

August 23, 2022

Barbeque Nation Hospitality Limited: Long-term rating upgraded; short-term rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|---|
| Long-term Fund Based – Term Loan | 6.50 | 15.50 | [ICRA]A (Stable); Upgraded from [ICRA]A- (Stable) |
| Short Term – Fund-based Working Capital | 20.00 | 5.00 | [ICRA]A2+; Reaffirmed |
| Total | 26.50 | 20.50 | |

*Instrument details are provided in Annexure I

Rationale

The long-term rating upgrade considers the healthy performance of Barbeque Nation Hospitality Limited (BNHL/ the company) in FY2022 and expected sustainability in its earnings (revenues and profitability) and cash flows, going forward. Despite the second and third waves of the pandemic, BNHL witnessed 69.7% YoY revenue growth in FY2022 (1.6% growth compared to pre-pandemic i.e., FY2020 levels) on the back of strong recovery in the dine-in business and increased contribution from the delivery business. The operating margins¹ (OPM) also improved to 15.5% (from 9.2% in FY2021) backed by improved scale of operations and continued benefit of cost efficiency measures. Further, BNHL witnessed strong sequential revenue growth of 25% and consequent improved OPM levels (22.4%; adjusted OPM of 13.7%) during Q1 FY2023, on the back of healthy volumes and improvement in average realisation. ICRA also notes that the company has prepaid a major portion of its debt during FY2022 with the equity infused through proceeds from its initial public offering (IPO), including pre-IPO as well as preferential allotment (equity infusion of ~Rs 330 crore; excludes ~Rs 105 crore paid to selling shareholders), thereby supporting improvement in its liquidity and financial profiles.

The ratings continue to favourably factor in BNHL's strong brand image in the restaurant segment with 195 outlets across India (includes 13 Toscano brand outlets and six international outlets) as of June 30, 2022. The company witnessed robust same store sales growth (SSSG) of 64.7% in FY2022 and 182% during Q1 FY2023 indicating strong recovery following the pandemic impact. Further, continuous expansion in outlets every year is expected to support higher footfalls. The company's strong brand image facilitates its entry into new markets at competitive rentals, supporting its revenues and operating margins.

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.

ICRA notes that the company is expected to increase its footprint by ~35-40 stores each in FY2023 and FY2024; and expansion of RoCE will be contingent on its ability to profitably scale up the new stores while maintaining the growth momentum for the existing outlets and will remain a rating monitorable. ICRA expects the company to fund its capital expenditure (capex) through healthy cash generation and limited borrowings in the near term. Any significant debt-funded expansion/ capex would be a material event and will be evaluated on a case-to-case basis.

¹ Reported margins. Excluding the IndAS 116 impact, the margins for FY2022 were 3.5% (adjusted).

Key rating drivers and their description

Credit strengths

Strong brand image with pan India presence – 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 June 30, 2022, the company had 176 restaurants across India under the Barbeque Nation brand, making it the largest single brand chain of barbeque-themed restaurants and a leading player in the fine dining segment. Going forward, further expansion in operations is expected over the medium term with addition in outlets, largely in metro and Tier-I cities.

Strong revival in operational performance – BNHL witnessed robust recovery in its revenues during FY2022, following a substantial decline in FY2021. While operations revived sharply during Q3 FY2022, the third pandemic wave had impacted the sequential performance in Q4 FY2022. However, healthy footfalls, price increases by BNHL, and continued benefit of cost efficiency measures supported healthy recovery in operating profit margins in Q1 FY2023. The delivery business, which generated 23% of its revenues in FY2022, moderated during Q1 FY2023 to 13% due to higher base in the past quarters (on account of Covid restrictions in the dine-in business). The business witnessed substantial improvement with sequential revenue growth of 32% in Q1 FY2023. ICRA expects BNHL to sustain its healthy performance over the medium term.

Substantial debt reduction aided by equity infusion – As on March 31, 2022, the company's debt metrics improved with Net Debt/OPBDITA at 3.9x against 9.9x as on March 31, 2021 (excluding the lease liabilities, net debt turned negative as of March 31, 2022). The improvement in debt metrics was largely backed by equity infusion through IPO, preferential allotment and subsequent debt reduction by the company. BNHL's liquidity profile improved during FY2022 and remained adequate with ~Rs. 88 crore of cash and liquid investments as on June 30, 2022.

