

Kalis Sparkling Water (Private) Limited

April 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Term loans	56.08	56.08	[ICRA]BBB- (Stable); reaffirmed
Long-term, Fund based facilities	5.00	5.00	[ICRA]BBB- (Stable); reaffirmed
Total	61.08	61.08	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB- (pronounced ICRA triple B minus) for the Rs. 56.08-crore term loan facilities and Rs. 5.00-crore¹ fund based facilities of Kalis Sparkling Water (Private) Limited (KSPL)². The outlook on the long-term rating is Stable.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of KSPL along with its group company – Kali Aerated Water Works (Private) Limited (rated [ICRA]BBB- (Stable)/ A3) – since both operate in the same line of business, have operational linkages and share a common management. Both the companies together are henceforth referred to as the Group.

The reaffirmation of the ratings takes into account the established market position and the strong brand recall of the Group's products 'Bovonto' and 'Kalimark', especially in Tamil Nadu, with the brands being in existence for over 100 years and 58 years, respectively. The group has a strong distribution network with over 350 distributors, mainly across Tamil Nadu. ICRA takes into account the group's healthy revenue growth during FY2016-FY2018 supported by the continued demand for its products in the traditional southern markets of Tamil Nadu and sustained expansion of distribution network. ICRA further takes note of the management's strategy to expand its geographic presence to Andhra Pradesh.

The ratings are, however, constrained by KSPL's significant planned capex towards its upcoming bottling facility at Sri City Industrial Park, Andhra Pradesh, which is expected to further leverage its capital structure and exert pressure on debt-protection metrics over the next few fiscals. The ratings also factor in the intense competition from CSD majors, such as the Coca Cola Group and PepsiCo with their associated CSD brands that limit pricing flexibility. KSPL is also exposed to volatility in raw material prices. ICRA further notes the geographical-concentration risks arising out of being a regional player with almost the entire revenues generated from Tamil Nadu. The ratings further factors in KSPL's exposure to regulatory risks of adverse changes in the government policies and regulations.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Kalis Sparkling Water (Private) Limited will benefit from the established market position and the strong brand recall of the Group's products supported by the extensive experience of its promoters in manufacturing of carbonated soft drinks. The outlook may be revised to 'Positive' if considerable growth in revenue and profitability, and better accruals, strengthen the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the profitability declines or there is further weakening in the capital structure caused by increased working capital requirements or any large debt-funded capital expenditure.

Key rating drivers

Credit strengths

Long track record of promoters on CSD business and established market position – The Kali Group of Companies under the same promoter group has been involved in the bottling and marketing of CSDs since 1916 under the brand "Kalimark". Run by the fourth generation scions at present, the group's products have an established presence, especially in southern markets.

Healthy growth in the group's revenues during FY2016-FY2018 – The group's revenues witnessed significant growth in recent past - FY2016-FY2018, primarily due to the continued demand for its products in the traditional southern markets of Tamil Nadu, supported by the group's expanding distributor network across the state.

Operating profitability improve marginally during 9MFY2018 - KSPL's operating income witnessed over 15% y-o-y growth during 9MFY2018 on the back of increased realisation and healthy sales volumes. This along with moderation in sugar prices during 9MFY2018 have led to marginal improvement in KSPL's operating profitability relative to FY2017.

Kalis group focusing to expand its geographic presence – Even though majority of the sales in concentrated in Tamilnadu, the company has recently started to expand its presence in Andhra market and spread its sales. Further to support the Andhra and Karnataka market, KSPL has planned to set up additional manufacturing unit in Sri City in Chittoor district of Andhra Pradesh which is expected to be operational by end of FY2019.

Established brand image of the Group's products and strong distribution channels – The Group benefits from its positioning as a indigenous household brand with its heritage of almost 100 years – and enjoys strong brand loyalty especially in regions in and around Madurai, Coimbatore, Salem, Kumbakonam, among others. Over the years, the Group has developed a strong working relationship with the retailers spread across Tamil Nadu through its network of over 500 distributors.

