

February 16, 2023

Brindavan Beverages Private Limited: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+ and removed from the 'Issuer Not Cooperating' category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	97.50	105.00	[ICRA]A-(Stable); upgraded from [ICRA]BB+(Stable) and removed from the 'Issuer Not Cooperating' category
Long-term Fund based – Term Loans	34.50	48.94	[ICRA]A-(Stable); upgraded from [ICRA]BB+(Stable) and removed from the 'Issuer Not Cooperating' category
Long-term/short-term – Interchangeable (sub-limits)	(34.50)	(27.19)	[ICRA]A-(Stable)/[ICRA]A2+; upgraded from [ICRA]BB+(Stable)/ [ICRA]A4+ and removed from the 'Issuer Not Cooperating' category
Long-term/short-term non-fund based limits	-	18.50	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Long-term/short-term – Unallocated Limits	23.00	-	-
Total	155.00	172.44	

*Instrument details are provided in Annexure-I

Rationale

The rating action reflects a healthy improvement in Brindavan Beverages Private Limited's (BBPL) financial performance in H1 FY2023 and ICRA's expectations of sustained performance over the medium term, supported by its established position as a franchisee bottler for Coca Cola. While revising the ratings, ICRA has considered the consolidated performance of BBPL along with Brindavan Packaids Private Limited, SLMG Beverages Private Limited and Hilltop Traders Private Limited as the former has extended corporate guarantee/letter of comfort towards the borrowing of the latter three entities. While the borrowing of Brindavan Packaids Private Limited has been guaranteed solely by BBPL, the borrowing of SLMG Beverages Private Limited and Hilltop Traders Private Limited has received corporate guarantee/letter of comfort jointly and severally from BBPL and other entities of the Ladhani Group, namely Amrit Bottlers Private Limited, Brindavan Agro Industries Private Limited and Brindavan Bottlers Private Limited. After being impacted by the pandemic-induced lockdown in the seasonally strong summer months for two years, BBPL recorded a revenue of ~Rs. 428 crore in H1 FY2023, higher than FY2022 revenue, with the operating margin sustaining above 16% despite input cost inflation, signalling a sustained recovery in operations. BBPL's standalone capital structure continues to remain comfortable with a gearing of less than 0.5 times as on March 31, 2022 and September 30, 2022 along with a healthy interest cover. ICRA expects the company to record revenue of ~Rs. 500-550 crore in FY2023 and an operating margin in excess of 16% with medium-term revenue growth driven by operationalisation of the tetra pack bottling line. On a consolidated basis¹, the revenue grew by 84% YoY to Rs. 1,583 crore in FY2022 and is expected to cross Rs. 3,500 crore in FY2023 with the operating margin in the range of 10-11%. While the capital structure and coverage indicators remained moderate with a gearing of 2.3 times as on March 31, 2022 and interest cover of 2.7 times in FY2022, ICRA expects

¹ refers to the consolidated financial profile of Brindavan Beverages Private Limited, Brindavan Packaids Private Limited, SLMG Beverages Private Limited and Hilltop Traders Private Limited

the Group's² gearing to improve to less than 1.5 times and interest cover to improve to 4.0 times in FY2024, supported by increasing scale of operations.

While revising the ratings, ICRA has noted that the Income Tax department had conducted search and seizure operations on the company's manufacturing facilities in October 2022. As per ICRA's discussions with the company and their bankers, the operations were not affected by the raid and the department is yet to pass any order. ICRA will continue to monitor further developments in this regard.

The ratings continue to favourably factor in the established market position of the Group as one of the largest franchisee bottlers of Coca Cola in India and the long track-record of its promoters in the business. The healthy brand equity of Coca Cola's products in India provides considerable revenue visibility to the Group. The ratings, however, continue to remain constrained by the leveraged capital structure and moderate coverage indicators of the Group. BBPL has extended sizeable loans and advances to non-core ventures, mainly in real estate, which are relatively illiquid and impact the return indicators. The ratings also consider the vulnerability of the Group's earnings to fluctuations in input costs and changes in consumer preferences away from carbonated beverages, which dominate the Group's current product mix. Any material increase in investment in non-core ventures and/or a substantial increase in contingent liabilities continue to remain key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group will continue to maintain a comfortable capital structure and coverage indicators, backed by scale-up of operations while maintaining its margin profile.

Key rating drivers and their description

Credit strengths

Sustained recovery in business performance in FY2022 and H1 FY2023 – BBPL's operating income grew by ~45% YoY in FY2022 to Rs. 381 crore, albeit on a low base impacted by the pandemic. The company's revenue in H1 FY2023 stood at Rs. 428 crore and is expected to be ~40% YoY higher in FY2023, backed by improving demand. BBPL has recorded a healthy operating margin of ~16% in FY2022 and H1 FY2023, despite input cost inflation. ICRA expects the company to continue to record healthy financial performance over the medium term with the planned operationalisation of the tetra pack bottling line supporting revenue growth.