Credit challenges

High competitive intensity – BNHL's presence in a highly competitive market restricts its pricing flexibility to a certain extent. However, the company undertakes annual price hikes in its food menus to the extent of ~3-5%. Further, with the closure of a number of small players in the food service industry in FY2021 due to the pandemic, established brands like Barbeque Nation are expected to reap the benefit of reduced competition over the medium term.

Exposure to exogenous shocks and vulnerability to inflationary pressures – Akin to other industry players, BNHL's operations were also hampered substantially during the first wave of the pandemic due to nationwide lockdowns. The country again went into localised lockdowns in Q1 FY2022 with the second Covid-19 wave. Further, inherent to the industry, 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. In addition, the food industry tends to be vulnerable to the inflationary environment, limiting the consumer's discretionary spending powers. However, BNHL's strong brand image tends to support its footfalls to a certain extent.

Liquidity position: Adequate

The company's liquidity position remains adequate with free cash and liquid investments of Rs. 88 crore and an undrawn overdraft facility of Rs 5.0 crore as on June 30, 2022. The overdraft facility remained unutilised from November 2021 backed by healthy cash accruals and low working capital intensity. With the reduced debt levels, the company's long-term repayment obligations are low at ~Rs 7.4 crore in FY2023 and ~Rs 7.3 crore in FY2024. Further, BNHL has plans to open ~35-40 outlets in FY2023 (10 outlets already opened in Q1 FY2023), which could entail capex of ~Rs 130-140 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 sustainability in its healthy revenue and profitability in line with latest quarterly performance, 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.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | NA |
| 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 ‘Barbeque Nation’ brand, offering live on-the-grill experience across India. It went for an IPO in April 2021 and accordingly the promoter stake was reduced from 60.2% as on March 31, 2020 to 35.7% as on April 5, 2021. As on June 30, 2022, the promoter group stake remained at 33.98%. 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 (includes pre-IPO) 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 quick service restaurant (QSR) chain offering burgers, shakes and rolls at its outlets. 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 Kitchen Consultancy Private Limited (Red Apple) from Samar Retail Private Limited (promoter group company), which manages Toscano Restaurant & Wine Bar, a fine dining Italian restaurant with 13 outlets across India. The company also plans to purchase additional equity stake of 6.3% in Red Apple, which would be completed in August 2022. As of June 30, 2022, BNHL operated through 189 restaurants across India (including 13 Toscano restaurants) and six overseas restaurants.

Key financial indicators

| BNHL consolidated | FY2020 | FY2021 | FY2022 | Q1 FY2023 |
|--|--------|--------|--------|-----------|
| Operating income (Rs. crore) | 847.0 | 507.1 | 860.6 | 314.9 |
| PAT (Rs. crore) | -32.9 | -91.9 | -25.2 | 16.0 |
| OPBDIT/OI (%) | 19.4% | 9.2% | 15.5% | 22.4% |
| PAT/OI (%) | -3.9% | -18.1% | -2.9% | 5.1% |
| Total outside liabilities/Tangible net worth (times) | 82.2 | 3.4 | 1.8 | NA |
| Total debt/OPBDIT (times) | 4.4 | 13.0 | 4.6 | NA |
| Interest coverage (times) | 2.2 | 0.5 | 2.0 | NA |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA – Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | | | |
|------------|----------------------------|--------------------------|---|---|-------------------------|-------------------------|-----------------------|-------------------------|---------------------|
| | | Amount Rated (Rs. crore) | Amount outstanding as of Mar 31, 2022 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 | |
| | | | | Aug 23, 2022 | Jul 12, 2021 | Sep 01, 2020 | Apr 20, 2020 | Feb 19, 2020 | |
| 1 | Fund Based – Term Loan | Long Term | 15.50 | 15.50 | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Negative) | [ICRA]A- (Negative) | [ICRA]A+ (Negative) |
| 2 | Fund-based Working Capital | Short Term | 5.00 | -- | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2+ | [ICRA]A1 |

Amount in Rs. Crore

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: www.icra.in

Annexure I: Instrument details

| ISIN No | Instrument Name | Date of Issuance | Coupon Rate | Maturity Date | 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; Note: Amount in Rs. Crore

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Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|-----------|------------------------|
| 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 | 61.35% | Full consolidation |

Source: Company's Auditor report FY2022; ownership as on March 31, 2022

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