

May 31, 2023

Absolute Barbeque Pvt. Ltd: [ICRA]BBB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB+(Stable); Assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The ratings of Absolute Barbeque Private Limited (ABPL) consider its established brand presence in the restaurant segment along with its growing presence across India. It added 21 stores over the past two years, increasing its number of outlets to 60 as on April 30, 2023, which are spread across 23 cities in India. After being impacted by the Covid-19 pandemic in FY2021, ABPL's revenues witnessed a healthy recovery, recording growth of 107.3% in FY2022 and 57.9% in FY2023, supported by increase in number of stores, recovery in covers (or footfalls) and increased average price per cover (APC). ICRA expects the company to record 18-22% revenue growth in FY2024 supported by 10 store additions and healthy footfalls. However, despite improvement, operating margins are yet to recover to pre-Covid levels as higher rentals and increase in other overheads have limited improvement in its margins. While increased scale is expected to support the company's profitability, going forward, planned rapid expansion of its outlets over the next 2-3 years is expected to keep the company's margins under check. ABPL's financial profile continues to be robust in the absence of any debt as on March 31, 2023. Despite the debt-funded capex plans for the near term, its capital structure and debt protection metrics are expected to remain comfortable.

The rating is, however, constrained by the company's presence in a highly competitive market with a large number of players in both organised and unorganised sectors restricting its pricing flexibility. Further, the food service industry remains vulnerable to discretionary consumer spending, inflationary pressures, and exogenous shocks. ICRA notes that the company has aggressive debt-funded expansion plans over the medium term; hence, timely ramp-up of its new outlets remains critical to maintain its profitability.

The Stable outlook on ABPL's rating reflects ICRA's expectation that the company will continue to record a healthy growth in its revenue and earnings on the back of healthy demand, and its capital structure and coverage indicators will remain comfortable despite debt-funded expansion plans.

Key rating drivers and their description

Credit strengths

Healthy brand presence with 60 outlets across India— ABPL is preset in the dining business with 60 outlets across India under the brand, "ABSOLUTE BARBECUE" (while the company name is Absolute Barbeque Pvt Ltd), making it the second largest chain of barbeque-themed restaurants in India. ABPL has diverse product offerings with a healthy mix of non-vegetarian and vegetarian dishes, offering a live on-the-grill dining experience. The company has a strong brand presence in southern India with 34 outlets and it is planning to enter new markets in FY2024, which will support its revenues.

Healthy recovery in footfalls and revenues post pandemic – After contracting by 53.4% in FY2021, the company's scale of operations witnessed a healthy recovery, with its revenues increasing by 107.3% in FY2022 and 57.9% in FY2023 on the back of recovery in demand and increase in the number of outlets. Recovery in revenues was supported by same store revenue growth of 44.6% in FY2023 and 78.9% in FY2022 on the back of healthy footfalls and revision in the buffet prices. The company has added 21 outlets in the last two years and plans to add 10 outlets in FY2024, gradually increasing its presence in West and

North India, which is expected to result in 18-22% revenue growth. After recording losses in FY2021, the company's operating margins recovered to 6.8% in FY2023 with improved scale. Nevertheless, margins are yet to recover to pre-pandemic levels as higher rentals and increase in other overheads have led to limited improvement in its margins. While increased scale is expected to support the company's profitability, going forward, planned rapid expansion of outlets over the next 2-3 years is expected to keep its margins under pressure.

Comfortable financial profile – The company's financial profile is comfortable with zero debt as on March 31, 2023. However, the company has capex plans of Rs. 40-50.0 crore in FY2024, which would be funded by a mix of term loans and internal accruals. Despite the debt-funded capex plans for the near term, its capital structure and debt protection metrics are expected to remain comfortable.

Credit challenges

Intense competition and sizeable outlet additions planned over the next two years would limit margin expansion – With the expanding presence of barbeque themed restaurants across the country under different brands in both the organised and unorganised segments, the company continues to face intense competition. In addition, it faces competition from other restaurant chains as well. ABPL's presence in a highly competitive market restricts its pricing flexibility to a certain extent. However, the company undertakes annual price hikes in line with inflation rates. In addition, the company has sizeable expansion plans with 10-15 outlet additions per annum. Given that the new outlets would take 12-18 months to break-even, improvement in the company's margins is expected to remain limited.

Exposure to exogenous shocks and vulnerability to inflationary pressures – ABPL's sales are typically exposed to uncontrollable factors like disease outbreaks 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 and overall economic conditions. However, ABPL's strong brand image tends to support its footfalls to a certain extent.

Liquidity position: Adequate

ABPL's liquidity remains adequate with cash and liquid investments of Rs. 8.6 crore as on March 31, 2023 and expected retained cash flows of ~Rs. 30-40.0 crore in the next 12 months. The company does not have any repayment obligations; however, it is expected to incur a capex of Rs. 40-50.0 crore in FY2024, which would be funded by a mix of internal accruals and debt. The company has undrawn term loans up to Rs. 50.0 crore as on May 16, 2023, to fund its expansion.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant scale up in revenues and earnings, supported by successful ramp up of operations of the new outlets, while maintaining healthy debt metrics.

Negative factors – The rating could witness a downward revision if subdued revenue or profitability, or higher-than-anticipated debt-funded investments, impact its debt protection metrics or liquidity position. Specific metric for a rating downgrade would be DSCR less than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Absolute Barbeque Private Limited was incorporated in 2013 by Mr. Prosenjit Roy Choudhary. The company operates under the brand name, “ABSOLUTE BARBECUE” (while the company name is Absolute Barbeque Pvt Ltd) offering live-on-the-grill dining experience across all outlets in India. The restaurants also offer live counters for various foods. ABPL started with a single outlet in Hyderabad in 2013 and expanded to 23 cities in India, currently operating 60 outlets as on April 30, 2023. General Atlantic Singapore, a leading global growth equity firm holds ~85% share in ABPL and the remaining ~15% is held by the promoter. The company offers BBQ varieties, Indian cuisines, exotic meals, Continental specials, and desserts.

Key financial indicators (audited)

Standalone	FY2021	FY2022	FY2023*
Operating income (Rs. crore)	102.2	211.8	334.5
PAT (Rs. crore)	(16.5)	0.9	1.8
OPBDITA/OI	(9.8%)	6.7%	6.8%
PAT/OI	(16.1%)	0.4%	0.5%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	0.1
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	-	-	-

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; OI – Operating income; Amount in Rs crore;

*Provisional numbers

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 31, 2023	-	-	-
1 Issuer Rating	-	-	-	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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](https://www.icra.in)

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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