Credit weaknesses

Debt-funded capital expenditure in FY2018 and FY2019 expected to further leverage its capital structure and exert pressure on debt-protection metrics – To increase the capacity and expand its sales in Andhra Pradesh and Karnataka, KSPL is setting up an additional manufacturing unit in Sri City in Chittoor district of Andhra Pradesh. KSPL has revised its capital expenditure at Sri city to Rs. 53.0 crore from Rs. 65.0 crore with the management planning to shift one of its two bottling lines to Sri city instead of purchasing. The project is expected to be part funded by debt and hence capital structure and debt-protection metrics are expected to be stretched over the next few fiscals.

Intense competition from soft drink majors limits pricing flexibility and exposes the company to fluctuation in raw material prices – Being a relatively small-scale player compared to Coke and Pepsi, the Kali Group faces intense competition that limits its pricing flexibility and hence exposes the Group's operating margin to fluctuations in raw material prices, especially that of sugar.

High geographical concentration of the market segment - The group's presence outside Tamil Nadu is primarily limited, with its product making in-roads in Andhra Pradesh, only recently. Going forward, ICRA expects that the Group has to undertake considerable branding and marketing efforts to diversify the market geography. This could result in adverse impact on the operating margins in the medium term.

Exposure to Regulatory Risk : The company's topline and profitability remain vulnerable to the Central and State Governments policy especially with regard to CSD segment, water usage and sugar pricing. With the operations being highly water intensive, the operations will be adversely impacted in situation of continued drought. The risk is expected to be mitigated to an extent with part shifting of manufacturing operations to Sri City and increased reliance on job-work units.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Financial Consolidation and Rating approach](#)

About the Company:

Incorporated in 2010, Kalis Sparkling Water (Private) Limited commenced operations in FY2012 and produces carbonated soft drinks, which are marketed under its own brands, 'Bovonto' and 'Kalimark'. The company is entirely held by the promoter family. The Kali Group of Companies, comprising KSPL and its group company, Kali Aerated Water Works (Private) Limited (KAPL) – traces its roots to the business set up by Mr. P.V.S. Kaliappan Palaniappa Nadar in 1916, which commenced commercial production from Virudhunagar, Tamil Nadu. The Bovonto brand, the Group's largest-selling product, was introduced in 1959 by the Group's second generation of promoters. The Group continued to expand its portfolio through the addition of – "Vibro", "Zimzo", "Kalimark Ginger" and "Frutang". Managed by the fourth generation of the promoter family at present, KSPL functions primarily as a manufacturing company, and made its sales to Group company, KAPL. KSPL operates a fully automated, ISO 22000:2005 certified manufacturing facility at Nilakottai, Dindigul, Tamil Nadu, with an installed bottling capacity of 480 bottles per minute (bpm).

Key Financial Indicators - KSPL (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	89.3	113.7
PAT (Rs. crore)	9.6	3.8
OPBDIT/ OI (%)	25.9%	12.4%
RoCE (%)	37.7%	16.9%
Total Debt/ TNW (times)	0.9	0.7
Total Debt/ OPBDIT (times)	1.1	1.5
Interest coverage (times)	7.6	5.7
NWC/ OI (%)	54.9%	35.3%

Key Financial Indicators - KAPL (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	161.8	201.7
PAT (Rs. crore)	2.2	4.2
OPBDIT/ OI (%)	5.6%	6.0%
RoCE (%)	26.7%	32.5%
Total Debt/ TNW (times)	1.4	1.3
Total Debt/ OPBDIT (times)	1.6	1.6
Interest coverage (times)	4.9	5.5
NWC/ OI (%)	2.4%	-0.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating				
				April 2018	Sep 2017	Dec 2016	Feb 2016	Mar 2015
1	Term Loans	56.08	34.9	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Cash credit	5.00	4.25	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
3	Letter of credit	-	-	-	Withdrawn	[ICRA] A3	[ICRA] A3	[ICRA] A4+_

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit facilities	-	NA	-	5.00	[ICRA]BBB- (Stable)
NA	Term loans	FY2017	NA	FY2025	56.08	[ICRA]BBB- (Stable)

Source: KSPL

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