Extensive experience of promoters – BBPL was incorporated in 1979 and commenced operations as a franchisee bottler for Parle (Exports) Private Limited before becoming a bottler for Coca Cola pursuant to the acquisition of Parle's soft drinks business by Coca Cola. The company continues to benefit from the extensive experience of its promoters in the beverage bottling industry. In December 2020, the Ladhani Group restructured its organisational structure with the incorporation of SLMG Beverages Private Limited (SLMG) as the flagship company of the Group. SLMG acquired the operations of Hindustan Coca Cola Beverages Pvt Ltd. in Uttar Pradesh and is setting up a greenfield bottling plant in Lucknow. The four legacy bottlers of the Group, including BBPL, have transferred their exclusive territorial marketing rights to SLMG. As a result, BBPL sells its entire bottling production exclusively to SLMG at a pre-determined cost plus mark-up, which further markets it to distributors. On a consolidated basis, the entity has become one of the largest franchisee bottlers for Coca Cola in India.

Long association with Coca Cola; established market position of Coca Cola in the domestic beverages industry – BBPL, along with its Group entities, is one of the largest franchisee bottlers of Coca Cola and has been associated with the company for over two decades. Moreover, Coca Cola continues to enjoy a healthy market share in the domestic non-alcoholic beverages industry which ensures demand visibility and stability of business.

² Group refers to the consolidated financial profile of Brindavan Beverages Private Limited, Brindavan Packaids Private Limited, SLMG Beverages Private Limited and Hilltop Traders Private Limited

Credit challenges

Seasonality in demand and vulnerability to fluctuations in input costs – The demand for carbonated soft drinks is seasonal in nature with peak demand seen between April and June. Consequently, the company earns a large portion of its annual operating income in Q4 and Q1 with the other two quarters experiencing relatively muted demand. This exposes the business to the risks of disruption in demand in the summer months, as witnessed during the pandemic. Moreover, BBPL's margins remain vulnerable to volatility in input costs, mainly preforms (correlated with the price of crude oil) and sugar, both of which are prone to high fluctuation in prices. This is, however, partly offset by intervention from Coca Cola in the form of negotiation of prices with suppliers and/or reimbursement of costs, which aid in maintaining margins.

Exposure to changes in government regulations and consumer preferences towards carbonated beverages – The carbonated soft drinks industry is susceptible to regulatory risks related to taxation policy and increased environmental compliances. Further, increasing awareness among consumers about the ill-effects of carbonated beverages on health and increasing availability of alternatives could impact demand. This risk is, however, partly mitigated by extreme hot weather conditions in Uttar Pradesh and diversification of product mix through fruit juice-based beverages and packaged drinking water.

Substantial investments and advances extended to non-core ventures remain a drag on return indicators – The company has extended sizeable advances to non-core entities, particularly in the real estate sector in collaboration with the Embassy Group. These are relatively illiquid and constrain the company's return indicators. However, ICRA notes that there has not been a material increase in non-core investments in the recent past and some advances have been converted into actual assets upon completion of the respective projects. Any material increase in the same could impact the company's liquidity and financial risk profiles.

Liquidity position: Adequate

BBPL's liquidity remains adequate, characterised by free cash and fixed deposits worth ~Rs. 105 crore and unutilised working capital limits of ~Rs. 65 crore (with commensurate drawing power) as on September 30, 2022 (provisional). The company has growth capex plans of ~Rs. 50 crore, partly financed through term debt of ~Rs. 22 crore, and maintenance capex requirements of Rs. 20-25 crore. It has debt repayment obligations worth ~Rs. 29 crore in FY2024 and Rs. 4 crore in FY2025. Against this, it is expected to generate cash flow from operations in the range of Rs. 60-80 crore per year. BBPL's average working capital utilisation remained comfortable at ~22% over the 10-months period ended on October 31, 2022.

On a consolidated basis, the Group³ is expected to generate cash flow from operations worth ~Rs. 250 crore in FY2024, which is likely to increase to ~Rs. 400 crore in FY2025. Against this, it has debt repayment obligations of Rs. 180-200 crore p.a. and capex requirements of ~Rs. 80-100 crore. The Group had free cash and liquid investments worth Rs. 224 crore as on March 31, 2022.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant increase in revenue and profitability of the company while maintaining a comfortable capital structure, healthy coverage metrics and liquidity on a sustained basis. A sustained and material decrease in contingent liabilities of the company along with deleveraging of the Group's capital structure could also benefit the ratings.

