

May 26, 2017

Bindu Recepies Private Limited (Revised)

Summary of rated instruments

| Instrument* | Rated Amount (in crore) | Rating Action |
|---------------------------|----------------------------|-----------------------------|
| Long term- NCD (Proposed) | 15.00 | [ICRA]BB (Stable); Assigned |
| Total | 15.00 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BB (pronounced ICRA double B)¹ on the Rs. 15.00-crore² proposed non convertible debenture (NCD) programme of Bindu Recepies Private Limited (BRPL/the company). The outlook on the long-term rating is ‘Stable’.

Rationale

The assigned rating factors in the long standing experience and track record of the promoters in the bakery industry; Just Bake’s strong brand presence and widespread distribution network in its key operating markets of South India, and its recent shift to the hub and spoke model of manufacturing from FY2017 onwards, which enables scalability and expansion beyond the vicinity of manufacturing unit while following the asset light franchise model.

The rating is, however, constrained by the high degree of competitive intensity in the domestic bakery market due to the presence of several dominant as well as numerous regional players; the geographic concentration on account of company’s large presence mainly in Karnataka and the moderate financial profile characterised by moderate profitability and high gearing levels given the debt-funded capex and low net worth base. ICRA notes that the company has been regularly adding stores over the years, which has aided in the growth of its top line; however, the same store growth still remains muted, reflecting the challenges in scaling up in new territories. Going forward, the company’s ability to generate commensurate returns from the proposed debt-funded capex, as well as to scale up in a profitable manner, which supports its net worth and thus capitalisation, will be critical from the credit perspective.

Key rating drivers

Credit strengths

- Experienced promoters with long track record of operations; established presence of ‘Just Bake’ brand in South India with 145 retail outlets across key cities
- Hub and spoke model of manufacturing enables scalability and expansion beyond the vicinity of manufacturing unit while keeping the fixed costs low
- Asset light franchise model reduces capital requirement for expansion of outlets

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- Financial profile characterised by moderate profitability levels; leveraged capital structure due to low net worth base
- Likely increase in gearing level in the near term on account of proposed debt-funded capex in the near term
- Exposure to strong competition from other established cake brands as well as cafes selling similar items
- Geographically concentrated business with majority of stores in Bengaluru
- Stagnant sales in the last five fiscals indicates constraints in achieving same store revenue growth

Description of key rating drivers:

The company manufactures and sells cakes, desserts, cookies and savouries such as ‘samosa’ and puffs of which a major portion (~80%) of the net sales is derived from cakes and desserts. The company sells its products under the brand name ‘Just Bake’, which has grown over the years due to its popularity in South India; its operations are mainly concentrated in Karnataka and its central manufacturing facility is in Bengaluru. From FY2017 onwards, BRPL started following a hub and spoke model of manufacturing with a centralised manufacturing facility located at Bengaluru, Karnataka, wherein it manufactures semi-finished cakes and savories and sends them to the finishing units in Hyderabad and Kerala, from where the finished product is dispatched to the outlets.

All the outlets of the company are managed by franchises under the COFO (Company Owned Franchisee Operated) model, wherein BRPL hands over the ready to operate outlet to the franchise and the entire store infrastructure such as interiors, lighting, furniture and fixtures, etc. is completed by the company using the security deposits collected from franchise at the time of entering into franchise agreement. BRPL enters into a long-term lease agreement with the landlord and bears the rental cost (for some of the franchises) while all the other costs such as purchases of products, packaging, wastages, salaries of store employees and other overheads are borne by the franchisee, thus making it an asset light model and reducing capital required for expansion of the outlets.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Bindu Receptions Private Limited (BRPL/the company), founded and promoted by Mr. Rami Reddy and Mrs. Himabindu Reddy in 2005, is a Bengaluru-based cake chain, which operates under the brand name “Just Bake” in South India with 145 outlets in 15 towns across Karnataka, Andhra Pradesh, Telangana and Kerala. Its product range comprises cakes and pastries, savouries, cookies, etc.

BRPL started its operations in 2005 as a proprietorship firm and was converted into a private limited company on April 28, 2011. The company’s first store was opened in Indira Nagar, Bengaluru in 2006 and in the initial few years it was a key supplier to Café Coffee Day in South India. BRPL has the necessary approvals from Food Safety Standard Association of India (FSSAI) and has additional quality certifications such as ISO 22000:2005.

In FY2017, on a provisional basis, the company reported a net profit of Rs. 0.13 crore on an operating income of Rs. 48.92 crore, as compared to a net profit of Rs. 0.18 crore on an operating income of Rs. 61.13 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company has changed its method of accounting in FY2017, as per which, the company books the revenues as per the net sales price {65% of the Maximum Retail Price (MRP) less 14.5% VAT} at which it sells to the franchisees. Prior to FY2017, BRPL used to make direct sales to retail customers through the franchisee operators and booked sales at MRP. In this arrangement, the franchise operators used to function only as store managers, wherein all costs were borne by BRPL and franchise operators were paid a certain commission on sales made by them. From FY2017 onwards, the company has started giving a 35% cut to the franchisee of the MRP instead of selling directly to retail customers. In this arrangement, the store-related costs including the wastages are borne by the franchisee instead of the company.

Due to this change in accounting, the operating income in FY2017 stood ~20% lower at Rs. 48.92 crore as compared to Rs. 61.13 crore in FY2016. However, post adjusting the previous year's sales to the current method of accounting, the year-on-year revenue growth stood at a healthy 17%.

Rating history for last three years:

Table:

| S. No. | Instrument | Current Rating (FY2017) | | | Chronology of Rating History for the past 3 years | | |
|--------|----------------|-------------------------|--------------------------|-------------------|---|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. Crore) | Date & Rating | Date & Rating in FY2016 | Date & Rating in FY2015 | Date & Rating in FY2014 |
| | | | | May 2017 | - | - | - |
| 1 | NCD (Proposed) | Long Term | 15.00 | [ICRA]BB (Stable) | - | - | - |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

| Instrument | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|-------------------|------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| NCD (Proposed) | My 2017 | 12.00% per annum | June 2024 | 15.00 | [ICRA]BB (Stable) |

Source: Bindu Recepies Pvt. Ltd.

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