

## Barbeque Nation Hospitality Limited

Instrument	Amounts	Rating Action
	(Rs. Crore <sup>1</sup> )	November 2016
Term Loans	97.90 (revised from 57.90)	[ICRA]A+ (Stable) / Upgraded from [ICRA]A (Stable)
Long-Term Unallocated	2.10	[ICRA]A+ (Stable) / Upgraded from [ICRA]A (Stable)

ICRA has upgraded the long-term rating outstanding on the Rs.97.90 crore (revised from Rs. 57.90 crore) term loan facilities and the Rs.2.10 crore long term unallocated facilities of Barbeque Nation Hospitality Limited (BNHL/ the company) to [ICRA]A+ (pronounced ICRA A Plus)<sup>2</sup> from [ICRA]A (pronounced ICRA A). The outlook on the long term rating is stable.

The upgrade in BNHL's rating takes into account healthy 30% revenue growth witnessed by the company across metro cities during FY2016 and H1 FY2017 aided by both addition of new stores and increase in number of covers sold. The company had also diversified into tier-II cities like Vijayawada, Vizag, Mysuru, Faridabad, Nagpur, Nashik and Raipur during FY2016 which further contributed to the company's robust revenue growth. The addition of 20 new restaurants stores during FY016 and 9 new restaurants in H1 FY2017 however resulted in a decline in operating margins from 16.2% in FY2015 to 12.9% in FY2016, and to 13.3% in H1 FY2017. Relatively older outlets of the company continue to witness healthy operating margins, while the new stores take anywhere between 3-6 months to breakeven.

During H1 FY2017, the company acquired 74% stake in Prime Gourmet Private Limited (PGPL) which owns and operates fast food franchisees of *Johnny Rockets* (JR), an international Quick Service Restaurant (QSR) chain) offering burgers, shakes and rolls at its outlets. The total consideration paid by BNHL to PGPL's promoters for the aforementioned transaction is about Rs.13.0 crore. While PGPL had five JR outlets in Delhi and NCR area as on H1 FY2017, BNHL is likely to add stores to expand the brand across major metros over the next few years.

The ratings continue to factor BNHL's strong brand image in the restaurant segment which facilitates entry into new markets and competitive rentals in turn supporting the company's revenues and operating margins respectively. The company's capitalization and coverage metrics continue to remain comfortable with gearing of 0.4x and interest cover of 5.3x and TD/OPBDITA of 1.0x as on March 31, 2016. Further, the company's liquidity profile is expected to improve over the next 2-3 years on back of proposed IPO during FY2018. Funds raised through the IPO are expected to propel restaurant expansion.

The rating strengths are, however, partially offset by the company's presence in a highly competitive market which restricts its pricing flexibility to a certain extent, high concentration risk associated with a single brand and business which remains vulnerable to any reduction in discretionary consumer spending and inflationary pressures; during FY2016, the company's average selling price grew by a modest 1% partly due to geographic mix. The rating also factors in the weak free cash flow position of the company on account of ongoing capacity expansion to set up new stores across the country. ICRA expects the company to spend about Rs.50-60 crore over the next 2-3 years to set up restaurants across the country.

Going forward, ICRA expects the company's financial performance to be contingent on its ability to penetrate the targeted tier-II and III market, pick up in average selling price and healthy same store sale, faster breakeven of new restaurant leading to improvement in margins to 15-16.5% over the next 12-18 months.

<sup>1</sup> 100 lakhs = 1 crore = 10 millions

<sup>2</sup> For complete rating scale and definitions, please refer ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA Rating Publications



### **Company Profile**

Barbeque Nation Hospitality Limited (BNHL) was incorporated in October 2006 as a wholly-owned subsidiary of Sayaji Hotels Limited (SHL). In April 2013, CX Partners (through Tamara Private Limited, Mauritius) purchased 29.14% (holding of 23.85% as on March 31, 2016) equity stake in BNHL, resulting in infusion of fresh equity of Rs. 50.0 Crore into BNHL. During FY2016, SHL transferred its entire shareholding in BNHL to its wholly owned subsidiary Sayaji Housekeeping Services Limited. During FY2016, BNHL purchased the Barbeque Nation outlet at Pune from SHL for a total consideration of 12.4 crore on a slump sale basis. This was funded by way of equity infusion by the promoters.

As of October 2016, the company operated 75 restaurants across India under the brand name of “Barbeque Nation”, making it the largest single brand chain of restaurants.

### **Recent Results**

As per audited results, BNHL reported a Profit after Tax (PAT) of Rs.12.8 crore on an Operating Income (OI) of Rs.397.7 crore during FY2016 as against a PAT of Rs.15.5 crore on an OI of Rs.303.8 crore during FY2015.

**November 2016**

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