Negative factors – Pressure on the ratings could arise if the company's revenue and earnings record a sustained decline, resulting in weakening of its debt coverage indicators and liquidity profile. Any unanticipated and sizeable debt-funded capital expenditure, large investment in real estate or non-core ventures and/or substantial financial support to Group entities could

³ Group refers to the consolidated financial profile of Brindavan Beverages Private Limited, Brindavan Packaids Private Limited, SLMG Beverages Private Limited and Hilltop Traders Private Limited

put pressure on the ratings. Specific credit metrics that could lead to a ratings downgrade include the Group's interest cover remaining below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial profile of Brindavan Beverages Private Limited (BBPL), SLMG Beverages Private Limited, Hilltop Traders Private Limited and Brindavan Packaids Private Limited as BBPL has extended corporate guarantee/letter of comfort for the borrowings of the other three entities.

About the company

Brindavan Beverages Private Limited (BBPL), incorporated in 1979, is a franchisee bottler for Coca Cola for its carbonated soft drinks, fruit juice-based beverages and packaged drinking water in Uttar Pradesh. It is promoted by Mr. S.N. Ladhani and operates a bottling facility in Bareilly, Uttar Pradesh.

Since December 2019, BBPL, along with three other group bottlers, transferred their exclusive territorial marketing rights to SLMG Beverages, pursuant to a change in the Group's business model. BBPL has been supplying its products to SLMG Beverages at a predetermined cost plus markup, since then, which further markets it to distributors.

The company also operates windmills in Gujarat and commissioned a 10-MW solar power plant in FY2022. BBPL also has substantial investments in real estate projects together with the Embassy Group.

Key financial indicators (audited)

Brindavan Beverages Private Limited (Consolidated)^	FY2021	FY2022
Operating income	1,583	2,416
PAT	38	63
OPBDIT/OI	12.6%	9.8%
PAT/OI	2.4%	2.6%
Total outside liabilities/Tangible net worth (times)	3.6	3.0
Total debt/OPBDIT (times)	6.9	6.2
Interest coverage (times)	2.0	2.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Note: ICRA has combined the financial statements of entities specified in Annexure-II to arrive at the consolidated financial indicators.

Brindavan Beverages Private Limited (Standalone)	FY2021	FY2022	H1 FY2023*
Operating income	263	381	428
PAT	17	33	45
OPBDIT/OI	19.1%	16.2%	16.9%
PAT/OI	6.6%	8.6%	10.5%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	0.5
Total debt/OPBDIT (times)	3.7	3.4	0.5
Interest coverage (times)	5.6	6.8	35.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
			Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 16, 2023	Nov 17, 2022	Sep 09, 2021	Jun 29, 2020	Jan 31, 2020
1	Term Loans	48.94	27.19	[ICRA]A-(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	[ICRA]A-(Negative)	-	-
2	Cash Credit	75.00	-	[ICRA]A-(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Overdraft	30.00	-	[ICRA]A-(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
4	Sub-limits	(27.19)	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BB+(Stable)/ [ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A-(Negative)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
5	Non-fund based limits	18.50	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-	-
6	Unallocated Limits	-	-	-	[ICRA]BB+(Stable)/ [ICRA]A4+ ISSUER NOT COOPERATING	[ICRA]A-(Negative)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
7	Capex LC	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+
8	Bank Guarantee	-	-	-	-	-	[ICRA]A2+	[ICRA]A2+
9	Buyers' Credit	-	-	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
10	Covid Loans	-	-	-	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	[ICRA]A-(Negative)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund based – Term Loans	Simple
Long-term/short-term – Interchangeable (sub-limits)	Simple
Long-term/short-term non-fund based limits	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	Term Loan-I	FY2020	NA	FY2024	27.19	[ICRA]A-(Stable)
NA	Term Loan-II	FY2023	NA	FY2028	21.75	[ICRA]A-(Stable)
NA	Cash Credit	NA	NA	NA	75.00	[ICRA]A-(Stable)
NA	Overdraft Facilities	NA	NA	NA	30.00	[ICRA]A-(Stable)
NA	Non-fund based limits	NA	NA	NA	18.50	[ICRA]A-(Stable)/[ICRA]A2+
NA	Sub-limits	NA	NA	NA	(27.19)	[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	Ownership [^]	Consolidation Approach
Brindavan Beverages Private Limited	100.00% (rated entity)	Full Consolidation
SLMG Beverages Private Limited	18.67%	Full Consolidation
Hilltop Traders Private Limited	8.00%	Full Consolidation
Brindavan Packaids Private Limited	-	Full Consolidation

Note: ICRA has taken a consolidated view of the entities mentioned above as Brindavan Beverages Private Limited has extended corporate guarantees/letters of comfort towards the borrowings of the other three entities; [^]as on March 31, 2022.

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