April 15, 2024

Restaurant Brands Asia Limited: Change in Limits, long-term rating reaffirmed, short-term rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Unallocated Amount	150.00	-	[ICRA]A2+ reaffirmed and withdrawn
Long-term – Term Loan	-	150.00	[ICRA]A-(Stable); reaffirmed
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the long-term ratings of Restaurant Brand Asia Limited (RBAL) (erstwhile Burger King India Limited) reflects ICRA's expectation of continued steady performance of RBAL in the near to medium term, supported by resilient India operations and expectations of its Indonesian subsidiary turning profitable at the operating level. Despite the inflationary pressures, which resulted in soft customer sentiments, the company reported healthy YoY growth of ~19% in 9M FY2024, at a consolidated level, driven by Same Store Sales growth for its India operations coupled with contributions from aggressive new store additions.

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 better product offerings. The ratings also continue to draw comfort from its well-experienced management team and healthy capitalisation levels supported by regular infusion of funds by the promoter, QSR Asia Pte. Ltd., prior to its initial public offering (IPO), primary infusion of funds during the IPO and Qualified Institutional Placement (QIP) in February 2022. The rating also factors in the adequate liquidity levels in the form of healthy cash and liquid balances, and the company's stated intent to maintain adequate liquidity in the system on an ongoing basis.

The ratings, however, remain constrained by the company's aggressive expansion plans over the medium term and its low 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 subsidiaries was subdued with operating losses in FY2023, attributed to challenges in scaling up the newly acquired business. However, it curtailed its losses in 9M FY2024 by revamping its menu, more customer friendly offerings, several cost reduction measures and closing down select, underperforming stores. ICRA expects the Indonesian operations to post positive operating profits in the ongoing fiscal year through these cost optimisation and customer centric initiatives. The same will remain a key rating monitorable, since the Indonesian business has been a drag on the overall consolidated profile, and a concrete and a fast-track execution plan towards its turnaround remains the key challenge for the entity.

ICRA also notes that the company has aggressive expansion plans in terms of store additions in India as well as in Indonesia (especially for brand Popeyes) as per compliance with the terms and conditions laid out in the master franchise development agreement (MFDA). The company may reconsider its store opening strategy for each of the markets as per demand and funding availability and will finalise its plans after looking at all perspectives. ICRA, hence, will continue to monitor the store expansion plan closely for each of its markets, both from a funding as well as a scaling perspective, which will remain key rating sensitivities. The ratings also consider RBAL's vulnerability of earnings to competitive pressures, given other established brands and local, unorganised players.

The short-term rating of [ICRA]A2+ has been reaffirmed and withdrawn as there are no short-term limits availed by the entity and as per ICRA's policy on withdrawal of credit ratings.

The Stable outlook on the [ICRA]A-rating reflects ICRA's opinion that RBAL will continue to benefit from the healthy growth prospects of the Quick Service Restaurant (QSR) industry and its acceptability as a well-recognised burger brand with a wide range of offerings in India, along with expected recovery in its Indonesian operations in the near term.

Key rating drivers and their description

Credit strengths

Well-recognised brand in QSR segment with multiple product offerings and geographically diversified presence – RBAL operates as the exclusive 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 of burgers, desserts and snacks designed as per the Indian consumer. It enjoys a pan-India presence through a chain of 441 restaurants (as on December 31, 2023). RBAL is also present in Indonesia through its subsidiary, PT Sari Burger Indonesia, which is the exclusive national franchise operator of the Burger King brand in Indonesia, thereby enhancing its geographical presence in Asia. Also, in FY2023, RBAL 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. As on December 31, 2023, there were 162 Burger King and 25 Popeyes stores in Indonesia. Thus, the aggregate store count across India and Indonesia stood at 628, as on December 31, 2023.

Professional set up and experienced management team – The day-to-day operations are spearheaded by an experienced management team, with an experience of more than a decade in running similar businesses. The company is professionally managed and led by industry veteran, Mr. Rajeev Varman. It is promoted by QSR Asia Pte Ltd which owned ~15.39% equity stake in RBAL as of December 2023.

Healthy capitalisation levels and adequate liquidity profile – The company's net worth in FY2023, at a consolidated level, remained strong at Rs. 825 crore. Though the net worth has declined due to losses in the business, the continuous infusion of equity from the promoter entity, the IPO in December 2020 and QIP in February 2022 has supported the same. The external debt is only for the Indonesian subsidiary, which remains limited to ~Rs. 156 crore (as of December 2023). The liquidity remains adequate, aided by healthy unencumbered cash balances and considerable liquid investments of ~Rs. 172 crore, at a consolidated level, as on December 31, 2023.

