans	Simple
LT - Fund based - Cash Credit	Simple
LT/ST - Unallocated	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	LT - Fund based - Term Loans	FY2023/ FY2024	~8%	FY2030/ FY2033	164.63	[ICRA]A+ (Stable)
NA	LT - Fund based - Cash Credit	NA	NA	NA	86.95	[ICRA]A+ (Stable)
NA	LT/ST - Unallocated	NA	NA	NA	144.33	[ICRA]A+ (Stable)/ [ICRA]A1

Source: KBPL

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#### Annexure II: List of entities considered for consolidated analysis: Not applicable

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