Credit challenges

Losses at net level and low 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 Indonesian entity's operating profit dipped due to slower ramp up of sales, menu restructuring, and one-time costs incurred towards advertising and marketing along with store maintenance to improve the customer dine-in experience. Although, the operating losses moderated in 9M FY2024, it still remained negative at the operating levels and was also impacted by the geo-political issues in Q3 FY2024. The 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 of the MFDA, RBAL must open at least 700 restaurants by December 31, 2026, and maintain a debt-to-equity ratio below 2.0 times, among others. The MFDA for the Indonesian Burger King is valid up to December 31, 2040. The company has been meeting the norms in terms of store counts as of CY2023 for its Indian operations. Apart from this, the company has 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. Given the soft demand conditions in the domestic market and resultant challenges in turning around the Indonesian business, the company may reconsider its store opening strategy as per demand and funding availability. Therefore, 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 with the terms and conditions of the MFDA. Therefore, compliance with all terms and conditions in the MFDA remains critical for its ongoing operations.

Intense competition from organised and unorganised markets; operations 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 disease outbreaks, such as the Avian Influenza (bird flu), which may impact both supply and consumption of chicken products.

Environment and Social Risks

Environmental considerations: Non-compliance with the continuously evolving laws and regulations in the QSR industry related to environment protection would result in disruptions in business operations, increased cost and compliance risks. Currently, 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 exposed to environmental risks related to the use of plastics in packaging, electricity and gas for cooking, and other production functions. Currently, the company sources 100% antibiotic residue free chicken from sustainable sources for its products. It has also substantially reduced the use of plastics in delivery services by moving to sustainable and biodegradable products. Also, the company has a buyback policy for plastics used in its packaging, thereby eliminating single-use plastic from all its stores. All its food products (excluding aerated/carbonated drinks) are free from the use of synthetic colours and artificial flavours. 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.

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. The company 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. The industry is also exposed to significant risk related to 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. The company 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.

Liquidity position: Adequate

The company`s liquidity position remains adequate with free cash and liquid balances of Rs. 146 crore, at a standalone level, as of December 2023. RBAL obtained a term loan of Rs. 150 crore from the bank, which has then been drawn by its subsidiary entity against a standby letter of credit (SBLC) secured by the holding company. The loan has been used to refinance one of its earlier running loans from an Indonesian bank with better repayment terms, which also supports the liquidity profile. Though the debt repayment under the new loan is ballooning in nature, with moratorium till November 2024, ICRA expects initial payments to be covered by cash on the books at the Indonesian level, or from support from the Indian entity, as needed. At the consolidated level, the company has healthy liquid investments in the form of liquid mutual funds and unencumbered cash and bank balances, which aggregated to ~Rs. 172 crore, as on December 31, 2023. The company has aggressive expansion plans for its India operations; and the same is expected to be largely funded by internal accruals and liquid investments in the near term.

Rating sensitivities

Positive factors – Healthy ramp-up in the company's scale of operations along with improvement in profitability levels, coupled with improvement in ROCE, strengthening the overall credit metrics, at a consolidated level, will be key factors for any rating upgrade.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on withdrawal of Credit Ratings
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 a subsidiary and a step-down subsidiary, who are enlisted in Annexure II.

About the company

Restaurant Brands Asia Limited was incorporated on November 11, 2013 as Burger King India Private Limited. Later in December 2020, it was changed to a public limited company and renamed as Burger King India Limited. On February 02, 2022, the company changed its name once more from Burger King India Limited to Restaurant Brands Asia Limited.

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 December 31, 2023, RBAL had 441 restaurants, including five sub-franchised restaurants, across India. RBAL is the exclusive 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. 60/share). The IPO involved a fresh issue of equity shares amounting to Rs. 450 crore and an offer for sale worth Rs. 360 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 were utilised to repay the debt in the company's books and for future capex. Additionally, RBAL entered the Indonesia market in FY2022 through the acquisition of PT Sari Burger Indonesia, a national franchise operator of the Burger King brand in Indonesia. The company also entered an exclusive MFDA with PLK APAC Pte. Ltd., a subsidiary of Restaurant Brands International Inc., 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 (FY2025)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		
					Apr 15, 2024	Jul 26, 2023	Aug 04, 2022	Jul 28, 2022	Nov 25, 2021	Sept 07, 2021	Apr 05, 2021
1	Unallocated Amount	Long-term and short term	-	-	[ICRA]A2+; withdrawn	[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	150.00	142.00	[ICRA]A-(Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Unallocated Amount	Not Applicable
Long Term – Term Loan	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/Short Term – Unallocated Amount	-	-	-	-	[ICRA]A2+; withdrawn
NA	Long Term – Term Loan	FY2024	-	FY2030	150.00	[ICRA]A-(Stable)

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*

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